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Why Joint EU Defence Procurement Remains Fragmented: A Liberal Intergovernmentalist and Historical Institutional Approach

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Why Joint EU Defence Procurement Remains Fragmented: A Liberal Intergovernmentalist and Historical Institutionalist Approach

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Abbreviations

CARD Coordinated Annual Review on Defence

CFSP Common Foreign and Security Policy

CSDP Common Security and Defence Policy

EDA European Defence Agency

EDF European Defence Fund

EDIP European Defence Industry Programme

EDIRPA European Defence Industry Reinforcement through Common Procurement Act

EDIS European Defence Industrial Strategy

EEAS European External Action Service

EESC European Economic and Social Committee

EDTIBEuropean Defence Technological and Industrial Base

EPF European Peace Facility

ESDP European Security and Defence Policy

HI Historical Institutionalism

ISIS Islamic State of Iraq and Syria

LI Liberal Intergovernmentalism

NATO North Atlantic Treaty Organisation

PESCOPermanent Structured Cooperation

SAFE Security Action for Europe

TFEU Treaty on the Functioning of the European Union

Abstract

Russia's invasion of Ukraine intensified calls for deeper European defence cooperation, exposing the EU's strategic vulnerabilities and dependence on the United States. In response, the EU introduced a growing set of instruments to strengthen joint defence procurement. Yet fragmentation persists. This thesis asks: Why does joint EU defence procurement remain fragmented despite unprecedented legal, institutional and strategic momentum toward integration?

To answer this question, the thesis combines Liberal Intergovernmentalism (LI) and Historical Institutionalism (HI) and applies qualitative process tracing and document analysis to two empirical areas: the resurgence of offsets and the enduring NATO-centred institutional environment. The LI analysis shows that governments continue to act as rational gatekeepers, protecting national defence-industrial bases and invoking Article 346 TFEU to preserve discretion. Offsets, though discouraged by EU law, persist because they deliver political and economic returns that outweigh the benefits of market liberalisation. The HI analysis demonstrates that long-standing procurement systems, NATO frameworks and entrenched industrial pathways create path-dependent "lock-ins" that limit the impact of new EU instruments, even during security crises.

The thesis concludes that fragmentation is not a temporary failure but a structurally reproduced outcome of the interaction between national preference divergence and deep institutional legacies. Overcoming it will require changes to the underlying legal and organisational architecture, not only new EU initiatives or increased geopolitical pressure.

1. Introduction

In 2014, when Russia annexed Crimea, the invasion was overshadowed by other crises that emerged at the same time and took most of the attention in the European political debate. In Western Europe in particular, policy attention was focused on the expansion of the Islamic State (ISIS) in the Middle East and international terrorism, followed by the migration crisis in 2015. These developments drew the political agenda towards counter-terrorism, risk of radicalisation, border control and asylum governance, testing the European Union's capacity for crisis management, solidarity, and internal coordination. At the same time, in the United Kingdom and other parts of Europe, this period was marked by a deepening Eurosceptic discourse. Concerns

about migration, sovereignty and democratic control over EU decision making increasingly fed into the political dynamics and eventually culminated in Brexit.

At the same time, leaders in Central and Eastern Europe, and especially in the Baltic states, attempted to draw attention to the implications of Russia's actions in Crimea and eastern Ukraine, warning about a growing threat to European security. Former Lithuanian president Dalia Grybauskaitė warned in an interview with the Washington Post that relying on NATO and Article 5 alone would not necessarily guarantee Europe's security, arguing that President Putin's objective was to divide the West and that, at that moment, "European leadership was taken by Putin, not by the West" (Weymouth, 2014). These concerns, however, received limited attention in Western European capitals, where a combination of factors, such as long-standing energy dependencies, an immediate focus on the Middle East, migration crisis and a desire to preserve pragmatic relations with Moscow, contributed to pushing the rising security threat down the political agenda. As a result, such warnings were not seriously considered in the mainstream European discourse until Russia's full-scale invasion of Ukraine in 2022.

Developments in the United States' politics further heightened European concerns and revealed dependency and vulnerability to security threats. During presidential election campaigns, and both presidential terms, Donald Trump repeatedly questioned the value of NATO, framed allied defence as conditional on burden sharing, and even suggested he might "encourage" Russia to act against under spending allies, thereby casting doubt on the presumed solidity of the Article 5 guarantee (FitzGerald, 2024). This raised concerns about the credibility of transatlantic security commitments. In combination with Russia's escalation against Ukraine, this increasingly "America First" orientation reinforced the perception within the EU that Russia became a primary security challenge and strengthened arguments for recalibrating Europe's strategic priorities and reinforcing its own defence role. EU Member States have increased defence spending, supplied arms and ammunition to Ukraine, and launched financial and industrial instruments in the defence field.

In this context, the EU's need for joint defence procurement has become more urgent than ever. Shifting priorities in the US foreign policy and expressed scepticism towards NATO raise doubts about the continued US commitment to European security. The ongoing war in Ukraine and the persistent threat from Russia further highlight the critical importance of gathering resources to

close capability gaps and build a more self-reliant and resilient European defence. However, despite the growing necessity for defence integration, joint European defence procurement remains fragmented.

Defence procurement refers to the process by which governments or international organisations acquire military equipment, technology, and services to support their defence and security operations. Heuninckx (2016, p. 1) defines defence procurement within the EU as “the section of public procurement performed for the benefit of the armed forces of the EU Member States,” encompassing everything from complex weapon systems to operational supplies such as ammunition and maintenance services. This thesis adopts a broad interpretation of the term to include both national and joint initiatives by EU institutions and Member States under EU frameworks.

Fragmentation describes processes through which larger political units break into smaller, less encompassing ones, often because tensions or conflicts cannot be resolved. Rosenau distinguishes it from simple decentralisation: actors may decentralise strategically, but fragmentation implies that divisions are driven by deep, often irreconcilable strains that can “tear communities apart” (Rosenau, 2003, pp. 8). At the same time, he links fragmentation to localisation and other dynamics that move “away from whole systems and toward less encompassing subsystems,” warning that these fragmenting forces continually interact with globalising and centralising tendencies (Rosenau, 2003, pp. 11–12).

