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**Implementing the Draghi Report's  
Recommendations on Defence and Space**

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## **Implementing the Draghi Report's Recommendations on Defence and Space**

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### **1. Introduction**

The Draghi Report on the future of European competitiveness<sup>1</sup> highlights the importance of addressing the EU's strategic vulnerabilities in a context of increasing geopolitical challenges. The war in Ukraine has dramatically called into question Europe's security and deprived the EU of its main energy supplier, with major implications for the competitiveness of European industries. In addition, intensifying competition with global powers like China and the United States puts additional pressure on Europe's technological and industrial sectors.

The Report underscores the need for Europe to confront three significant transformations to safeguard its competitiveness: closing the innovation gap with China and the United States, advancing decarbonisation, and reducing strategic dependencies. Europe faces a significant technological lag, exacerbated by its reliance on external suppliers for critical raw materials and digital technologies.

In this context, security emerges as a critical precondition for sustainable growth. The EU's fragmented defence industry and its inadequate capacity to produce on a

large scale weaken Europe's ability to act as a cohesive geopolitical power. Space is also increasingly relevant for security and defence. In a hostile geopolitical context, the ability to protect satellite communications, navigation, and surveillance systems from potential disruptions or attacks is essential for the EU's broader defence and security goals, as well as for maintaining its competitive edge in the global space economy.

In the realm of space policy, the EU has developed an impressive infrastructure, financed and managed at the supranational level, including the Galileo satellite navigation system and the Copernicus Earth observation programme. In contrast, the EU's defence policy does not include collective European resources, since the military capabilities developed in the framework of permanent structured cooperation (PESCO) belong to the Member States. Despite this significant distinction, the EU's defence and space industries share similar structural characteristics and weaknesses: both provide world-class technology, but their competitive edge is undermined by insufficient investment, market fragmentation, foreign dependencies and sub-optimal governance arrangements. Addressing these vulnerabilities is crucial for Europe to regain its competitive edge and reduce its dependence on non-EU suppliers for critical technologies.

## **2. The main weaknesses impacting the EU's defence and space industries**

One of the main challenges for the defence and space industries in the EU is limited public and private investment, especially when compared to the figures of the EU's

main competitors, namely the US and China. Overall defence spending by Member States is approximately one-third of that of the United States and roughly equal to that of China, while the EU's public investment in space has been around 15-20% of US levels for decades. In addition, only a small part of the Member States' defence budget is devoted to research and development (R&D). In 2022, the total R&D funding by EU Member States, including EU funding through the European Defence Fund (EDF), amounted to €10.7 billion, a paltry sum compared to the \$140 billion spent in the US in 2023 on research, development, testing and evaluation. This financial disparity hampers the EU's ability to maintain technological leadership, as R&D costs for the most advanced military platforms continue to rise and China is massively increasing its investment in defence technologies. China has also emerged as a major competitor in space. Its BeiDou satellite navigation system, which rivals the EU's Galileo, plays a central role in China's power projection, including integration with military operations. China's space programme is expanding rapidly, with significant investments in anti-satellite capabilities and advanced space systems designed for both civilian and military use.

Limited access to private finance is also an obstacle to the competitiveness of European companies in the defence and space industries, which are largely start-ups and other SMEs. Without sufficient equity financing, promising companies are often unable to scale up and compete effectively in international markets.

A second challenge that needs to be overcome to restore the competitiveness of European industry is the per-

sistent fragmentation along national borders, exacerbated by the lack of coordinated investment and procurement among EU Member States. Overall, the EU defence industry is fragmented and it would require scale to increase its competitiveness. Furthermore, large defence manufacturers in Western European states tend to be present in all domains instead of specialising, thus creating overlaps and duplications. Significant barriers to entry into a market characterised by closed and nationally protected supply chains further hinder innovation and efficiency. For space technologies, the problem is exacerbated by the European Space Agency's (ESA) principle of "geographical return", whereby industrial contracts are distributed in line with member countries' contributions. This leads to a mismatch between where resources are allocated and where industrial capabilities are most competitive. On the demand side, lack of aggregation and insufficient standardisation further hinder consolidation and scale, and dilute the effectiveness of public investment in R&D.

A third problem is the scale of foreign dependencies, a plight common to many European industries. Not only is most of the Member States' military equipment purchased from third countries, but EU industries, including in the space sector, are also heavily dependent on non-EU suppliers for critical technologies, particularly for high-end electronic components such as semi-conductors. These dependencies create vulnerabilities in supply chains, making the EU more susceptible to external disruptions, as exemplified by recent geopolitical tensions and trade barriers with the US and China. For example, the expansion of China's space infrastructure poses a strategic challenge for the EU, highlighting the urgency of reducing depend-

encies on non-EU suppliers and improving Europe's own space capabilities<sup>2</sup>.

