**NL non-paper**

# Position on the Communication on the Defence Single Market

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## Introduction

As the geopolitical landscape evolves, it is clear that Europe needs to strengthen its security urgently. The EU and its Member States need to take more responsibility to ensure security and stability on the continent.

Although the defence sector has distinct characteristics, shaped by national security imperatives, high entry barriers, and a lack of competitive demand, with the state as the dominant, often sole, customer, removing unjustified and unnecessary Single Market barriers can still enable defence companies to operate more effectively across the EU. The European Single Market, as a single area without internal borders, is a cornerstone of Europe's economic competitiveness, security, and resilience. A well-functioning circular Single Market is essential for the EU's global position, for European security, and for an attractive and competitive business and investment climate.

Current EU-wide Defence production capacity is insufficient and the defence internal market is inefficiently organised, therefore EU Member States that are part of NATO are unable to meet NATO capability targets in a timely manner. Therefore, a stronger, more innovative European defence industry is essential, with a strong Single Market at its cornerstone. Member States should remain responsible for defining, prioritising, and procuring military capabilities, while the EDA should accelerate cooperation among Member States, notably through the PCA framework.

To translate these priorities into Single Market action, the Commission is preparing a Communication on the Defence Single Market, building on the White Paper for European Defence/Readiness 2030 focus on fragmentation and scale. By reducing national market fragmentation, pooling demand, capacity allocation, smart and efficient use of products and materials and standardising equipment, the EU can enable larger production runs, lower costs, strengthen the European Defence Technological and Industrial Base (EDTIB), and improve interoperability.

## *1. Single Market proposals – open and competitive European supply chains*

The Netherlands shares the Commission's ambition to make greater use of European defence products, while underlining that cooperation with allied third countries, specifically NATO allies, must remain an integral part of this approach. A European preference in defence instruments must sufficiently allow for this cooperation. A stronger and more predictable European demand enables the European defence industry to scale up production, invest in innovation, and develop advanced capabilities that are competitive at the global level.

European policy should stimulate cross-border industrial cooperation and market integration, rather than lead to further fragmentation along national lines or market closure. In particular, open and competitive supply chains are essential to ensure that the entire European defence industry – including SMEs, start-ups, and scale-ups – can benefit from increased European demand and contribute to a resilient and competitive European Defence Technological and Industrial Base (EDTIB).

Strengthening the circularity of defence products and material value chains through reuse, refurbishment and remanufacturing reduces costs, improves resource efficiency and improves the availability of critical materials, thereby lowering dependence on third countries and strengthening the EU's strategic autonomy.

Concrete proposals:

- Create cross-border supply chains and ensure SME participation (including start- and scale-ups) for all defence industry actions financed though the European Competitiveness Fund (including individual actions within an EDPCI) by (i) requiring a minimum number of entities from a minimum number of countries for all activities financed, (ii) include award criteria for SME participation and cross-border cooperation, and (iii) include specific calls for SMEs.
- Focus the European Competitiveness Fund on shaping the Priority Capability Areas into world-class pillars of European defence innovation, industrial capacity, and strategic autonomy, aligned with NATO capability targets.
- Enable and actively facilitate the uptake of capabilities and technologies developed under European defence industrial programmes by ensuring that resulting products can be directly procured under EU defence procurement rules and frameworks.
- Facilitate and promote opportunities for defence production and testing in other Member States.
- Remove unjustified and unnecessary barriers and reduce administrative burdens to the intra-EU transfer of defence-related products. For example by promoting broader and more harmonised use of general transfer licences across the EU.
- Further converge European arms export policies to ensure a level playing field within the Single Market.
- Enforce the systematic use of NATO standards in European defence industrial programmes to enhance interoperability and standardization.
- Promote resilient and circular material supply chains by limiting exposure to single-point failures and encourage second-sourcing for- and the recovery and reuse of critical components.
- Promote a level playing field for European defence manufacturers by fostering smart allocation of collaborative, capability driven projects and avoiding the duplication of costly, solely nationally-backed initiatives.

## 2. *Procurement/demand side*

Procurement is an instrument for demand creation, which should go hand in hand with scale up of production capacity. Therefore, the demand for European products must be aggregated. At the same time armed forces must retain rapid and flexible access to materiel. Measures aimed at European preference in defence procurement should therefore focus on stimulating purchasing within Europe and on mitigating high-risk strategic dependencies, for example by taking availability and origin into account in procurement procedures. Such measures should not unnecessarily restrict access to suppliers outside the EU where no suitable European option is available. Military requirements, speed of procurement, and administrative simplicity must remain leading principles in any revision of defence procurement rules. Within these preconditions, an EU preference principle for defence procurement should be established.

Fragmentation in defence procurement on the demand side remains a key structural obstacle to interoperability, cost-effective sustainment, and the timely delivery of capabilities. Uncoordinated national demand reinforces fragmentation on the supply side, limits economies of scale, and reduces predictability for industry, thereby constraining investment, innovation, and production ramp-up. Also, we should prevent the large increase in member states' defence spending from driving up prices.

As mentioned above, conventional market mechanisms are insufficient to deliver the capabilities, resilience, and strategic autonomy that are required. Competition is essential at the stage of awarding the initial contract to drive innovation and value for money. However, once a contract has been awarded, it should be significantly easier for other Member States to join, in order to promote standardisation, interoperability, and scale. This should be applied for contracts awarded within the EU. Ultimately, this leads to increased military readiness across the EU.

Reducing fragmentation does not imply eliminating competition or diversity. On the contrary, a balanced approach is needed that combines a limited number of interoperable system types with sufficient supplier diversity at both OEM and supply-chain level, thereby avoiding excessive concentration while strengthening resilience and sustainability.

Concrete proposals:

- Make joint procurement a key mechanism under the next MFF to overcome demand-side fragmentation and consolidate European defence demand.
- Promote circular economy criteria in defence procurement to extend asset lifetimes, enable reuse and remanufacturing, reduce lifecycle costs, and strengthen EU supply chains through transregional circularity hubs for innovative defence industries.
- Simplify and facilitate intra-EU procurement.
- Encourage, in new Defence and Security Procurement Directive, the awarding of framework contracts that allow other Member States to join.
- Increase the opportunities for Member States to join existing framework contracts for defence materiel concluded by other Member States – specifically for contracts awarded to EU entities – going beyond what is included in EDIP.

3. *Improve access to finance*

Access to finance for the European defence industry has improved in recent years, including through the European Investment Bank's relaxation of eligibility rules for dual-use projects and the mobilisation of additional public funding under ReArm Europe, most notably through SAFE.

Nevertheless, access to finance can remain constrained in particular cases such as SMEs and mid-cap companies, particularly for SMEs and mid-cap companies that that mainly produce weapons and ammunition. In that regard, the EIB's continued exclusion of core defence activities might deter private investors and could play a role in limiting capital mobilisation across the sector. As a result, this could risk slowing industrial growth, technological development, and the timely expansion of production capacity, underscoring the need for further targeted measures.

Concrete proposals:

- Broaden the EIB mandate to enable financing of core defence activities, provided this does not adversely affect the Bank's AAA rating or market access. This would mitigate the negative signalling effect towards public and private investors and can improve access to EU financing instruments.
- Focus the next Multiannual Financial Framework (MFF) and available resources towards strategic priorities as security and EU defence.
- Promote the Savings and Investment Union by making a push for progress on the market integration and supervision package.