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IN BRIEF

Europe's Rearmament Dividend: Turning Defence into Industrial Renewal

Justina Budginaite-Froehly

Europe's defence debate has long been framed as a trade-off: more spending on security meant fewer resources for everything else. Rearmament was treated as a necessary but subtractive fiscal burden. That framing is increasingly misleading. With national defence budgets rising and new EU-level defence funding instruments emerging, the central question is no longer how to finance defence, but how to turn defence investment into military capability while catalysing Europe's industrial renewal. Realising this opportunity will rely on Europe's ability to quickly and sustainably expand defence industrial capacity—by repurposing existing civilian and revitalising legacy industrial sites, retaining skilled workforces, and embedding defence production more deeply into its broader economic base.

From fiscal burden to industrial opportunity

Europe's traditional industrial engines are under mounting structural pressure. The Draghi report frames the challenge as a fatal convergence of high energy costs, weak productivity growth, demographic pressures, permitting delays, overregulation, and intensified global technological competition. Germany is the clearest case: its export-driven manufacturing model is exposed to a "second China shock" in automobiles, machinery, and advanced manufacturing, while the electric-vehicle transition threatens supplier networks across Germany and Central Europe. France faces parallel setbacks in chemicals, metallurgy, and automotive, while Italy's manufacturing base remains caught between stagnation and modest growth.

The consequences are visible across Europe's industrial core. Chemical plant closures in Europe have surged sixfold since 2022, removing around 9 per cent of European production capacity and costing 20,000 direct jobs. Major automotive producers and suppliers are restructuring, while steel capacity cuts and electrical-steel shutdowns in Germany and France signal pressure on core manufacturing inputs. Together, these trends create a mismatch

between Europe's inherited industrial footprint and its future prospects, leaving production sites, suppliers, skilled workers, and engineering capabilities vulnerable to erosion.

This erosion is occurring just as Europe needs more industrial capacity for defence. European governments are placing large orders for ammunition, air defence systems, missiles, drones, and other critical capabilities to replenish stockpiles, sustain Ukraine, and prepare for a more contested global security environment. Yet defence-industrial capacity is not scaling accordingly. Firms are increasing output, but production remains constrained by an unfavourable demand structure: fragmented and protracted procurement, short-term contracts, and limited predictability. The problem is particularly acute for defence start-ups, which drive innovation but often lack the mid- and long-term financing needed to scale production.

This is where Europe's industrial and defence challenges intersect. Civilian industrial capacity is becoming underused or vulnerable in some sectors, while defence demand is rising faster than dedicated defence production can expand. Civil-to-military conversion, legacy-site reactivation, and dual-use production can help connect these two trends and smooth this transition. They offer a faster and often less capital-intensive route to increase defence output, while retaining skilled workers, preserving supplier networks, and preventing the erosion of manufacturing know-how in regions exposed to industrial decline.

Early signals of industrial repurposing and legacy asset revival

This shift is already visible across Europe through a number of varying pathways. In some cases, civilian plants are being considered for defence production. In others, legacy industrial sites are being revived, upstream civilian suppliers are being integrated into defence supply chains, or existing production lines are being redeployed toward military needs.

Germany shows several pathways at once. Recently, Mercedes-Benz has signalled its willingness to expand into defence production if it is commercially viable, while Volkswagen's Osnabrück plant, which faces closure, is being considered by Israel's Rafael Advanced Defence Systems for the production of air defence components. KNDS has agreed to acquire Alstom's railcar manufacturing plant in Görlitz and plans to produce assemblies for Leopard 2 tanks, Puma infantry fighting vehicles, and Boxer armoured vehicles there. Rheinmetall is turning its legacy automotive supply facilities in Berlin and Neuss into dual-use sites with integrated munitions production, while also acquiring upstream civilian suppliers such as Hagedorn-NC to secure propellant inputs.

A similar upstream logic is evident in the Slovak company MSM Group's acquisition of Germany's Walsrode nitrocellulose plant and industrial park in Bomlitz. This civilian chemical site producing inputs for coatings and printing inks is set to be adapted for energetic nitrocellulose production for ammunition supply chains. The German government is also

reinforcing this trend through a matchmaking platform designed to connect civilian and defence industries and leverage available industrial capacity.