The EU has taken significant steps to promote joint defence procurement. Legal instruments like the 2009 Defence Procurement Directive (Directive 2009/81/EC), initiatives such as Permanent Structured Cooperation (PESCO), and funding frameworks like the European Defence Fund (EDF) build the foundations for a more coordinated approach to capability development and procurement. The 2022 Strategic Compass and 2025 Joint White Paper for European Defence Readiness further reaffirm this ambition and introduce new tools. However, despite this institutional landscape, joint procurement remains fragmented, shaped by national interests and heavily intergovernmental.

At the 2025 European Economic and Social Committee (EESC) forum, Chief Executive of the European Defence Agency (EDA) Jiří Šedivý stated that “the European defence base remains fragmented, characterised by a lack of joint procurement and national preferences for defence

spending,” emphasising the necessity of structural EU defence harmonisation (European Economic and Social Committee, 2025). Policy journalists echo these concerns, warning that a fragmented European defence industrial base has become a liability, hindering the EU’s ability to arm itself and respond effectively to security challenges. Without convergence in defence investment and industrial planning, national strategies risk duplicating efforts and undermining EU wide objectives (Van Rensbergen, 2024).

This paradox presents a classic political science puzzle: **“Why does joint EU defence procurement remain fragmented despite the legal, institutional, and strategic momentum toward integration?”**

In this thesis, the persistence of fragmentation is explained by combining Liberal Intergovernmentalism (LI) and Historical Institutionalism (HI) theoretical approaches. To answer the research question, this thesis tests two hypotheses rising from two theoretical frameworks:

1) Liberal Intergovernmentalism: Joint EU defence procurement remains fragmented because Member States’ national preferences diverge significantly, leading governments to act as rational gatekeepers that prioritise the protection of domestic industrial bases and sovereign control over the potential collective gains of integration.

2) Historical Institutionalism: The persistence of fragmentation is caused by path-dependent institutional legacies. Decades of reliance on national procurement channels and NATO standards have created high “switching costs”, administrative “lock-ins”, and entrenched practices (further shown by a case study on offsets), making it politically and economically difficult for Member States to shift towards new EU cooperative frameworks despite increased external threats.

The scope of this thesis is limited to the legal, political and institutional dimensions of defence procurement and industrial offsets. It does not examine the operational military effectiveness of CSDP missions, or the tactical performance of the equipment procured. NATO is treated as an important institutional constraint and reference point, but the study does not offer an in-depth analysis of transatlantic geopolitical strategy, except where this directly overlaps with EU industrial and procurement rules.

This thesis is structured as follows. Chapter 2 combines the literature review and theoretical framework: it outlines the policy context and existing scholarship on EU defence fragmentation and develops an analytical framework drawing on Liberal Intergovernmentalism and Historical Institutionalism. Chapter 3 presents the methodology and research design. Chapter 4 develops the empirical analysis, focusing on case studies of the persistence of offsets and the EU–NATO institutional relationship. Chapter 5 concludes by summarising the main findings and their implications for joint EU defence procurement and future research.

2. Literature Review and Theoretical Framework

2.1 Strengthening Joint Defence Procurement in the EU: Recent Instruments and Policy Developments

A broad range of EU instruments has been created to encourage joint procurement and capability development. These initiatives aim to coordinate defence procurement at EU level. Recent policy documents confirm, however, that national lines of procurement continue to dominate.

The 2024 European Defence Industrial Strategy (EDIS) explicitly acknowledges that defence planning and procurement remain “largely organised along national lines” and that governments tend to prefer national solutions for both industrial and security of supply reasons (European Commission, 2024, p. 5). Despite strong growth in the EU defence market – up 64% between 2017 and 2023, intra-EU defence trade accounts for only around 15% of the total, and nearly 80% of defence investments since 2022 have gone to non-EU suppliers (European Commission, 2024, p. 15). EDIS sets concrete benchmarks: Member States are invited to ensure that intra-EU defence trade reaches at least 35% of the EU defence market by 2030, and that they procure at least 50% of their defence investments within the EU by 2030 and 60% by 2035 (European Commission, 2024, p. 15). To support this shift, the strategy establishes a Defence Industrial Readiness Board as an EU-level joint programming and procurement function, tasked with coordinating national plans, improving transparency on European Defence Technological and Industrial Base (EDTIB) capacities and helping to align demand with available production (European Commission, 2024, pp. 8–9). These measures are intended to make joint procurement more attractive by reducing information asymmetries and transaction costs rather than by constraining national sovereignty directly.

To strengthen its defence industry, the EU launched a new instrument called the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA), which encourages Member States to buy defence products together rather than separately. For the 2024–2025 period, the European Commission set aside a budget of €310 million to support these joint efforts (European Commission, 2024a, p. 2). The plan focuses on three main areas: buying ammunition, improving air and missile defence, and replacing older military systems (European Commission, 2024b, p. 2). To get this funding, projects must follow strict rules, such as ensuring that at least 15% of the contract value goes to small and medium - sized businesses; if they fail to meet these targets, they can lose part of their funding (European Commission, 2024b, p. 24). In November 2024, the Commission announced the first winners, awarding grants of €60 million to joint projects for things like “MISTRAL” air defence systems and 155mm ammunition, involving countries such as France, Germany, and the Netherlands (European Commission, 2024c, pp. 3–4).

The Defence Readiness Roadmap 2030 develops this agenda further by linking joint procurement directly to capability targets. It notes that “defence procurement remains overwhelmingly national,” generating fragmentation, cost inflation and lack of interoperability, and recalls that despite a political decision in 2007 to dedicate 35% of defence investment to joint procurement, the share remains below 20% (European Commission, 2025, p. 5). To address this gap, the Roadmap proposes that by 2030 Member States should collectively fill identified capability shortfalls, converge towards the 35% joint procurement target and ensure that at least 55% of defence investment is sourced from the EDTIB (European Commission, 2025, p. 5). A key mechanism is the creation of Member States’ Capability Coalitions in priority areas such as air and missile defence, artillery, drones and cyber, with lead and co-lead nations responsible for launching collaborative projects and using EU instruments like the European Defence Industry Programme (EDIP) and Security Action for Europe (SAFE) to finance them (European Commission, 2025, p. 4). The Roadmap sets concrete milestones, including a target to organise at least 40% of defence procurement as joint procurement by 2027 (European Commission, 2025, p. 6). These initiatives seek to aggregate demand, exploit economies of scale and provide predictable long - term signals to industry, thereby facilitating joint EU defence procurement without altering the formal distribution of competences.

