DISCUSSION PAPER

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Driving Defence: The automotive sector's role as a potential enabler of Europe's defence surge

Paul Taylor

Credit: CANVA

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ABOUT THE AUTHOR

Paul Taylor is a Senior Visiting Fellow at the European Policy Centre.

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Executive summary

WHY NOW?

- **Geopolitical triggers and increased spending:** Russia's ongoing war in Ukraine and doubts over the US commitment to NATO have spurred a major increase in European defence spending. NATO's 32 nations agreed at a summit in The Hague in June 2025 to raise defence spending to 5% of GDP by 2035 (3.5% for core military expenditure, 1.5% for defence-related spending). The US is dribbling out announcements of limited troop withdrawals from Central Europe and has ceased funding military training in the Baltic states. More retrenchment is expected.

- **EU financial mobilisation:** The European Commission outlined plans in March 2025 to mobilise an additional €800 billion in defence spending over the next decade, including €150 billion funded by Security Action for Europe (SAFE) loans for joint procurement. This seeks to promote a paradigm shift towards a more coordinated and industrially integrated European strategic autonomy. The Commission also activated the escape clause from EU fiscal rules to authorise member states to run budget deficits beyond 3% of GDP to borrow for defence.

- **Market opportunity and industrial downturn:** The market growth potential in military logistics alone is estimated at well over €50 billion in the next 10 years. This demand coincides with a downturn in the European automotive sector, which has significant overcapacity. A survey of six light vehicle producers found average capacity utilisation was just 60% in 2023.

WHAT THE AUTOMOTIVE SECTOR OFFERS

- **Production and workforce:** The automotive sector, which accounts for around 7% of the EU's GDP and 13.8 million jobs, offers production facilities, skilled workforce, and mass production know-how that the defence sector needs. The industry can act as an enabler of the rearmament drive at a time of uncertainty over its own future.

- **Technology and logistics:** Potential collaboration areas centre on military logistics, streamlining and automating manufacturing processes, and developing dual-use technologies, including software-defined vehicles, supply chain resilience, and contingency planning for crisis and wartime.

- **Talent pool:** Deutsche Bank analysts argue that the German auto industry has a "historic opportunity to kill two birds with one stone" by turning some of its prowess to military production, leveraging its workforce capacity. The defence sector needs hundreds of thousands of new skilled workers, many of whom are currently in surplus in the automotive industry (e.g. AI engineers, robotics experts).

KEY BARRIERS

- **Market fragmentation and regulation:** There is no single European market for defence. Companies face an array of obstacles and uncertainties around tenders, contracts, complex country-specific military requirements, intra-European export controls, strict security regulations, and certification. EU countries make extensive use of the Article 346 TFU national security derogation from competitive tendering.

- **Business model mismatch:** The business models of the two sectors are as different as ready-to-wear fashion and haute couture. The automotive sector is geared to mass production in highly competitive global consumer markets, while defence operates on long-term, low-volume contracts, usually for a single government customer or a handful of national militaries, each with complex national specifications and tight security requirements.

- **Limited business control:** Given the complexity and heavy security requirements involved in manufacturing military goods, defence companies are likely to remain the prime contractors. Overall project management is unlikely to be transferred to the automotive sector.

- **Pace and political uncertainty:** Most OEMs view defence as a relatively low-volume add-on (1% to maximum 5%) and are thinking only in linear, peacetime terms, lacking contingency plans for potential war. There are significant doubts among OEMs and defence companies about the duration and sustainability of Europe's rearmament drive, especially if a ceasefire occurs in Ukraine.

- **Cultural constraints:** Some OEMs have Environmental Social and Governance (ESG) policies that prevent them from involvement in producing weapons and ammunition.

STRATEGIC RECOMMENDATIONS

- **Market access and harmonisation:** EU-NATO cooperation is needed to prise open national defence markets, facilitate joint procurement, and enable the free circulation of defence goods within the EU and NATO. Common procurement requires a harmonisation of national defence requirements, military specifications, procurement timetables, and certification of equipment.

