

This statement has been sent to President of the European Commission von der Leyen, Executive Vice-President of the European Commission Ribera, Commissioner Kubilius, German Federal Chancellor Scholz, German Federal Chancellor-Designate Merz, German Federal Minister for Economic Affairs and Climate Action Habeck, and German Federal Minister of Defence Pistorius by the members of the German Monopolies Commission on 23 April 2025.

Statement

Why Competition Matters for Defence Spending

Both the EU and Germany are preparing major publicly funded investment packages, particularly in defence, which present significant opportunities for the European economy. Defence spending must first and foremost **meet the security needs** and **defence capabilities** of the Member States and the Union. However, defence procurement should also be designed to contribute to complementary objectives, notably **innovation and competitiveness**.

To take full advantage of this challenging but historic opportunity, a clear commitment to a **new, pro-competitive European framework** is essential.

Public procurement of large infrastructure projects has historically **faced challenges**, including excessive bureaucracy, cost overruns, misaligned incentives, and inaccurate forecasts. Large companies often have an advantage in securing government contracts, while SMEs and startups are hindered by financial and administrative barriers. This imbalance suppresses innovation and limits market diversity. In the defence sector, where procurement often involves long-term commitments and complex contracts, the risks of **consolidating market power and creating enduring dependencies** are even greater. Furthermore, increased government spending can exacerbate input shortages or raise costs in a way that disproportionately affects smaller and less-established firms.

As government involvement in the economy expands, these risks will intensify, making it imperative to integrate a pro-competitive perspective into defence spending from the outset. **Competition** helps to drive down costs and to keep dominant players in check. It ensures that long-term dependencies do not become entrenched, which would be very dangerous – both economically and in terms of its impact on the democratic process. Most importantly, it stimulates technological development at a time when it is urgently needed.

Key requirements for a pro-competitive design of defence spending

To create a truly pro-competitive approach to defence spending, a new framework is needed, based on three key requirements: 1) a European approach; 2) a significant simplification and acceleration of procurement processes; and 3) a balance between urgency and innovation.

A European approach

The White Paper rightly recognises that current fragmentation of defence procurement, resulting in numerous different weapon and defence systems across the EU, leads to inefficiencies that undermine economies of scale in research, production, and maintenance. Greater **European coordination** – combined with a stronger commitment to **European technology** – could enhance efficiency and competitiveness while preserving national security interests. A more unified approach could drive **economies of scale** and industry consolidation without reducing competition – on the contrary, it could foster a more dynamic market by encouraging European firms to compete on a broader scale.

Harmonization, simplification, and acceleration

Europe must **harmonise its legal and technological framework** for defence spending. Simplification is essential to unlocking the full potential of defence procurement. The European Commission's 2025 work programme emphasises the need to be "**bolder, simpler, and faster**" – an urgent priority in the defence sector. Procurement rules and structures must be streamlined or, where necessary, completely redefined to reflect these principles. Tender documents must be considerably shorter, focusing only on truly indispensable requirements, while procurement timescales must be accelerated.

Balance of urgency and innovation

A European strategy is needed to define future defence procurement priorities. Given the rapidly worsening security landscape, the need for swift action and **immediate defence readiness** is undeniable. However, urgency must not come at the expense of long-term investment in new weapons and defence technologies. A balanced approach is essential: while short-term procurement should prioritise proven providers of established weapon and defence systems to quickly strengthen capabilities, a parallel track must foster **innovation for the future**. This requires dedicated funding and procurement mechanisms that support open competition, dual sourcing, and targeted investment in start-ups and SMEs. Key technologies such as **AI, quantum technology, cybersecurity, unmanned systems, communication systems, and advanced defence platforms** can serve as strategic drivers of European innovation—provided their importance is properly recognised and funding is channelled effectively.

Ideas for safeguarding competition and innovation in defence spending

To operationalize these three key requirements, we propose the following ideas for safeguarding competition and innovation in defence spending. These ideas should contribute to the debate on establishing the right guiding principles. Our focus is on laying the foundation for a future-proof approach to defence procurement. The three key requirements outlined above,

along with the following proposals, serve as a starting point—not a final blueprint—for shaping a more dynamic and innovation-driven framework.

1. *Creating competition at the European level*

A truly **European approach** to defence procurement would enable greater economies of scale by consolidating demand across Member States. In such a framework, **dual sourcing** – where possible – can be an effective strategy to avoid dependencies and promote competition. Dual sourcing can take different forms, from parallel procurement of functionally equivalent technologies to the introduction of a second supplier for the same system. Each of these have trade-offs in terms of cost, economies of scale, and strategic flexibility. It could encourage the formation of competitive consortia. This would not only increase competition but also support greater interoperability and standardisation across systems, helping to reduce fragmentation within the European defence market.

Procurement for urgently needed and well-established defence goods should focus on **existing solutions in the market** instead of adding ever more requirements to projects. This would speed up the process while opening up competition.

Further strengthening **common security and compliance standards** could make it easier for companies to compete. European sourcing could work with **pre-certified supplier lists** and a "trusted vendor list" at the EU level. Licences and certifications should be mutually recognised across the EU. This would enhance possibilities of market entry.