It is precisely in this space that EU action on defence procurement has grown most rapidly. Through instruments such as the European Defence Fund and the upcoming initiatives linked to the 2025 White Paper on European Defence Readiness, the Commission has sought to stimulate joint procurement and support joint industrial projects. These efforts increasingly rely on industrial policy tools designed to encourage consolidation, specialisation and cross-border cooperation within Europe's fragmented defence technological and industrial base. At the same time, the Commission has begun to identify and reduce regulatory barriers that slow the expansion of defence production, including export controls, certification requirements and procurement procedures. This industrial turn is also integrated into the Union's wider competitiveness strategy: the Draghi report (European Commission, 2025), for example, identifies defence industry as a core driver of innovation, productivity, and technological sovereignty in Europe.

Daniel Fiott, an analyst of the EU defence industry, is one of the prominent authors focusing on European defence-industrial cooperation, capability development, and defence innovation. It is essential to review Fiott's work, as his research provides a well-established foundation for understanding the dynamics, challenges, and policy drivers shaping the EU defence industry.

Fiott's survey of EU defence industrial policy shows that concerns about fragmented, nationally based procurement predate Russia's 2022 invasion of Ukraine. The author writes that the European Defence Agency's 2007 strategy for the European Defence Technological and Industrial Base (EDTIB) already warned that Europe "cannot continue to routinely determine its equipment requirements on separate national bases, develop them through separate national R&D efforts, and realise them through separate national procurements" if it wishes to sustain a viable industrial base for the Common Security and Defence Policy (Fiott, 2019, p. 22). In response, Member States mandated the Coordinated Annual Review on Defence (CARD) to synchronise national defence planning and identify prospects for collaborative capability programmes. The EDF complemented this by providing EU co-funding for defence research and development, including joint capability programmes, conditional on standardising requirements and involving at least two Member States in each project (Fiott, 2019, p. 23). Permanent Structured Cooperation (PESCO) introduced a political framework: participating states accepted 20 binding commitments on spending, capability development, and cooperation, and launched

concrete capability projects ranging from maritime surveillance to armoured vehicles (Fiott, 2019, pp. 23–24). These instruments constitute a defence industrial policy framework aimed at shifting the centre of gravity from purely national procurements towards more systematic joint programmes.

In one of his latest articles, Fiott claims that the governance of the European defence market has undergone a significant paradigm shift, moving away from a traditional focus on market liberalisation through regulation toward a proactive industrial policy, driven by geoeconomic imperatives (Fiott, 2024, p. 1012). According to him, while the European Union previously relied on the “soft law” of the 2009 Defence Directives to foster efficiency and competition, the deteriorating security environment and the rise of great power competition have exposed the limitations of this regulatory approach (Fiott, 2024, pp. 1013–1014). In response, the EU has executed a “geoeconomic turn” by deploying financial instruments, most notably the EDF, to directly subsidise and steer cross-border defence cooperation (Fiott, 2024, p. 1020). This strategic shift is motivated by the urgent need to secure “technological control” and “security of supply” within the European Defence Technological and Industrial Base (EDTIB), ensuring that the EU does not become dangerously dependent on third countries for critical military capabilities (Fiott, 2024, p. 1017). Consequently, the Commission is no longer acting solely as a market regulator but as a geoeconomic actor, utilising the Single Market and the EU budget to protect and strengthen Europe's industrial sovereignty in a hostile global order (Fiott, 2024, p. 1024).

The policy initiatives reviewed above show a clear attempt to coordinate capability planning, incentivise joint procurement, and strengthen the EDTIB. Yet, as recent strategies openly acknowledge, national procurement patterns continue to dominate and key targets remain unmet. This persistent gap between EU-level ambition and national-level practice suggests that policy design alone cannot fully account for the slow pace of integration. To understand why, it is useful to examine the deeper political and institutional dynamics shaping state preferences and constraining collective action. The following part of this chapter therefore turns to Historical Institutionalism and Liberal Intergovernmentalism, that provide a theoretical lens to explain the resilience of nationally driven procurement.

2.2 Liberal Intergovernmentalism

To explain the fragmentation of joint EU defence procurement, this thesis first examines the Liberal Intergovernmentalist theory. LI links integration outcomes to domestic preference formation, intergovernmental bargaining, and, finally, the strategic design of institutions. To understand LI theory, it is necessary to examine the work of Andrew Moravcsik, a leading scholar of European integration and international institutions, who developed this framework.

Moravcsik and Schimmelfennig describe LI as a theory explaining outcomes in European integration by tracing 1) how states form their domestic preferences; 2) how they bargain with each other; and 3) how they design institutions (2009, pp. 68–73). Governments define national preferences based on “issue - specific societal interdependence” and domestic pressures before entering international negotiations, which are marked by uneven levels of dependence. Institutions are then created to ensure credible commitments and to manage uncertainty about future developments (Moravcsik & Schimmelfennig, 2009, p. 69). LI explains why states seek particular outcomes and how these preferences shape bargaining. While LI treats governments as the key actors, it also highlights how domestic groups, economic interests and national political institutions shape the preferences brought to the EU level (2009, pp. 68–70).

LI theory mainly contributes by linking domestic pressures to interstate negotiation outcomes through rational, preference - based bargaining. Moravcsik and Schimmelfennig emphasise that LI has gained “expanded empirical support” because it accounts for both the origins of national preferences and the strategic conditions that shape negotiation dynamics, particularly in high stakes areas such as market making and redistribution (2009, pp. 85). Kleine and Pollack reinforce this position by describing LI as a “baseline” theory in EU studies due to its consistent explanatory power across a range of integration outcomes (2018, pp. 1493–1495). They argue that LI remains highly relevant because it offers a clear framework centred on preference formation, intergovernmental bargaining and purposeful delegation, even in a politicised Union marked by repeated crises (Kleine & Pollack, 2018, pp. 1493–1496).

Moravcsik and Vachudova further deepen the LI framework by applying LI to EU enlargement. They claim that “relative bargaining power” explains why some states concede more than others in significant EU bargains (Moravcsik & Vachudova, 2003, pp. 44). According to them, governments that stand to gain most from integration have the strongest interests to reach

agreement and are therefore willing to accept stricter terms at the margin. This dynamic is called “asymmetrical interdependence” (pp. 44–45). It helps explain why Central and Eastern European applicants accepted demanding accession conditions. Despite the costs, membership still served their national interests in terms of economic growth and geopolitical security (Moravcsik & Vachudova, 2003, pp. 45–47).