- **Workforce transfer:** Policy instruments such as mobility premiums, reskilling allowances, flexicurity benefits, and expedited security clearances should be used to facilitate a managed transfer of workforce from automotive to the defence sector.
- **Financial and regulatory easing:** Public policy should support easing EU competition enforcement for defence mergers and acquisitions and collaborative sourcing of critical raw materials. Funding should be expanded for EU programmes like the European Defence Fund (EDF) and the European Defence Innovation Scheme (EDIS) to support cutting-edge crossover technologies.

Background

The drive to integrate the automotive sector into Europe's rearmament push is defined by converging geopolitical threats and industrial necessity.

GEOPOLITICAL CONTEXT

The geopolitical triggers are Russia's ongoing war of aggression in Ukraine, now in its fourth year, and deepening uncertainty regarding the US commitment to NATO under President Donald Trump, which have spurred a major increase in European defence ambition. At the Hague summit in June 2025, NATO's 32 nations agreed to raise defence spending to 5% of GDP by 2035, with 3.5% for core military expenditure and 1.5% for defence-related spending, such as military mobility infrastructure.

In March 2025, European Commission President Ursula von der Leyen unveiled the **ReArm Europe Plan**, aiming to mobilise €800 billion in additional defence spending by the 27 EU member states over the next decade. This includes €150 billion in loans under the Security Action for Europe (SAFE) instrument, backed by the EU budget, to support joint procurement and pan-European capability development.[1]

To facilitate this investment, the Commission activated the national escape clause under the EU's fiscal rules, allowing 15 member states that applied to exceed the 3% of GDP deficit threshold without triggering excessive deficit procedures, provided the excess is due to increased defence spending. This clause offers up to 1.5% of GDP in annual flexibility through 2029.

The ReArm Europe Plan builds on a series of strategic initiatives launched since 2021, notably: i) The European Defence Fund (EDF) 2021, ii) The Strategic Compass, adopted in 2022, iii) The European Defence Industrial Strategy (EDIS) 2024, and iv) The Defence Readiness Omnibus, proposed in June 2025.

The **White Paper for European Defence – Readiness 2030**, published in 2025 alongside the ReArm Plan, identifies military mobility as a critical enabler of European security and deterrence. It underscores that the ability to rapidly deploy troops and equipment across borders is essential not only for crisis response and hybrid warfare scenarios, but also for supporting Ukraine and reinforcing NATO's eastern flank.[2]

A **Joint Communication on Military Mobility**, including legislative proposals, is expected in November 2025 to guide long-term development and ensure financial predictability for dual-use infrastructure.

These initiatives aim to create a paradigm shift in EU defence policy from fragmented national efforts to a more coordinated, industrially integrated, and strategically autonomous European defence posture. However, there is considerable pushback by larger member states against any centralizing role for the Commission.

Despite high-level commitment, the execution and urgency vary across Europe. Broadly, Poland and the Nordic and Baltic states are moving fast to rearm and accelerate civil preparedness, driven by an acute sense of urgency and warnings of a potential Russian attack within five years. In contrast, Western and Southern Europe are far from preparing for war. This is reflected in the pace of budget decisions in major states: Germany's 2026 budget foresees massive increases, but new contracts worth more than €25 million must still be approved as an individual line-item by the Bundestag's budget committee – a time-consuming process. The German government announced a major overhaul of the country's defence procurement agency, a notorious bottleneck, in May 2026.[3] In France, plans to boost the defence budget to €64 billion by 2027 have faced delay amid government instability. Parliament finally approved an updated multi-year military planning law in May 2026 increasing spending by €36 billion up to 2030.[4]

There is considerable pushback by larger member states against any centralising role for the Commission.

