

# To Build European Defense Tech Champions, Political Challenges Must Be Overcome

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## Key Points

- The war in Ukraine has prompted a surge in planned defense spending in the EU and across NATO. The emphasis on building more European defense technology is greater than ever.
- But dealmaking in the sector is uniquely complex because of the need for politically aligned capital; the gulf between the need for procurement and actual spending commitments; and the interaction between national security and industrial policies.
- Defense innovators and investors alike will want to have a geopolitically informed perspective to steer their deals through this complex transactional landscape.

## Surge of Funding in Core Defense

The European defense landscape has been transformed by the realities of war in Ukraine. In June 2025, NATO allies made a commitment to invest 5% of gross domestic product annually on core defense requirements and defense- and security-related spending by 2035. (See our June 2025 article [“Europe’s Sharpened Focus on Defense Creates M&A and Investment Opportunities.”](#))

As part of an €800 billion mobilization, in May 2025 the European Union established the [Security Action for Europe \(SAFE\)](#) program, which provides €150 billion by way of loans to member states to finance urgent and large-scale procurement efforts.

The funding priorities under SAFE offer instructive demand signals for existing defense stakeholders, as well as for private capital and other investors looking to expand their exposure to the sector. The priorities are grouped in two categories:

- **Category 1:** ammunition and missiles; artillery systems, including deep precision strike capabilities; ground combat capabilities and their support systems, including soldier equipment and infantry weapons; small drones (NATO Class 1) and related anti-drone systems; critical infrastructure protection; cyber; and military mobility, including counter-mobility.

- **Category 2:** air and missile defense systems; maritime surface and underwater capabilities; drones other than small drones (NATO Class 2 and 3) and related anti-drone systems; strategic enablers such as, but not limited to, strategic airlift, air-to-air refueling, C4ISTAR systems as well as space assets and services; space assets protection; and artificial intelligence (AI) and electronic warfare.

The SAFE program caps the proportion of expenditures that can go to components provided by nonmember countries at 35%, which has proved controversial with the U.K. and has resulted in the U.K. being thus far unable to secure membership on agreeable terms.

Member countries include not just EU member states but those in the European Economic Area, the European Free Trade Association and Ukraine.

## Economic Security Is National Security

Core defense is not the only priority. Against the backdrop of escalating hybrid warfare and so-called “gray zone” conflict, as well as an increasingly unpredictable relationship with the U.S., economic security has come to equal national security.

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The U.K. government made the point clearly in its [National Security Strategy 2025](#), echoing similar statements made by both the EU and the U.S. in recent years.

In September 2025, European Commission (EC) President Ursula von der Leyen and former European Central Bank president Mario Draghi opened a high-level conference with a review of the EC's progress in implementing the recommendations set out in Draghi's 2024 report, "[The Future of European Competitiveness](#)."

The EC highlighted its progress across a range of initiatives, including €20 billion set aside for AI gigafactories and €70 billion, via TechEU, going toward innovative companies. Both are part of €200 billion mobilized for investment in AI.

The emphasis on developing more European defense technology is stronger than ever, with advanced and emerging capabilities playing an outsized role in the battlefield. As the Draghi report points out: "The EU is weak in the emerging technologies that will drive future growth. Only four of the world's top 50 tech companies are European. Yet, Europe's need for growth is rising."

### Building European Defense Technology Champions

While the focus on defense investment and economic security is clear, there are

complex obstacles to companies and investors in the sector. These are almost always inherently geopolitical and increasingly more subject to transactional approaches by both governments and industry.

Defense innovators and investors alike should consider a geopolitically informed perspective as they traverse the dealmaking landscape and its obstacles:

- **Politically aligned capital.** Complex, national-level foreign investment screening (FDI) regimes put a high fence around an ever-larger yard. FDI regimes that were once confined to core defense targets have expanded in scope alongside the focus on economic security. Infrastructure, advanced technology, raw materials, health care, agriculture and more are implicated. Investors and companies alike may want to understand earlier than ever in the fundraising life cycle how different sources of capital will be viewed across European political capitals.
- **Demand signals backed by real procurement.** Defense innovators and investors should carefully interpret a government's professed intent to invest in defense. But governments equally need to back their statements with real procurement. Early stage innovators need long-term revenue-generating contracts to form the basis of both

organic growth and attractive valuations. Investors may want to take the time to understand the difference between actual opportunity and smoke and mirrors.

- **Policy infusion.** Regulators traditionally have specific mandates — *e.g.*, financial regulators address financial risk, antitrust regulators address competition risk. Economic security should be (and is increasingly) infused in policy mandates across all levels of government and regulatory authorities.

Building the next European defense champion will require a careful balance between the benefits of consolidation, cooperation and modularization, on one hand, and the effect on intra-EU competition on the other.



Want more on this topic? Check out the latest episode of our podcast "[Foreign Correspondent](#)," in which Jason Hewitt and guests discuss the role of private investment in the U.K. defense sector.