Similar dynamics are emerging in other traditional industrial centres. In France, Renault and Turgis & Gaillard are cooperating on military drones. In Finland, defence company Patria and Valmet Automotive have agreed to produce armoured vehicles at Valmet's Uusikaupunki car-production facility. In Italy, Fincantieri's 2026–2030 plan points to a stronger defence role for Italian shipyards, while the Italian government is preparing plans to connect automotive, defence, and aerospace sectors, opening pathways for civilian industrial capacity to support defence manufacturing.

In Central and Eastern Europe, the pattern is more often legacy-site revival and industrial scaling. Poland's Bumar-Łabędy plant is being reactivated for South Korean K2 tank assembly and sustainment. In Slovakia, Czech defence company CSG and France's energetic materials producer Eurenco are building new propellant capacity in Strážske, a legacy chemical-industrial region. The Czech Republic is scaling inherited defence and heavy-industrial capacity across military vehicles, land systems, and ammunition production, while Bulgaria is using the VMZ-Rheinmetall partnership to scale 155mm artillery ammunition output. In maritime, Rheinmetall and the Swiss company MSC are considering reviving Romania's Mangalia shipyard—historically one of Europe's largest shipbuilding and repair facilities—as a dual-use hub for military and civilian shipbuilding.

These cases show where repurposing is most feasible. In terms of the EDA defence technology taxonomy, these areas are closer to structural materials, platform integration, manufacturing processes, installations, and maintenance than to the most sensitive weapons and effectors. Automotive and truck-manufacturing capabilities can support military vehicle chassis, logistics vehicles, mobile launcher support structures, and selected mechanical components for air-defence systems. Rail and heavy engineering sites can contribute to the production of hull structures, welded assemblies, large metal components, and heavy-platform maintenance capacity. Civilian shipyards offer scarce access to waterfront, dry docks, heavy-lift equipment, steel working expertise, and regulatory approvals for naval and dual-use maritime production.

By contrast, the production requirements in areas that sit closer to the defence-specific core of the EDA taxonomy—energetic materials, ammunition and missiles, guidance and control systems, secure command-and-control systems, advanced sensors, and military electronics—remain highly defence-specific. They depend on controlled know-how, secure facilities, cleared specialists, certification, testing infrastructure, and strict regulatory oversight. In these areas, originally civilian industries can relieve supply-chain bottlenecks in upstream supplies and contribute components and some enabling technologies, but they cannot directly replace dedicated defence-industrial investment.

Dual use as the foundation of Europe's defence industrial revival

Current examples of industrial repurposing test whether Europe can turn a structural mismatch—underused civilian industrial capacity alongside defence production shortfalls—into a shift in the industrial mindset. The significance of these developments lies not only in near-term output ramp-up but also in *pointing toward a broader dual-use production model capable of balancing civilian and military output*.

This is crucial because Europe's defence industry operates in a paradox: it must be ready for wartime production levels while operating under peacetime economic conditions. Demand remains episodic, politically contingent, and difficult to forecast. At the same time, the industrial base and workforce needed for large-scale production cannot be built on short notice and require a large investment. Factories, supplier networks, and skilled labour must be kept active in peacetime if they are to be available in crisis. A purely defence-specific production model risks leaving capacity underutilised between procurement cycles, while a dual-use model reduces that risk by enabling facilities, suppliers, and workforces to operate across civilian and military demand.

The changing character of warfare reinforces this logic. Rapid technological cycles in drones, sensors, electronic warfare, software, and autonomous systems reduce the value of long production runs of standardised platforms. Defence production increasingly requires adaptability: integrating new components, incorporating battlefield feedback, and quickly scaling modified systems. Under these conditions, a rigid separation between civilian and defence production becomes less efficient: civilian technology ecosystems increasingly provide the components, software, manufacturing methods, and innovation cycles that novel military systems depend on.