European governments are agonising over how far they can rely on a US-provided core capability versus having to invest additional resources themselves to replicate vital US enablers such as strategic airlift, air and missile defence, intelligence, surveillance and reconnaissance (ISR), and command and control (C2) systems. The US Global Posture Review due to be released in the coming months may entail further troop reductions in Europe. However, NATO officials say they are confident that any drawdown will be gradual and will leave core enablers in place.[5]

INDUSTRIAL CONTEXT

This renewed focus on defence coincides with a secular downturn in the European automotive sector, which has significant overcapacity in production facilities and labour. European automotive production in 2024 was down 23% from its 2017 peak and is expected to flatline at best for several years. Estimates for the medium and heavy commercial vehicle sector paint a healthier picture, with market recovery prospects in 2026 and 2027 driven by adaptation to stricter EU CO_2 emission standards. A Reuters survey of six light vehicle producers found average capacity utilisation was just 60% in 2023. Utilisation figures were particularly bleak in Western Europe, forecast at 38% in Italy, 50% in France, and 56% in Germany for 2024. This decline is generating large labour surpluses.[6] Deutsche Bank analysts estimate German auto makers need to shed around 100,000 direct jobs in the coming years at an estimated restructuring cost of €10 billion.[7] This substantial underutilized capacity provides a potential resource for the European defence sector, which employed 581,000 workers in 2023 and faces major bottlenecks in scaling up.

DEFENCE MARKET CONTEXT

The European defence market is fragmented with national champions dominating their domestic markets, especially in the larger member states, and too little competition or collaboration among them. Past collaborative efforts such as the A400M military transport plane or the NH90 helicopter came in late and over budget and struggled to achieve economies of scale because of the need to accommodate multiple national requirements.

Most European countries remain dependent on US technology for key capabilities including missiles and missile defence, combat aircraft, strategic airlift and long-range fires.

Testing and certifying equipment is a strictly national prerogative. There are no binding common product standards as exist in the EU's single market, and no mutual recognition of standards and certification. Members of NATO are in theory obliged to respect Standardization Agreements (STANAGs) to ensure common operational and administrative procedures and logistics so their forces can operate together efficiently. Hundreds of STANAGs cover a huge range of technical specifications for equipment and common practices, including air-to-air refueling, interchangeable ammunition, specifications to make national communications systems compatible, and formats to facilitate sharing intelligence.[8] However, the war in Ukraine revealed that European allies' equipment and ammunition produced to STANAGs was not fully interoperable. Different artillery and tank canons with different barrels fire different kinds of 155 mm ammunition. Using the "wrong" kind of shell affects the accuracy and range of fires and can damage the canon.

Sectoral analysis

CURRENT CONTRIBUTIONS OF THE AUTOMOTIVE SECTOR

While only a small minority of the European Automobile Manufacturers' Association (ACEA) members surveyed produce combat vehicles, several supply commercial vehicles and trucks that are adapted for military use by specialist defence companies. Action has been most concentrated in the trucks and heavy vehicles sector, which has a long tradition of working with third-party body manufacturers, some of whom are engaged in the defence sector.

Formalized engagements include the joint venture between German truck manufacturer MAN Truck & Bus and Rheinmetall, in which Rheinmetall equips commercial vehicles a as platforms for weapons and handles sales to military clients.[9] Consolidation is also evident: Italian defence conglomerate Leonardo agreed to acquire Iveco Defence Vehicles in July 2025, aimed at creating an Italy-based, European land defence champion.[10] Daimler Trucks has announced strategic partnerships with France's Arquus and the US/Canadian General Dynamics Land Vehicles (GDLV) for the joint development, production and long-term maintenance of military logistics vehicles.[11, 12]

Other discussions have made headlines. Rafael Advanced Defence Systems signed a letter of intent with Volkswagen in April 2026 to acquire the German auto maker's Osnabrueck plant, scheduled to cease car production in 2027. The Israeli company plans to make components for its Iron Dome missile defence system, including heavy trucks and launchers, at that site.[13] In France, Renault has partnered with defence start-up Turgis Gaillard to build structural parts and engines for long-range attack drones for the Ministry of Defence at its Le Mans and Cleon plants. Production will initially be modest with 600 drones per month from late 2026.[14]

Mercedes Benz CEO Ola Kallinius told the Wall Street Journal in an interview published in May 2026 that his company was willing to enter defence production, without mentioning any specific deal.[15]

INDUSTRIAL OVERCAPACITY AND STRATEGIC OPPORTUNITY

The automotive sector's industrial decline, concentrated among light vehicle OEMs, offers a historic opportunity to leverage its scale for defence production. In Germany, the auto industry accounts for 5% of GDP, compared to arms sales at just 0.2% in 2023.[16] German automakers need to shrink production capacity and shed labour fast while a wall of money is about to hit a defence sector in search of extra production facilities and skilled workforce.