At the same time, once inside the EU, unanimity rules and veto powers can shift bargaining leverage, allowing smaller states to extract concessions and side payments in later treaty and budget negotiations (pp. 52–53). Applying this logic to the current political dynamics in EU, an illustrative case that comes to mind is Hungary. If it was not a member country, it would be regarded as a relatively small bargaining power. Within the Union, however, it leverages its institutional position to obstruct decision making and extract concessions that serve national interests, often at the expense of broader Union objectives. These findings show how national preferences, interdependence and institutional voting rules interact to produce both asymmetrical treatment and compensation within the EU, without departing from the logic of preference driven bargaining.

A similar dynamic appears in Moravcsik and Nicolaïdis’s (1999) analysis of the Treaty of Amsterdam. They show that governments entered the negotiations with “issue - specific national preference functions” shaped by domestic pressures and externalities and bargained according to the asymmetry of stakes (p. 61). According to the authors, defence policy findings align closely with LI: France pushed for deeper EU defence cooperation while the UK resisted anything that might weaken NATO. Germany adopted an intermediate position and neutral states preferred modest crisis management roles (p. 65). As a result, according to the LI logic, one could predict that defence integration will remain shallow. The authors argue that supranational actors had limited influence compared to Member State bargaining power (pp. 70–72), reinforcing LI’s focus on governments as the primary drivers of outcomes. At the same time, some outcomes reflected symbolic or ideological considerations, and institutional designs sometimes emerged from hybrid motives and path-dependent dynamics. It is important to note that Moravcsik and Nicolaïdis acknowledge limitations in LI’s ability to account for more complex institutional evolution (pp. 65, 77–80).

Recent academic articles help bridging academic literature with current defence dynamics. The 2021 article by Bergmann and Müller clarifies both the strengths and limits of integration theories when studying joint EU defence procurement. Although the article does not examine procurement directly, it analyses defence integration processes within the Common Security and Defence Policy (CSDP). It shows that intergovernmental bargaining remains the core driver of outcomes. This aligns directly with LI's expectation that sovereignty sensitive fields, such as defence capability development, advance only when states' preferences overlap enough to reach an agreement. A case study of negotiations over the European Peace Facility (EPF) shows that governments such as France and Germany pushed for more ambitious tools (including lethal equipment provision). In contrast, others (Denmark, Malta, the Netherlands, Ireland, and Sweden) insisted on strict limits and safeguards, resulting in a compromise institutional design (pp. 1677–1678). The authors note that CSDP is a “strong intergovernmental” domain where diverse national foreign and defence preferences repeatedly constrain integration and produce “lowest common denominator solutions” (pp. 1671–1672). To summarise, the authors argue that intergovernmental bargaining continues to dominate defence cooperation, thereby making LI highly relevant.

Inga Margrete Ydersbond's (2025) case study on electricity interconnection offers another more recent example of how theory can be applied. Taking energy policy as a national prerogative, she shows how Member States align with heavily affected industries and use EU - level bargaining to advance their preferences (Ydersbond, 2025, pp. 625). “Energy islands” Portugal and Spain, backed by domestic renewables producers facing losses from limited export capacity, pushed hard for an EU wide interconnection target and repeatedly threatened to veto the framework unless their demands were met (pp. 626–627, 637). Their pressure secured the inclusion of an interconnection target and a stronger mandate for the Commission, illustrating how LI mechanisms of domestic interest alignment, asymmetrical dependence and veto threats can, somewhat paradoxically, generate further integration (pp. 625–627, 637–638). This insight is relevant for understanding how states and industries might shape joint EU defence procurement.

Another piece of more recent work further reassesses how LI explains foreign and security policy. Lamoso González (2025) notes that LI's three step process remains relevant, but its assumptions require updating for dynamics of today (pp. 443–444). Whereas earlier LI literature

emphasises socioeconomic interest groups as key domestic principals, this study shows that in foreign and defence policy, preferences are instead shaped primarily by governmental elites such as Foreign and Defence Ministers, high level officials, and ruling parties, whose priorities are driven by geopolitical considerations rather than sectoral economic demands (pp. 444). The author quotes Genschel and Jachtenfuchs, who argue that state elites support integration only when it strengthens their institutional positions, preferring intergovernmental arrangements that maintain national control over empowering supranational actors (pp. 443).

2.3 LI Explanation for Fragmentation in Joint EU Defence Procurement

LI therefore provides an explanation for the persistence of fragmentation. It assumes that integration outcomes reflect national preferences shaped by domestic economic and political interests (Moravcsik & Schimmelfennig, 2009, pp. 68–70). States have different defence industrial interests, distinct military priorities and different strategic goals. These domestic foundations create the preferences that LI identifies as the core determinants of cooperation outcomes. Moravcsik and Schimmelfennig argue that LI performs best in areas characterised by “asymmetrical interdependence,” strong distributive conflicts and politically powerful domestic constituencies. These conditions can be applied to defence industries and procurement decisions (2009, p. 69). Fragmentation is therefore not a sign of policy failure but a predictable outcome of national preference divergence under intergovernmental bargaining (pp. 69–70).

Dover’s case study of British defence policy further illustrates why LI is well suited to explain procurement dynamics. He finds that LI is “highly effective” in explaining the UK’s behaviour during the European Security and Defence Policy (ESDP) negotiations, where governments acted as rational actors maximising issue specific preferences (Dover, 2007, pp. 3, 18, 124–126). In the area of procurement, Dover emphasises that research, development and procurement are “predominantly economic issues,” which makes them compatible with LI’s rationalist assumptions (2007, p. 219). He notes that the EU already had a “considerable experience and history of effective collaboration” in this domain and illustrates this with the Eurofighter Typhoon, a joint strike fighter programme among the UK, Germany, Italy and Spain (pp. 219–220). Dover shows that the UK supported cooperation only where it identified clear benefits and where prior agreement already existed, judging that the transfer of limited sovereignty to the EU was justified because it produced Pareto-efficient outcomes in policy areas such as crisis

management and peacekeeping (pp. 218–219, 226–227). His findings reinforce LI’s prediction that defence cooperation emerges only when preferences converge sufficiently, and that fragmentation remains the rational outcome in more contentious domains (pp. 24–26, 219–220, 226–227).

Moravcsik’s analysis of institutional development also supports applying LI to defence. He identifies defence and foreign policy as areas where integration has advanced primarily through intergovernmental cooperation rather than supranational delegation, confirming that states retain control in sensitive sovereignty related fields (2018, pp. 1661). This pattern aligns with LI’s expectation that states cooperate when functional pressures are significant but rely on intergovernmental institutions to preserve autonomy (Moravcsik, 2018, pp. 1661). Combined with Dover’s findings, these insights demonstrate that LI explains persistent fragmentation in joint EU defence procurement.