Dual use, therefore, operates on two levels. The first is production-system dual-use: facilities, suppliers, and workforces that can shift between civilian and defence output or operate in hybrid modes. This is the logic behind converting automotive, rail, engineering, or shipbuilding capacity toward defence-related production where industrial overlap exists. The second is product-level dual-use, where technologies such as drones, sensors, communications equipment, software, cyber tools, and space-based systems draw directly on civilian innovation cycles and supply chains. *The distinction is important: not every defence product is dual use, but many parts of the industrial system that produce, maintain, or upgrade defence capabilities can be.*

Ukraine shows how these two levels can reinforce each other. Its drone production has relied on commercial components, flexible manufacturing, and continuous battlefield feedback. The lesson for Europe is not that Ukraine's wartime model can be replicated in a peacetime regulatory environment, but that tighter links between civilian technology, production, and military demand can shorten the path from innovation to scalable output.

Seizing the rearmament dividend

The conditions that enabled Europe's post-Cold War peace dividend have eroded. The challenge now is to turn rearmament into a different kind of dividend—one that strengthens industrial capacity as much as it delivers military capability.

The war in Ukraine has made clear that military effectiveness is not only a function of technology, but also of production. The ability to manufacture, sustain, repair, and adapt systems at scale determines staying power in high-intensity conflict. *Europe's rearmament should therefore be understood not as a temporary surge in spending, but as a structural shift in demand that must now be matched by industrial capacity*.

Surging European national defence spending, the EU's SAFE instrument, the European Defence Fund, European Defence Industry Programme, and the European Investment Bank's evolving dual-use financing rules all point to a growing recognition that rearmament is a multifaceted undertaking. Yet both national and EU-level defence policy have moved faster on financing, procurement, and innovation than on the supply-side question of how to mobilise existing factories, suppliers, workers, and civilian-industrial ecosystems for sustained defence production.

Conclusion

The task now is to embed a coherent industrial-capacity agenda into existing and future defence financing considerations:

First, make supply-side mobilisation an explicit objective of defence-industrial policy. National governments should link major procurement decisions to capacity-building: local production, maintenance and repair, supplier development, workforce retraining, and, where feasible, the conversion of existing industrial assets. EU instruments should reinforce this logic by asking not only what capabilities member states buy, but what industrial capacity those purchases create. EDIP's recognition of "dual-use (heavy) industry conversion options for defence surge" is a useful starting point, but this logic should be broadened across EU funding programs.

Second, map convertible industrial capacities nationally and connect them at the European level. Member states should identify production sites, suppliers, and regional industrial ecosystems that can realistically contribute to defence output. The EU should aggregate this knowledge, identify cross-border bottlenecks, and support projects that connect national industrial strengths into European supply chains.

Third, tie procurement and financing to capacity building. Conversion will not happen without credible demand. National governments should use longer-term contracts, framework agreements, and maintenance commitments. EU tools, including SAFE, EDIP, and future budget instruments, should reward projects that create hybrid production lines, enable supplier adaptation, support workforce retention, enhance surge readiness, and foster cross-border industrial cooperation. The next Multiannual Financial Framework should institutionalise this approach by treating conversion, dual-use production, and supply-chain resilience as permanent elements of Europe's defence and competitiveness agenda, not as emergency measures.

Fourth, expand allied co-production without deepening dependency. Europe's industrial renewal should not be a turn inward. Transatlantic and allied co-production should be structured so that access to third-country advanced systems also builds manufacturing, maintenance, repair, and sustainment capacity inside Europe. This would benefit both sides: Europe would gain greater resilience and surge capacity, while the United States and other trusted partners, including Ukraine, the United Kingdom, Norway, and South Korea, would reduce growing pressure on their own production base.

Properly designed, Europe's rearmament can deliver both security and industrial renewal. But this dividend will not emerge automatically from higher spending. It will depend on whether Europe uses new defence investments to buy equipment alone—or to build the industrial base needed to sustain its security over the long term.

***Justina Budginaite-Froehly, PhD**, is a transatlantic security and defence expert and a non-resident senior fellow with the Atlantic Council's Europe Center and Scowcroft Center for Strategy and Security.*

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