Automotive companies offer mass production know-how and experience in robotics, digitalisation, and automation that the defence sector lacks. Repurposing existing underutilized factories embedded in industrial areas – rather than building green field sites that require extensive planning bureaucracy – can offer necessary surge capacity quickly. Rheinmetall, Europe's leading defence contractor, has shown the most enthusiasm for collaboration, discussing converting auto production sites and retraining skilled workers, aiming to expand turnover to €50 billion by 2030 and requiring 40,000 to 60,000 additional workers.[17] Rheinmetall is already converting two of its own automotive component plants in Berlin and Neuss to make non-explosive defence components.[18] A Tier 1 German auto parts supplier, Schaeffler, has announced plans to enter the defence sector to compensate for a drop in demand from OEMs.[19]

OEMS' PERSPECTIVES

Most OEMs approach defence as a niche business, seeing it as a relatively low-volume add-on to their core civilian business. Defence-related sales range between 1% and at most 5% of product volume, even including sales of vehicles to commercial companies with military logistics contracts. Few companies view defence as a major diversification strategy or source of business growth over the next 5-10 years.

The slow pace is compounded by structural and political difficulties. The different business models – comparing the automotive sector's rapid iteration, tight margins, and mass production to the defence sector's long-term, low-volume contracts with complex national specifications – present a significant barrier. Defence spending is highly political and national, not market-driven or European, making it difficult for OEMs to navigate tenders and procurement.

There are also significant doubts about the duration and sustainability of the European rearmament drive. Some OEMs suspect that a ceasefire in Ukraine could rapidly erode public support for increased defence spending. Automotive companies appear to be thinking only in linear, peacetime terms, lacking contingency plans for a potential war situation in Europe.

Several automotive companies have Environmental Social and Governance (ESG) policies in place that prevent them from direct involvement in producing weapons and ammunition, as well as setting strict export controls, although such policies may evolve as investor sentiment towards defence is shifting from aversion to a cautious embrace. The number of Exchange Traded Funds specialised in European defence has more than tripled to 15 in 2025, and money is pouring into them. Some former industry executives highlighted a lingering aversion to defence among OEM staff, including engineers, as well as trade unions. Universities with which OEM R&D departments work often have restrictions barring any work on military technology.

The automotive sector's industrial decline, concentrated among light vehicle OEMs, offers a historic opportunity to leverage its scale for defence production.

Opportunities for collaboration

INDUSTRIAL PRODUCTION

> The automotive industry can offer mass production know-how, underutilised production capacity, and expertise in automation to help the European defence sector scale up from workshop conditions to serial production quickly and efficiently.

The European defence sector lacks the mass production expertise of the automotive industry after decades of shrinking budgets. Automotive companies, with their know-how in robotics, digitalisation, and automation, could make attractive offers to help defence scale up. Repurposing existing automotive factories is generally preferable to developing green field sites, as they are already embedded in industrial areas with established supply chains and public acceptance. The Dutch VDL conglomerate, for example, is converting a former Mini car plant at Born, leveraging its extensive knowledge of high-quality assembly and industrialisation, to produce defence equipment.[20] OEMs must strategically weigh the financial benefits of selling or leasing idle capacity to defence companies against the longer-term technological and political benefits of active participation.

Automotive production capacity could quickly make a difference in several high-volume areas:

- **Drone airframes:** Building drone airframes is technically simple and does not require a highly specialised workforce. This capability is crucial, as European armed forces still have few drones, and a surge capacity to ramp up mass production in crisis and wartime is essential. Rheinmetall estimates that it takes 12-18 months to convert a modern automotive plant to defence component production.