Finally, a broader perspective on core state powers reinforces why defence procurement “behaves” differently from other EU policy fields and matches the expectations of LI. Genschel and Jachtenfuchs (2016) show that defence and foreign policy belong to the EU’s “core state powers,” a set of areas in which sovereignty concerns, national administrative capacity, and political sensitivity remain particularly high (pp. 43). In these domains, the EU relies heavily on regulation rather than supranational capacity building, seeking to coordinate rather than replace national military resources (pp. 45–46). Defence cooperation is therefore shaped by intergovernmental institutions, variable geometries of participation and persistent fragmentation, because Member States prefer arrangements that preserve national control while avoiding complete centralisation (pp. 47–48). These findings complement LI’s emphasis on preference driven bargaining by showing why even modest integration efforts, such as the European Defence Agency’s codes of conduct or the creation of shared capability goals remain soft, non-binding and ultimately dependent on national willingness to comply (pp. 45–46). The pattern that Genschel and Jachtenfuchs identify across core state powers - “more integration, less federation” - helps explain why EU defence procurement advances through intergovernmental coordination but stops short of supranational delegation (pp. 55). Their analysis, therefore, strengthens the LI insight that fragmented procurement is not an institutional anomaly but a structural consequence

of Member States” desire to give up as little sovereignty as possible in high - stakes areas such as defence.

2.4 LI Limitations and Need for a Complementary Framework

Although LI explains preference formation and intergovernmental bargaining effectively, it cannot fully account for how institutions shape behaviour after agreements are made. Moravcsik and Schimmelfennig acknowledge that LI needs support from institutional and constructivist approaches, especially to capture aspects of integration that go beyond rational choice, such as the growing autonomy of supranational actors and the role of institutional evolution (2009, pp. 72–73, 83–85). They argue that integration increasingly advances through gradual, “incremental” institutional change rather than major treaty reforms, which requires attention to institutional dynamics that LI does not fully theorise (Moravcsik & Schimmelfennig, 2009, pp. 83).

Kleine and Pollack similarly highlight the importance of institutions for understanding long term integration patterns. They emphasise historical institutionalist findings showing that institutions can produce unintended consequences, lock states into paths and shift preferences through feedback effects - processes that LI alone does not explain (2018, pp. 1499–1504). Comparing Liberal Intergovernmentalism and Historical Institutionalism shows that while institutions can shape behaviour over time, their initial design and rationale ultimately rest on LI’s account of state preferences and bargaining (2018, pp. 1654–1659). Moravcsik also shows that the EU often relies on intergovernmental and informal institutional practices, such as consensus norms in the Council, which enable states to protect national interests while maintaining cooperation (Moravcsik, 2018, pp. 1656–1657). Taken together, these insights support using Historical Institutionalism to complement Liberal Intergovernmentalism in the next part of this chapter.

2.5 Institutionalism: Path-Dependence and Institutional “Lock-ins”

While Liberal Intergovernmentalism (LI) helps to explain how national preferences shape interstate bargaining, it does not fully analyse what happens after those deals are done. Defence procurement is governed by a set of institutions that structure actors’ behaviour over time. Understanding why joint EU defence procurement remains fragmented therefore requires a theoretical approach that can account for long term patterns, entrenched practices and limited impact of new EU instruments. Institutionalism provides such a framework. It argues that political outcomes cannot be understood by looking only at national interests or power, because

institutions themselves shape how actors behave, which options they consider feasible and how policies evolve over time. This makes institutionalism particularly relevant for studying defence procurement.

Hall and Taylor, followed by academic literature written by Pierson, provide the core building blocks of institutionalist theory. Hall and Taylor distinguish three main schools of thought of institutionalism: rational choice, sociological and historical institutionalism. Rational choice institutionalism focuses on how rules structure incentives for strategic actors (Hall & Taylor, 1996, pp. 944–945). Sociological institutionalism highlights how shared norms and identities define what actors consider appropriate. Historical institutionalism examines how political institutions develop over time and how they structure conflict and power relations (Hall & Taylor, 1996, p. 947).

By introducing institutionalism and its different schools, this part lays out the conceptual foundations for analysing why joint EU defence procurement has proven so difficult to achieve, even in the face of growing geopolitical pressures and a rapidly expanding EU defence cooperation. Historical institutionalism offers the most suitable theoretical lens for EU defence procurement study, as it shows how strategic delegation choices and long-term path dependent constraints interact to prevent deeper integration.

This school of thought emerged partly in reaction to older group theories and structural functionalism, arguing that politics is not only about competing interests but also about how the state and other institutions organise that competition in ways that advantage some groups and marginalise others (Hall & Taylor, 1996, pp. 937–939). Institutions here are understood broadly as formal and informal rules, routines and norms embedded in organisations such as states, trade unions, firms and banks (pp. 938).

Historical institutionalists are interested in how institutional arrangements distribute power unevenly and create “paths” that are difficult to reverse. Once specific rules, policy agreements and organisational structures are in place, they shape who can organise, which strategies are applicable, and what kinds of coalitions can form, producing path dependence over time (pp. 941–942). They also highlight “critical junctures” – moments of crisis or major change, for instance economic shocks or wars – that open windows for institutional reorganisation and can set new trajectories (Hall & Taylor, 1996, p. 942). From a historical institutionalist perspective,

Europe's long-standing reliance on NATO and US security guarantees can be seen as a "policy legacy" and institutional path that structures how Member States think about defence and procurement today, making radical joint EU solutions harder to pursue (Hall & Taylor, 1996, pp. 942).

Pierson's analysis of European integration adds further depth to historical institutionalism. He argues that EU institutions often evolve beyond the original intentions of Member States because of short time horizons, unintended consequences and shifts in governments' policy preferences over time (Pierson, 1998, pp. 38). National leaders tend to focus on immediate electoral concerns rather than long term institutional effects, which means that decisions about delegation are frequently taken without fully anticipating their future implications. As integration deepens and "issue density" increases, the growing volume and complexity of EU decision making create gaps in Member State control, opening space for supranational actors such as the Commission and the Court of Justice to accumulate influence (pp. 39–41).