Finally, ineffective governance arrangements – a frequent target of criticism in the Draghi Report<sup>3</sup> – bring additional challenges. Although in industrial policy the Commission holds significant competences, and measures are adopted by the European Parliament and the Council under the ordinary legislative procedure, competence on defence – including policy coordination and planning – falls within the intergovernmental Common Security and Defence Policy (CSDP). This results in a complex governance set-up characterised by a plurality of different and potentially competing actors: the Commission, the European External Action Service (EEAS), and the European Defence Agency (EDA). In space policy, the ESA is a relevant actor alongside the EU and the Member States, leading to a fragmentation of responsibilities and resources that has long hindered the EU's ability to consolidate its position in the global space industry. The ESA's geographical return principle has led to inefficiencies in resource distribution, creating an imbalance between investment and industrial capacity. Furthermore, the lack of a harmonised regulatory framework across EU Member States has prevented the development of a unified European space market. The fragmented governance structure and the presence of disparate standards among Member States have limited Europe's ability to compete effectively in the global space sector, which requires coordinated investments and concentrated industrial capacity.

### **3. The Draghi Report's recommendations**

In this context, the Report offers several recommenda-

tions to address the challenges to the EU's competitiveness.

First, in line with the general emphasis on the need for massive investment and a genuinely supranational industrial policy, the Draghi Report highlights the need for a significant increase in both public and private capital. To consolidate investment efforts, it proposes the establishment of new financing instruments for defence R&D beyond the EDF, and a multi-purpose European Space Fund. In addition to increasing public funding, the EU should also leverage private capital to fuel innovation, for example by easing restrictions on defence project financing by the European Investment Bank.

Secondly, the Report emphasises the need for increased transnational procurement to aggregate demand and counter geographic fragmentation of the market. To this end, the Report calls for a greater use of joint procurement and proposes the establishment of an EU Defence Industry Authority entrusted with a joint programming and procurement function. In addition to pooling investments, the envisioned European Space Fund should also serve as a vehicle for the Commission to act as an 'anchor customer' and centralise the purchase of space services and products.

The Report further recommends greater standardisation and the harmonisation of defence product requirements, along with relaxed EU competition rules to encourage mergers and growth. The EU should also create a unified regulatory framework that fosters a single market for space. This would include harmonising licensing requirements and establishing common standards across Member States to enable the free movement of space products and services.

Finally, the Report recommends the streamlining of decision-making procedures to improve the effectiveness of the EU's actions. In the medium term, the Report calls for a new governance model for a defence industrial policy to be established between the Commission, the EEAS and EDA, reflecting the deepening of supranational integration in this sector. In space policy, it suggests abolishing the ESA's principle of geographical return and replacing it with an approach based on industrial excellence. This would allow contracts and resources to be allocated where industrial expertise is strongest, aligning investments with industrial capacity. The Report also recommends the creation of a European Space Law, a unified regulatory framework to harmonise licensing requirements, establish common standards, and facilitate the development of a single market for space products and services.

#### **4. An overview of the main implementation challenges**

While the Draghi Report provides a robust and timely blueprint for revitalising Europe's competitiveness in the defence and space sectors, some critical considerations must be addressed to ensure the success of its recommendations. These concerns relate to the feasibility of implementation, the potential for unintended consequences, and the geopolitical context shaping Europe's strategic decisions.

The Report calls for increasing investment by significant margins, reforming governance structures, adopting new legislation and partially centralising procurement of defence equipment. These measures require broad support

among EU Member States and will likely entail elaborate compromises. For instance, the recommendation to abolish the ESA's principle of geographical return is likely to face resistance from smaller Member States that benefit disproportionately from the current system. They may fear losing contracts and influence over space projects if procurement becomes more competitive and focused on excellence rather than geographical equity. Convincing all Member States to abandon this long-standing principle will require diplomatic finesse and perhaps a compensatory mechanism to ensure political buy-in from those likely to lose out soon.

Moreover, the recommendation to channel more resources into supranational funding instruments could meet resistance from national governments. As the Draghi Report notes, Member States' national budgets are limited, and political appetite for large-scale joint investments varies widely, especially if it involves issuing common debt instruments. Member States with conservative fiscal policies could resist proposals that would increase collective liabilities, potentially impeding progress on the crucial financing mechanisms outlined in the Report.

One of the central arguments of the Draghi Report is that the persisting fragmentation of the single market has contributed to Europe's weak competitiveness. However, a critical risk lies in the very implementation of the recommendations, which needs careful management to be effective. For instance, joint procurement to aggregate demand requires transparent and effective governance rules and careful coordination between national and EU-level priorities. If different Member States continue to pri-

oritise their own agendas, competing initiatives could dilute the overall impact of EU-wide efforts and of increased funding.

