



## Policy Brief

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# NATO's Industrial Capacity Expansion Pledge

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This brief assesses the implementation of NATO's Industrial Capacity Expansion Pledge. The major challenge facing the Western world today is the urgent need for initiatives to support its defence industry due to the Russian Federation's war of aggression against Ukraine.<sup>1</sup> NATO and the EU have provided funding in the billions of U.S. dollars to Ukraine since Russia's invasion of the Crimea and the Donbas in 2014, contributing to the depletion of ammunition stockpiles across the alliance.<sup>2</sup> The situation is confounded by a lagging industrial defence market in Europe and highlights the urgent need for multi-national defence initiatives. In order to maintain support for Ukraine while also ensuring that member nations can replenish national stockpiles of munition and ammunition, NATO has introduced the Defence Production Plan and the Industrial Capacity Pledge.

## Background

NATO's Defence Production Action Plan was agreed to at the 2023 Vilnius NATO Summit, outlining initiatives aimed at bolstering further engagement with the defence industry. It centers on the aggregation of demand, addressing defence industrial production challenges and increasing interoperability for the alliance through the creation of metrics for the supply issues and overall capacity.<sup>3</sup> At the NATO Washington Summit in July 2024 the Industrial Capacity Expansion Pledge was announced. The Pledge builds on the NATO Defence Production Action Plan by committing to invest more into developing a capable defence industry necessary to deliver the requirements for their defence plans. The main objectives are to minimize trade obstacles, create domestic strategies to enhance production capabilities and capacity and to promote joint procurement to bolster interoperability.<sup>4</sup> Together, these policies are aimed at facilitating discussions on joint procurement, enhanced production capacity and improving interoperability among member states with regards to industrial defence.

## Analysis

The lack of prioritization of Europe's defense industry needs, the competing national security priorities among nations, and the complexities of US politics were closely scrutinized following Russia's invasion of Ukraine in 2022. Allied nations have struggled to fulfill their supply commitments to Ukraine, such as their pledge to deliver 1 million rounds of ammunition by March 2024, and to develop a strategy to address security challenges, such as the need for increased defense spending and joint procurement efforts.<sup>5</sup> Therefore, any policy recommendation regarding NATO's defense initiatives should aim to create long-term deterrence against

adversaries by ensuring that defence equipment stockpiles are consistently maintained at required capacities through sustained investments in defense-industrial bases.

## Policy Recommendation

To replenish the nation's stockpiles for self-defence and continue providing military assistance to Ukraine, NATO should refocus member on strengthening their national defence industries by minimizing barriers to entry for government contact eligibility, accelerating and expanding participation of third states in the Permanent Structured Cooperation (PESCO), and redirecting spending from overlapping defence initiatives toward privatization of their defence industries.

## Analysis of Recommendations

**Refocus on national defense:** Nations have the sovereignty to make decisions regarding their national security and laws granting them autonomy over the flow of defence-related goods, posing an obstacle to NATO's goal of enhanced transatlantic defense industrial cooperation. Even if strong trade agreements can be established, the implementation would likely take years. Therefore, nations should prioritize minimizing market entry barriers within their own industries and expanding collaboration through bilateral agreements.

**Expand PESCO:** The European multinational union, divergence in defense expenditures, and the prioritization of national defense contracts over other defense initiatives are significant challenges to defence industrial collaboration. To tackle this, member states should prioritize expanding existing agreements that provide a legal and political framework for effective cooperation. With 26 out of 27 EU countries participating in the EU's Permanent Structured Cooperation (PESCO) initiative and other nations such as the UK and the United States already involved in PESCO projects, leveraging a legally binding PESCO-type system could enhance cooperation among NATO nations.<sup>6</sup>

**Reallocate resources:** The main challenge in increasing joint procurement is the different approaches countries use to enhance their defense capabilities. While the US engages in collaboration between the public and private sectors to take advantage of economies of scale, the lack of such a strategy pushes Europeans to rely more on American military equipment and resources. At a time when European economies are struggling to meet their NATO funding obligations, these countries should direct their limited resources to enhance their defence capabilities by allocating more private-sector contracts.

## Potential Failure Points and Risk Mitigations for Proposed Policies

**Refocus on national defense:** Critics of this viewpoint may highlight the limited competition resulting from the domination of the market by major players like the United States and Germany. However, smaller countries can gain a competitive advantage by specializing in niche areas and capitalizing on their agility in adopting new

technologies. By focusing on unique capabilities, smaller nations can become indispensable players in the global defence market.

**Expand PESCO:** A key criticism of this recommendation is that involving third-party states could make PESCO projects too reliant on non-EU countries. However, strict contractual provisions are in place to ensure that only carefully selected external nations can participate.

**Reallocate resources:** Some critics argue that privatizing defence production could result in dependence on private companies for critical defense functions. However, private companies able to capitalize on economies of scale to win cost-competitive bids, often operate more efficiently than government-run organizations, leading to cost savings. Moreover, competition among private contractors can drive technological advancements.

## Conclusion

NATO's Defence Action Plan promotes cooperation between allied nations and acts as a planning board to meet the needs of the alliance, however, it does not address tensions within nations to meet domestic needs or address industrial supply chain risks. The Industrial Capacity Expansion Pledge was introduced to address gaps and focus on long-term actions including the removal of barriers to trade and encourage the development of national plans. An analysis of the Pledge has found that there are barriers to its implementation including the protectionist nature of national defence industries, differing state priorities, and challenges with private sector. The way forward may necessitate a refocus on national defence, expanding on PESCO to include non-EU countries and to reallocate funds to defence programs showing the greatest outputs.

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<sup>1</sup> "Relations with Ukraine," NATO, July 18, 2024, [https://www.nato.int/cps/en/natohq/topics\\_37750.htm](https://www.nato.int/cps/en/natohq/topics_37750.htm).

<sup>2</sup> "Ukraine Crisis: A Timeline (2014 - Present) - House of Commons Library," House of Commons, accessed September 1, 2024, <https://commonslibrary.parliament.uk/research-briefings/cbp-9476/>.

<sup>3</sup> "NATO's Role in Defence Industry Production," NATO, July 10, 2024, [https://www.nato.int/cps/en/natohq/topics\\_222589.htm](https://www.nato.int/cps/en/natohq/topics_222589.htm).

<sup>4</sup> "NATO Industrial Capacity Expansion Pledge," NATO, accessed August 6, 2024, [https://www.nato.int/cps/en/natohq/official\\_texts\\_227504.htm](https://www.nato.int/cps/en/natohq/official_texts_227504.htm).

<sup>5</sup> "EU to Ukraine: You'll Get Half the Ammo We Promised by March," POLITICO, January 31, 2024, <https://www.politico.eu/article/eu-to-ukraine-half-is-better-than-nothing-when-it-comes-to-ammunition/> and NATO, "NATO's Role in Defence Industry Production."

<sup>6</sup> "Binding Commitments | PESCO," accessed September 1, 2024, <https://www.pesco.europa.eu/binding-commitments/>.