Over time, social and economic actors adapt to existing EU rules and policies, generating sunk costs and "lock-in" effects that make reversing earlier choices politically and economically costly (pp. 46–48). In Pierson's view, this dense and path-dependent institutional environment progressively constrains governments' room for manoeuvre and attempts to reshape integration (pp. 47).

These insights are especially valuable for understanding defence procurement. National industries, equipment choices and procurement systems have developed over decades, creating a path-dependent environment that cannot easily be reshaped by new EU initiatives. Once established, these institutional practices create political expectations, administrative patterns and industrial structures that are difficult to change. It can be interpreted that NATO based commitments and national procurement systems have generated sunk costs, learning effects and coordination effects that "lock in" existing patterns and raise the political and economic cost of shifting towards fully joint EU procurement (Pierson, 1998, pp. 47–48). Historical institutionalism therefore helps explain why fragmentation persists even when geopolitical pressures and EU level strategies call for deeper cooperation: national procurement systems reflect decades of path-dependent decisions that cannot be easily reshaped.

DeVore's analysis of European armaments cooperation provides yet more support for historical institutionalism. He argues that the structure of today's defence industrial landscape cannot be understood without examining the sequence in which institutions were created and the way early decisions channelled later outcomes. Since the 1950s, European states established a series of armaments organisations, first within NATO, later through pan-European and restricted membership formats. They gradually evolved through processes of layering, conversion and increasing returns (DeVore, 2012, pp. 432–436). Once logistics, standardisation and maintenance functions were institutionalised in transatlantic bodies, states had little incentive or ability to replace them with European alternatives, as sunk costs, learning effects and coordination benefits reinforced existing structures (pp. 436–438). New organisations were therefore added on top of, rather than substituted for, earlier ones, producing a dense and historically contingent organisational field (pp. 438–439). DeVore concludes that this “polycentric governance architecture” now fragments authority across transatlantic, pan-European and small group arrangements, limiting the EU's ability to centralise procurement or reshape cooperation according to new political preferences (pp. 452–453). His findings demonstrate that Europe's institutional landscape in defence procurement is the outcome of long-term path-dependent processes, reinforcing the relevance of institutionalist approaches for explaining why joint EU procurement remains so difficult to achieve.

Weiss, Fernandes and Pisklová (2024) explicitly apply a historical institutionalist lens to explain why some Member States engage more actively than others in recent EU defence market initiatives such as Permanent Structured Cooperation Initiative (PESCO) and the EDF. They start from a broad “new institutionalist” view of institutions as both formal organisations and informal norms that structure how actors think and behave and argue that these institutional arrangements help to explain divergent national policy choices (pp. 787–788). Within this framework, historical institutionalism focuses on temporality, path-dependence and “lock-ins”: once states invest political and material resources into agencies, procedures and ideas, those investments constrain later options and make change costly and slow, except at rare “critical junctures” (pp. 787–788). Applied to defence industry policy, this means that long standing patterns of state–industry relations and established procurement practices heavily shape how states respond to new EU instruments such as PESCO and the EDF.

The authors show how “institutional stickiness” helps explain why new EU defence instruments such as PESCO and the EDF do not automatically overcome fragmentation. Drawing on historical institutionalism, they argue that path-dependence, “lock-ins” and sunk costs make existing defence industrial institutions hard to reform, so past choices continue to shape how states and firms respond to new initiatives (Weiss et al., 2024, pp. 787). In their comparison of Czechia and Portugal, they find that Czech defence industrial institutions, set up earlier around national purchases and offsets, proved highly resistant to change and did not fit well with the cooperative logic of PESCO and the EDF. On the other hand, Portugal was in the middle of a “critical juncture” and could build new structures more aligned with EU level cooperation (Weiss et al., 2024, pp. 786–787). They also stress that ideas embedded in institutions matter: in Czechia, a sceptical view of EU rules was reproduced within domestic organisations, reinforcing “institutional stickiness” and limiting engagement, while in Portugal, economic recovery ideas made EU defence schemes appear as an opportunity rather than a constraint (Weiss et al., 2024, pp. 787, 795–796).

Weiss et al. conclude that both institutional legacies and embedded ideas matter for explaining uneven engagement in EU defence initiatives: where existing institutions treat the EU as a nuisance, path-dependence reinforces inertia; where new institutions are built around an economic and cooperative vision, EU defence schemes are more readily embraced (Weiss et al., 2024, pp. 795–796). Their findings support a historical institutionalist reading of fragmentation in European defence markets: the problem is not only current interests, but also how past choices about national defence industries, procurement channels and state-industry linkages continue to shape today’s scope for joint projects and market consolidation.

While historical institutionalism explains long term inertia, rational choice institutionalism also offers specific tools for understanding the delegation of power in security policy and is worth a brief mentioning. Given the focus of this thesis on explaining long-term structural constraints, rational choice institutionalism falls outside the analytical scope of this study. Yet, a significant contribution to the studies of EU security and defence policy-making is made by Hylke Dijkstra. He reviews existing EU integration theories and explains why he applies a rational choice institutionalist perspective. Dijkstra argues that neofunctionalism placed too much faith in automatic “spillover” driven by supranational actors and never really explained why states would

voluntarily delegate sensitive functions or how they would keep EU bureaucracies under control (Dijkstra, 2013, pp. 5–6).

According to the author, intergovernmentalism corrected this by putting Member States and their preferences back at the centre, but in Dijkstra’s view it has “preciously little to say” about the role of EU bureaucracies and treats them mainly as marginal instruments for making interstate bargains more credible (pp. 6–7). Dijkstra claims that it is particularly limiting for foreign and security policy, where intergovernmentalism could explain non delegation, but fails to account for the rapid creation of CSDP structures in Brussels from 1999 onwards (pp. 3, 7).

To move beyond this gap, Dijkstra adopts rational choice institutionalism and the principal–agent model as a “middle-range” approach that starts from state preferences and sovereignty concerns but also takes seriously the fact that delegation inevitably creates some autonomy for EU officials (pp. 7–8, 20). In his framework, Member States delegate because EU bodies can reduce transaction costs and make cooperation more efficient, yet they remain wary of sovereignty losses and therefore delegate less than would be functionally optimal while surrounding agents with control mechanisms (pp. 10–12, 20–23). This combination of attention to state calculations and to bureaucratic agency is why he considers rational choice institutionalism the most suitable lens for analysing policy making in EU security and defence.

