



DEFENCE INTEGRATION BOOSTER

Better use of joint ventures can accelerate Ukraine's integration into the EU defence industrial base

by

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The unique qualities of Ukraine's defence industry are central to the success of its war effort. The industry will be key to maintain deterrence against Russia even once a sustained ceasefire is in place. Beyond security, it is also one of the most promising sectors for rebuilding Ukraine's peacetime economy.

The industry has transformed massively since 2022: it has undergone exponential growth while becoming a driver of innovation, in particular in uncrewed systems. However, it remains vulnerable to Russian attacks and faces significant financing constraints. Moreover, a sustained ceasefire would create uncertainty over the future level of demand, which could lead to a contraction of the sector unless Ukraine develops export opportunities.

The EU is already doing much to foster Ukraine's integration into Europe's defence base, notably by giving Ukraine access to its defence funding instruments. In parallel, a growing number of partnerships are emerging at the industrial level between Ukrainian and EU firms and governments. The EU should give further momentum to this process by expanding and revamping its support measures. This contribution focuses on one specific dimension of that agenda: how EU-based joint ventures between European and Ukrainian firms can give Ukraine greater production depth, and improve its access to technology, capital and European procurement markets.

Idea

Ukraine's defence industry, once a pillar of Ukraine's Soviet-era economy before falling into decades of decline, has undergone a remarkable revival since 2022. It is now one of the country's most important wartime assets and could become a key driver of its peacetime economy. However, it faces two key vulnerabilities. First, production facilities in Ukraine remain exposed to Russian attacks. Second, a sustained ceasefire could lead to a fall in domestic procurement, leaving firms without sufficient demand and forcing them to downsize. This would result in a loss of production capacity and make it more difficult to maintain the innovative edge that is Ukraine's

unique strength. The economic costs would be considerable. Ukraine is on course to generate more income from arms exports in 2026 than it did prior to Russia's full-scale invasion, and its overall production capacity [could](#) expand to USD 50 billion by 2028. A contraction of the industry could therefore undercut Ukraine's economic recovery. In addition, it could also undermine its long-term ability to deter future Russian aggression.

This makes integration into the European Defence Technological and Industrial Base (EDTIB) strategically important to empower Ukraine. European production capacity can provide added depth in the short term. Enhanced access to European procurement systems could unlock a major new source of funding and create sustained demand even in the event of a ceasefire. Moreover, partnering with European companies can provide Ukrainian firms with specific technology and know-how. However, the form of cooperation matters. Relocating a part of Ukrainian production to Europe may improve resilience, but it does not automatically provide access to European funding, technology, certification or procurement markets. Beyond the industrial dimension, deeper defence industrial cooperation and integration will further facilitate the inclusion of Ukraine in the European [security community](#) by fostering close collaboration in a sector that has traditionally remained highly nationalised.

Impetus

To sustain the impressive development of its defence industry and maintain its competitive edge, Ukraine needs access to four things that Europe can provide: capital, production depth, access to key technologies and assured future demand. Accelerating Ukraine's EDTIB integration should therefore focus on several parallel lines of action: facilitating access to funding, encouraging European firms to work in Ukraine, supporting Ukrainian firms operating in Europe, and fostering genuine partnerships between the two sides.

The EU should pursue integration along all these dimensions. Joint ventures based in Europe, in which both European and Ukrainian companies contribute intellectual property or production know-how, can play a particularly important

role. They can deepen industrial partnerships while helping overcome key obstacles to cooperation. First, they offer a way around the reluctance of many European companies to establish production in Ukraine due to concerns about tech sharing, intellectual property and public procurement, as well as the risk posed to production facilities by Russian attacks. Producing more Ukrainian or Ukrainian-derived systems in Europe would help secure production, allow firms to draw on European industrial capacity, and attract greater European investment in Ukraine's defence industry.

Second, despite its remarkable innovation, Ukraine still needs access to European technologies, components and systems-integration expertise in more complex capability areas such as air defence and deep strike. Joint ventures can bridge this gap by reducing the risks that often make European companies reluctant to share technology, particularly with partners based in Ukraine.

Third, EU-based joint ventures can help Ukrainian companies gain access to European and NATO procurement markets, which are essential for their long-term survival. European governments are increasing defence spending and becoming more open to broadening procurement to new players. However, Ukrainian products are not automatically easy for European governments to procure, even if a company wants to sell and has government backing. Joint ventures with European firms used to navigating NATO-standard procurement systems can help Ukrainian companies secure contracts and a funding stream. The prospect of export earnings may also be a powerful inducement for Ukrainian firms to persuade the government to grant export licences under the mechanism introduced in June to attract greater international investment.

Instruments

European firms are increasingly setting up operations in Ukraine, for example the successful Rheinmetall Ukrainian Defence Industry LLC. In parallel, Ukrainian companies like Firepoint are setting up production in Europe. Several EU governments, such as Denmark and the Netherlands, are actively encouraging partnerships with Ukrainian companies and production in Europe. Joint ventures are already

an important element of this cooperation architecture. For example, Auterion Airlogix, which combines Ukrainian and German expertise in artificial intelligence (AI), illustrates how such ventures can link Ukrainian firms with partners that bring capital, facilitate certification and systems integration and provide access to procurement opportunities.

To encourage the wider use of joint ventures and make them more efficient, the EU could adapt its funding instruments to incentivise their creation. Currently, an EU-headquartered joint venture that combines European and Ukrainian technology to facilitate technology sharing, manage export controls and access the EU market is classified simply as a 'European' company and receives no particular support from the EU. Future EU defence-industrial funding instruments could give greater weight to projects in which Ukrainian firms contribute core intellectual property or production know-how through European-incorporated joint ventures.

Beyond adjusting its instruments, the EU could help assemble funding packages for joint ventures. Past examples, including Denmark's €67 million envelope, show that establishing production facilities requires substantial public funding, as well as government backing to secure the necessary permits. The EU could help coordinate packages combining host-state funding, EU financing, European Investment Bank (EIB) financing for eligible dual-use elements, and private capital. Moreover, the next Multiannual Financial Framework (MFF) could also include a dedicated EU defence-industrial budget line to encourage the creation of joint ventures.

Public support should also include clear demand signals. To help joint ventures scale up production, Member States should consider framework contracts and advance purchase commitments that would give firms the certainty needed to increase production capacity and attract private capital. To facilitate testing and certification, Member States should provide Ukrainian firms and Ukrainian-European partnerships, including EU-based joint ventures, with access to testing facilities.