- **Artillery munitions:** OEMs could rapidly scale up production of items like shell casings for the ubiquitous NATO-standard 155 mm rounds, which are needed to replenish stockpiles currently sufficient for as little as three days' high-intensity fighting. Rheinmetall estimates it will take about 12 months to complete the engineering assessment, assembly line reconfiguration, quality control adaptation, and to retrain staff to make the metal casings. The explosives, propellant and fuses would be inserted at a separate secure defence facility.

- **Military logistics:** The planned defence surge will automatically increase demand for transport vehicles. One estimate suggests the market for German MoD truck purchases alone could be between €23 billion and €47 billion by 2035. The EU/NATO priority to improve military mobility for transporting equipment and supplies along logistics corridors across Europe offers opportunities for OEMs. Autonomous battlefield logistics vehicles will also be vital, given the drone threat to manned transport systems.

A key opportunity lies in embedding **modularity** into platforms and production processes. Truck OEMs, such as those under TRATON (Scania, MAN, VW), are introducing common modular systems, allowing vehicles, components, and even production lines to be rapidly adapted for shifting civilian and defence needs. For defence ministries, modularity reduces life-cycle costs and enhances interoperability, allowing civilian platforms to be fitted with modular armour kits or interchangeable payloads. Modularity also provides an industrial hedge, allowing idle automotive plants to be repurposed as adaptable hubs for modular sub-systems like battery packs or sensor kits.

A key opportunity lies in embedding modularity into platforms and production processes.

WORKFORCE AND SKILLS TRANSFER

> The defence sector faces a major bottleneck, requiring an estimated 760.000 new skilled workers to meet spending targets. The simultaneous layoff of tens of thousands of skilled workers from the automotive sector provides a critical pool of talent, including AI engineers, robotics specialists and mechanics

The acute need for skilled workforce in the defence sector (estimated at 760,000 new skilled workers for a 3% GDP defence spending target, which is less than the agreed 3.5% core target)[21] overlaps directly with the labour surplus in the automotive industry. Layoffs are accelerating due to Chinese competition in EVs and the transition away from the internal combustion engine; Volkswagen, for example, has agreed with unions to eliminate at least 35,000 jobs by 2030.

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While market forces are enabling some labour transfer – Rheinmetall is actively recruiting former auto workers – a time lag exists between current automotive layoffs and the defence ramp-up expected in the next two to three years. Public policy is needed to facilitate a managed transfer of workers:

- **Mobility premiums:** National governments could offer mobility premiums to workers willing to move location to take a defence industry job.

- **Retraining and transfer companies:** The state could invest more in retraining redundant auto workers or use transfer companies to accelerate the re-routing of surplus workers, paying transfer allowances for a limited time, as precedent exists from the steel industry restructuring.

- **Administrative action:** Administrative barriers must be addressed, specifically by speeding up security checks for transferring workers, a process which can take up to one year in some countries.

The European Globalization Adjustment Fund for Displaced Workers (EGF), which can meet 60-85% of the cost of retraining and helping laid-off workers find new jobs, is insufficient to meet the scale of the challenge with an annual budget of just €35 million. It would need to be significantly scaled up to make an impact.

TECHNOLOGY AND DUAL-USE INNOVATION

> Modern vehicles are battery-powered computers on wheels, meaning the most advanced AI, robotics, and battery technologies are now often "spun in" from the civilian automotive sector to the military, reversing historical trends.

The R&D budgets of big automotive OEMs dwarf the resources of most European defence ministries. There is massive potential overlap in technologies, but the EU's current binary logic of dual-use terminology is slowing Europe's response to "omni-use" technological advances.

Working in partnership with defence contractors, OEMs can apply civilian technologies:

- **Autonomous driving:** While civilian regulators have been extremely cautious and demanding, nations at war have fewer qualms about experimenting with new technology on the battlefield that is less than 100% certified for commercial use. Autonomous battlefield logistics vehicles will be vital, as Ukraine has shown, given the drone threat to manned transport systems.