3. Methodology

This chapter presents the methodological approach and research design used to examine why joint EU defence procurement remains fragmented despite legal, institutional and strategic pressures for integration. The analysis is structured around two theoretical perspectives: Liberal Intergovernmentalism (LI) and Historical Institutionalism (HI). LI is used to understand how governments prioritise national industrial interests and sovereignty in intergovernmental bargaining, while HI shows how earlier organisational structures, legal provisions and procurement practices create path-dependent constraints that shape current outcomes.

The thesis employs a qualitative research design that combines process tracing with document analysis. Document analysis provides the empirical material by examining EU legislation and strategies, policy papers, official statements and academic literature. These sources are used to deconstruct developments in EU defence procurement and to identify evidence relevant to

national preference formation, institutional continuity and the constraints shaping Member States' choices.

Process tracing is applied to determine how decisions, negotiations and institutional adjustments unfold over time and whether they follow the mechanisms expected by LI and HI. For LI, the analysis traces how domestic priorities are articulated and projected into EU-level bargaining. For HI, it identifies moments of institutional change and shows how earlier choices, such as long-standing reliance on NATO structures or the application of Article 346 TFEU, continue to shape procurement behaviour. The material gathered through document analysis is incorporated into the process-tracing narrative to explain how these mechanisms contribute to the persistence of fragmentation.

National preferences are identified through references to domestic industry protection, sovereignty, employment concerns and conditional support for EU initiatives. Evidence of intergovernmental bargaining appears in documentation of EU policy instruments, particularly where exemptions or flexible commitments are preserved. HI expectations, such as path-dependence and institutional lock-ins, are observed through recurring reliance on Article 346 TFEU, continued use of offsets and the layering of new EU initiatives on top of existing systems. Indicators of switching costs appear where states cite administrative constraints, dependence on established suppliers or the difficulty of reforming entrenched practices.

3.1 Research Design: A Qualitative Case Study Approach

The research adopts a case study design focused on EU defence procurement from 2014 to the present, a period marked by major geopolitical developments and the introduction of significant EU-level defence and industrial instruments. Two areas are analysed to test LI and HI: the persistence of offsets and the EU–NATO institutional relationship. Offsets illustrate how national industrial preferences and long-standing procurement practices continue to shape outcomes, while EU–NATO interaction demonstrates how established planning frameworks influence Member States' behaviour. A qualitative design is suitable because the variables like preference formation, sovereignty concerns and institutional continuity, require contextual interpretation that cannot be captured through quantitative data alone.

3.2 Limitations

The research is challenged by several limitations. First, defence procurement involves sensitive and partly confidential decision-making, which restricts access to complete information about intergovernmental bargaining. Document analysis therefore depends on publicly available sources, which may not reflect all motivations and tend to be secondary. Second, interpretation bias cannot be entirely excluded, even when using a range of EU and academic materials. Third, post-2022 initiatives are still evolving and have not yet been tested over time, limiting the ability to assess their long-term effects. Finally, although LI and HI complement each other, they rest on different assumptions, and the case study design reduces the potential of using it more generally beyond the EU context. The aim of the thesis, however, is not to provide universal conclusions but to apply HI and LI while explaining why fragmentation persists within this specific policy domain.

4. Empirical Analysis

Liberal Intergovernmentalism explains why national preferences and asymmetric interdependence generate fragmented outcomes, while Historical Institutionalism and studies of institutional interaction highlight how path dependence, lock-ins and overlapping EU–NATO arrangements constrain change. However, these insights have rarely been applied in combination to the specific problem of joint EU defence procurement, nor systematically linked to the most recent wave of industrial-policy instruments such as EDIRPA, EDIP, SAFE, EDIS and the Defence Readiness Roadmap 2030. Therefore, the existing literature leaves a gap.

This thesis addresses this gap by bringing LI and HI into a combined analytical framework to explain why, despite new EU-level incentives and geopolitical shocks, fragmentation in joint defence procurement persists. By acknowledging this interaction, institutional analysis gains a different perspective and understanding of why new EU procurement initiatives face structural constraints and why long standing patterns are difficult to transform.

4.1 NATO’s Primacy, Institutional Layering and Critical Junctures

This part applies a historical institutionalist perspective to explain why joint EU defence procurement remains fragmented despite repeated initiatives, legal instruments, and political commitments. The puzzle at the centre of this thesis, persistent fragmentation despite strong incentives for cooperation, suggests that outcomes cannot be only explained by present-day

political and national preferences. HI provides analytical angle by showing how institutions, once established, become self-reinforcing, shaping behaviours and expectations over time. As Pierson (1996) notes, such “path-dependent” dynamics narrow the scope for change as sunk costs, institutional routines, and organisational interests accumulate (pp. 143–145). Even major external shocks, such as Russia’s full-scale invasion of Ukraine in 2022, do not automatically erase these legacies; instead, change tends to occur through layering on top of existing structures.

Although this thesis focuses on EU defence procurement, it must be situated within the broader NATO-centred security architecture, which shapes European defence. For most EU Member States, NATO remains the principal provider of collective defence. National militaries plan, train, and procure largely within NATO’s capability frameworks, which shape goals, readiness targets, equipment inventories, and operational doctrines. This leaves relatively limited space for the EU to influence change over procurement choices.

Within a NATO-dominated environment, European defence procurement remains deeply path-dependent. Over decades, National defence industries, procurement bureaucracies, military planning, and domestic political economies have revolved around NATO, creating rigid institutional patterns that resist change.

Caverley and Kapstein show that Europe’s current rearmament has produced a new NATO “equilibrium” in which European states are urged to spend more on defence yet continue to rely heavily on US military and dual-use technologies, with American firms capturing a large share of European arms imports and sustaining structural technological dependence (Caverley & Kapstein, 2025, pp. 99–100, 108–109). This dependence interacts with overlapping EU–NATO arrangements. Fiott demonstrates that both organisations offer partially competing toolkits for managing defence-industrial cooperation: from NATO’s Defence Investment Division and Industrial Advisory Group to the EU’s defence package directives and the EDA, but that in a sector where public and private interests collide, there are clear limits to how far it can reshape national markets and preferences (Fiott, 2017, pp. 399–401). Rather than replacing national systems, these instruments create multiple venues through which states pursue distinct industrial and strategic priorities, reinforcing a polycentric and fragmented governance architecture. A similar dynamic is visible in UK–EU security cooperation after Brexit: Sus and Martill show that even a major external shock such as Russia’s full-scale invasion of Ukraine produced uneven re-

engagement, because earlier de-institutionalisation and domestic political constraints continued to shape what forms of cooperation were acceptable (Sus & Martill, 2024, pp. 2–4, 12–13).