Finally, the Report strongly emphasises the need for strategic autonomy to reduce dependencies on non-EU suppliers. This is a crucial objective in both the defence and space sectors, where foreign dependencies could compromise the EU's security and its ability to respond independently to threats. However, the pursuit of autonomy raises concerns regarding the balance between reducing these dependencies and the need for international cooperation. For defence technologies, the Report itself recognises that acquisitions from the US are likely to continue and it appropriately suggests that the EU and its Member States, in addition to incorporating a European preference policy in their legislation, should also encourage the use of European defence solutions within NATO. Thus, although endorsing a moderately protectionist approach, the Report recommends that it be pursued not only through unilateral measures, but also through negotiated solutions. The need for international cooperation is undoubtedly stronger for space policy, given the nature of space as a global common and because even the most advanced nations in space rely on international partnerships for their most ambitious projects. The EU's determination to reduce its dependence on non-EU suppliers will therefore need to be balanced with the aim of maintaining access to cutting-edge technologies and innovations developed outside the continent, especially in areas where European companies are lagging behind.

## 5. Conclusion

Many of the recommendations presented in the Draghi Report are in line with the priorities and recent proposals of the European Commission. In spring 2024, the Commission issued a communication launching a comprehensive European Defence Industrial Strategy (EDIS)<sup>4</sup> and unveiled a proposal for a regulation establishing a European Defence Industrial Programme (EDIP)<sup>5</sup>. Both aim to strengthen the supranational dimension of defence industrial policy and envisage new tools for joint acquisitions and for the identification of European defence projects of common interest.

Alongside defence industrial policy, space has also been a priority of the Commission in recent years. In addition to a renewed emphasis on synergies between the civilian component of space policy and its security and defence dimension, the Commission announced the tabling of a proposal for a regulation on a European Space Law, which should establish partially harmonised rules on space traffic management, protection of infrastructure and environmental sustainability. After repeated delays, the proposal for a European Space Law is expected to be released soon after the second von der Leyen Commission takes office.

The defence and space sectors are therefore among the policy areas where some of the Report's short-term objectives are most likely to be achieved if the European Parliament and the Council are receptive to the Commission's proposals. The growing geopolitical pressures and the EU's pursuit of strategic autonomy create a favourable

environment for the adoption of such measures, facilitating the alignment of the majority of Member States and political parties on proposals that would otherwise prove highly controversial.

However, the Draghi Report reminds us that regulatory measures alone are not enough to strengthen European competitiveness if governance remains fragmented and significant supranational investment programmes are lacking. The proposed EDIP Regulation is illustrative in this regard. While it would strengthen the Commission's role in defence industrial policy overall, governance arrangements between the Commission, the High Representative and the Member States remain tentative and complex. Moreover, the funding allocated to the proposal is limited to €1.5 billion until 2027, an amount inadequate to significantly boost cross-border acquisitions and to support an effective supranational industrial policy for the defence sector, even if cumulated with the EDF budget. If political decision-makers, both at the EU and at national levels, are willing to address the problems highlighted in the Draghi Report, governance and funding challenges will be at the top of their agenda.



## Note

- 1 “The future of European competitiveness” (Part A - A competitiveness strategy for Europe; Part B - In-depth analysis and recommendations), September 2024, [https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead\\_en#paragraph\\_47059](https://commission.europa.eu/topics/strengthening-european-competitiveness/eu-competitiveness-looking-ahead_en#paragraph_47059)
- 2 See Enrico D’Ambrogio, “Asia’s skyrocketing space race: A competition for peace?”, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762460/EPRS\\_BRI\(2024\)762460\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762460/EPRS_BRI(2024)762460_EN.pdf).
- 3 See Olimpia Fontana and Simone Vannuccini, “The Draghi Report: It Writes Competitiveness, It Spells Politics”, CSF Commentary no. 305, 20 September 2024, <https://www.csfederalismo.it/en/publications/commentaries/the-draghi-report-it-writes-competitiveness-it-spells-politics>.
- 4 Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, A new European Defence Industrial Strategy: Achieving EU readiness through a responsive and resilient European Defence Industry, JOIN/2024/10 final.
- 5 Proposal for a Regulation of the European Parliament and of the Council establishing the European Defence Industry Programme and a framework of measures to ensure the timely availability and supply of defence products (‘EDIP’), COM/2024/150 final.
- 6 See European Commission and High Representative for Foreign Affairs and Security Policy, Joint Communication to the European Parliament and the Council: European Union Space Strategy for Security and Defence, JOIN(2023) 9 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52023JC0009>.

## CENTRO STUDI SUL FEDERALISMO

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