- **Connectivity and software:** One OEM cited opportunities in system updates over the air, location services, and making dual-use infotainment screens sufficiently secure and robust for defence purposes.

- **Mobility platforms:** OEMs can provide existing consumer platforms, such as off-road motorcycles, all-terrain vehicles (ATVs), and side-by-side (SxS) vehicles, which are ideal for transport across rugged terrain, logistics, and medical evacuation in remote areas, aligning with the EU's strategic emphasis on modular, scalable mobility solutions.

- **Electrification:** Small electric generators, fuel cell systems, and advanced battery technologies developed in the automotive sector are crucial for portable energy generation and military logistics as militaries move away from diesel-heavy platforms. Militarizing these applications, however, requires specific expertise, pointing to the advantage of partnering with a defence contractor.

SUPPLY CHAIN RESILIENCE

Both the automotive and defence sectors require stable access to critical raw materials (steel, microchips, minerals). OEMs could help strengthen defence supply chain resilience by sharing their established supplier network and purchasing conditions. European defence industries are reliant on imported permanent magnet materials and rare earth oxides from China and have been hit by recent extension of export controls on these elements.

The defence sector's rapid expansion makes strengthening supply chain resilience a strategic priority, particularly regarding core inputs like ballistic steel, microchips, and batteries.

One OEM confirmed it was generally open to cooperating in supply chain management by making its established supplier network and purchasing conditions available to defence companies. While EU-led initiatives to source and stockpile strategic minerals are referenced positively, strong misgivings exist on commercial confidentiality grounds about proposals for the Commission to centrally monitor company stockpiles. There is support for building alliances of industrialized democracies with nations like the UK and Japan to ensure reliable access to essential materials and components.

Policy recommendations

Area	Recommendation	Actor
Regulation	**Harmonise equipment, certification and testing:** Equalisation of certification procedures, testing, and military specifications, which often differ significantly among nations. Improve enforcement of NATO technical standards.	EU & NATO
Regulation	**Simplify intra-EU export licensing:** Establish a presumption of free circulation of defence goods among NATO allies and EU partners and expedite cross-border transport of equipment and components.	EU & NATO & National Goverrnments
Regulation	**Increase tender transparency:** Prise open national defence markets and set minimum information requirements for tenders (including volumes and budgets) to help OEMs identify where they may be competitive.	EU & NATO & National Governments
Regulation	**Streamline security requirements:** Ease security requirements for producers of commercially available vehicles converted for military use (e.g., not requiring MoD facility certifications for commercial vehicles).	National governments
Regulation	**Re-interpreting competition law:** Make exceptions to EU competition law for defence-related mergers and acquisitions and collaborative procurement of critical raw materials.	European Commission
Regulation	**Accelerate permitting procedures** under the Omnibus framework to reduce administrative barriers for defence innovations.	European Commission
Workforce	**Mobility premiums and reskilling:** Offer mobility premiums to workers willing to relocate for a defence industry job, and boost funds for retraining.	National governments
Workforce	**Expedite security checks** for transferring workers, which currently act as a significant time barrier, sometimes lasting up to one year.	National governments
Innovation	**Expand EDF/EDIS funding:** Expand the funding and scope of the European Defence Fund (EDF) and the European Defence Innovation Scheme (EDIS) to offer more support for cutting-edge crossover technologies.	European Commssion
Innovation	**EIB dual-use funding:** Expand the eligibility criteria for European Investment Bank (EIB) dual-use funding to encompass a broader range of automotive technologies with defence applications.	EIB management and board (EU finance ministers)
Simplification	**Elevate joint procurement decisions** for key capabilities from the national to the European level to avoid isolated national approaches and enable scalability.	EU & NATO
Collaboration	**Create exchange platforms** between the automotive and defence sectors, policymakers, and defence ministries to match needs, capacities, and competences. Germany established such a national platform in 2026.	European Commission

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NOTES

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