Where possible, **interoperability** of systems should be made the rule within Europe. A commitment to interoperability would drive the creation of more coherent and cost-effective defence systems across Europe, enhancing the overall resilience and efficiency of the sector. It would enable more companies to participate in the process. Interoperability facilitates technological spillovers, fostering dual-use innovation that drives broader economic growth. While concerns about interoperability with a view to security risks are legitimate, careful formulation on different levels can ensure that the integrity of sensitive systems is not compromised.

2. *Enhancing participation of start-ups and SMEs*

Much of the spending will certainly be needed to fund complex projects with established producers. Yet, a substantial fraction of funding should be **reserved for start-ups and SMEs**, as already done in several EU funding programmes (e.g. Horizon Europe, European Defence Fund). In addition, leading defence contractors could be **required to subcontract** a fixed percentage of large EU defence projects to SMEs. Alternatively, tenders should include direct contracts for SMEs and incentives for collaborative R&D partnerships between large contractors and SMEs. This would ensure that smaller companies can enter the market and contribute to the wider innovation ecosystem.

Where start-ups and specialized SMEs excel, there could be **separate tenders for projects** targeted at SMEs. This would allow smaller, innovative companies to compete on a more level playing field and ensure that cutting-edge technologies are not developed solely by large, established players. SME-only projects could run on a fast-track procurement with smaller sums, providing best practices over time. To mitigate compliance risks and cybersecurity vulnerabilities, the fast-track approach should focus on lower-risk technologies, ensuring both innovation and security are maintained.

Expanding **co-financing mechanisms**, such as a venture capital-like funding model where public and private investors co-finance high-potential defence start-ups, would provide critical support for emerging technologies.

Procurement agencies should actively encourage **start-ups to participate in planning** processes (bringing in their ideas and expertise) and in production. There must be a learning path for those procuring what can be made available by start-ups and SMEs.

3. *Fostering innovation*

The increased investment in defence should spur innovation. This requires an **open procurement system** that incentivises innovation. Procurement should typically start as an open process, integrating partners from research and industry including smaller, innovative companies in the early phases of planning. Procurement should move away from rigid, highly detailed *ex-ante* specifications and instead **prioritize open competitions of ideas** alongside solutions-oriented demand management. The approach should be “bottom up” allowing industry —including SMEs and start-ups— to showcase what is possible instead of “top down”-requirements of what innovation is necessary. Pilot programs could help demonstrate the viability of a more market-driven, ideas-focused, and slightly experimental approach.

The high costs and long timelines of public tenders often discourage smaller firms from participating, limiting the pool of innovative solutions. To address this, **financial support mechanisms** – such as partial reimbursement of bidding costs for second and third place bidders – could help mitigate risks for start-ups and SMEs.

Europe should create armament **innovation sandboxes** – real-world testing environments where companies can test their technologies and incorporate them into larger defence systems. These controlled spaces would allow for iterative development, mitigate risks, and ensure that new solutions are compatible with existing military infrastructure.

Europe should create a dedicated **defence innovation unit**, inspired by the US Defence Advanced Research Projects Agency (DARPA). A similar European programme should fund high-potential dual-use technologies such as AI, quantum computing and robotics, with a focus on SMEs and start-ups. **Research institutions** should be integrated into the process.

4. *Cutting red tape and safeguarding competition*

To drive innovation and efficiency in defence procurement, Europe must **harmonise the EU-wide procurement framework**. This should replace the fragmented national systems currently in place. This unified system would facilitate smoother cross-border transactions and eliminate the need for multiple certifications and processes. Achieving this requires pooling the existing resources of Member States at the European level, allowing for greater collaboration within this framework. We support the proposed European Defence Mechanism as a step into this direction. Such an intergovernmental body could find tailored solutions for the lack of coordination and the uneven commitment of different EU member states.

Europe should implement **fast-track mechanisms** that allow rapid decision-making in defence procurement. This includes expanding direct awards without lengthy procurement proceedings for small projects, but it should be accompanied by improved transparency and *ex-post* control.

The legal framework for the procurement system needs a **complete reset**. Radical simplification seems impossible in the existing system. Therefore, new parallel structures must be built up in an evolutionary way, gradually replacing the existing system. The

aim of this new system must be the cutting of red tape, the safeguarding of competition, and the openness for further developments. Radical simplification will only be possible with clear priorities, digital management, and data monitoring. Germany has set a noteworthy example with the government-backed **innovation agency SPRIND**. SPRIND showcases how disruptive innovation can be promoted and accelerated. It may serve as a model for faster and less bureaucratic procurement.

By introducing **standardised procedures** with clear timeframes and European-wide security standards and templates for tenders, Europe can create a more streamlined and predictable environment. In addition, the creation of a clearance centre would further simplify processes and ensure consistency and efficiency across Member States.

In addition to simplifying procurement processes, Europe must constantly improve **digital solutions** to enhance speed and transparency, including the e-procurement processes, AI tools for bid evaluation, and project monitoring.

The allocation of funds must be based on the **rule of law**, ensuring accountability and competition. Public procurement and state aid laws should be simplified but not given up. Institutions responsible for detecting anti-competitive behaviour, corruption, and bid-rigging must be adequately equipped to monitor compliance effectively without hindering innovation. Procedures for legal redress should be accelerated.