Therefore, EU defence market should be understood in the context of the wider transatlantic defence market, which Butler (2017) identifies as the critical environment governing European defence cooperation (pp. 20). The dominance of US contractors exerts a dual pressure on European states: on the one hand, Member States seek “security of supply” by protecting domestic industries; on the other, they depend on the United States as their primary security guarantor, incentivising openness to US suppliers.

The United States has repeatedly expressed concern that EU defence integration, such as the Defence Procurement Directive, could create “disguised market access barriers” for US firms (Butler, 2017, p. 193). As a result Member States navigate a contradictory dynamic: they rely on industrial protections such as offsets and national specifications while simultaneously avoiding friction with the United States, whose military support is essential for deterrence (Butler, 2017, p. 192).

While HI provides useful tools for understanding why EU defence procurement evolves slowly and along established paths, it also has limits. It usually focuses on one institutional environment at a time, typically the internal structures of the EU, and therefore risks overlooking how institutions operating in the same policy space can influence each other. Defence is a domain where the EU does not act in isolation. For decades, NATO has been the primary forum for capability planning, standardisation and procurement coordination, and its procedures continue to structure Member States’ expectations and choices. As a result, the institutional context shaping defence procurement is multi layered, and this complexity can constrain the effectiveness of newer EU instruments.

A useful insight comes from research on institutional interaction, which examines how separate institutions shape one another’s behaviour. Fiott (2017) applies a framework derived from Gehring and Oberthür to the EU–NATO relationship, identifying four mechanisms through which institutional environments overlap: cognitive interaction, commitment-based interaction, behavioural interaction and impact-level interaction (Fiott, 2017, pp. 400–401). His analysis demonstrates that NATO’s longstanding planning frameworks and established industrial expectations influence how the EU develops its own defence industrial policies, including

instruments related to procurement and capability development (pp. 402–403). EU initiatives can affect NATO’s ability to pursue its objectives, for example by shaping defence - industrial capacities or absorbing resources needed for capability modernisation (pp. 408–409). This perspective helps clarify a key limitation of standard institutionalist approaches: the EU’s defence policies do not evolve within a single institutional setting but within layers of overlapping organisations.

These dynamics are reinforced by Lisbon Treaty constraints. The Treaty of Lisbon states that “the common security and defence policy shall be an integral part of the common foreign and security policy” (Treaty of Lisbon, 2007, art. 28A(1)). This policy relies on military and civilian capabilities provided by the Member States and is supported by the European Defence Agency, which is tasked to “promote harmonisation of operational needs and adoption of effective, compatible procurement methods” (Treaty of Lisbon, 2007, art. 28D(1)(b)). At the same time, the Treaty and its Protocol on permanent structured cooperation stress that the Union’s defence policy “respects the obligations under the North Atlantic Treaty ... and is compatible with that framework” and that commitments in this field “shall be consistent with commitments under the North Atlantic Treaty Organisation, which ... remains the foundation of their collective defence” (Treaty of Lisbon, 2007, art. 28A(7)). Lisbon Treaty allows the EU to coordinate defence capabilities and procurement while anchoring this cooperation in NATO for those Member States that belong to it. According to the Treaty, the EU has no general competence over hard defence. It cannot determine Member States’ force structures, military doctrines, conscription models, nuclear arrangements, or operational deployments, as they all remain matters of national sovereignty and NATO collective defence.

4.2 Recent Legislative Dynamics and Institutional Layering

High level policy actors also explicitly acknowledge these constraints. As Commissioner for Defence and Space Andrius Kubilius noted in an interview on the Lithuanian public affairs podcast Politika, the Commission “will never dictate” how many soldiers any Member State should field (Kubilius, A. 2025). Instead, the EU’s emerging role derives from the areas where it has genuine authority: industrial policy, supply-chain resilience, internal-market regulation, and budgetary instruments.

Kubilius frames EU's defence industry as both an economic engine and a strategic asset. Industrial capacity is indispensable for deterrence, especially as wars rapidly deplete munitions stockpiles. Facilities capable of maintaining, repairing and replacing equipment during wartime are therefore not only economic assets but essential components of credible defence. This logic explains the Commission's current push to expand and modernise European production capacity.

From a historical institutionalist perspective, Defence Simplification Omnibus shows how current problems with joint EU defence procurement are rooted in long-term, path-dependent choices. The Omnibus brings together a new legislative proposal with a set of focused amendments, clarifications and simplifications to six existing EU laws and instruments that influence the defence sector, reflecting how deeply embedded rules shape what can be changed. Therefore, rather than replacing the current framework, the Commission works within it because long-standing procedures, sectoral regulations and national practices have created a path-dependent environment in which past choices constrain today's options and make incremental adjustments more feasible than a full overhaul.

The Staff Working Document links today's "structural" lack of scale and speed to decades of underinvestment, nationally focused purchasing and fragmented demand (European Commission, 2025, pp. 5–9, 14). Applying Pierson's theoretical framework, institutions designed to open a European market have been layered on top of existing national practices without fully replacing them, leaving the old patterns intact.

These structural factors help explain why EU-level procurement initiatives such as PESCO projects, the EDF, or the Defence Readiness Roadmap tend to produce institutional layering rather than transformative integration. Existing national institutions absorb EU initiatives rather than being replaced by them, consistent with historical institutionalist expectations of institutional stickiness.

4.3 Critical Junctures: From Brexit to Full-Scale War in Ukraine

Defence Simplification Omnibus also describes the current security environment as a turning point. It links the Omnibus to the return of high-intensity war in Europe, severe ammunition shortages and a European Council mandate to increase defence readiness by 2030 (European Commission, 2025, pp. 5–6). Historical institutionalists see such shocks as "critical junctures".

The end of the Cold War, the creation of Common Foreign and Security Policy (CFSP) in 1993, establishment of the EDA in 2004, annexation of Crimea in 2014, Brexit, Trump presidency, and Russia's full-scale invasion of Ukraine all created opportunities to reorient European defence procurement. Yet, reforms at each stage remained limited. The changes to joint procurement are adjustments within the 2009 defence procurement directive: raising thresholds so that small contracts fall outside the strict rules; extending framework agreements up to ten years; applying more flexible procedures from the general procurement directive; and clarifying how cross-border and collaborative procurement can use simplified or negotiated procedures (European Commission, 2025, pp. 20–22).

As Hall and Taylor (1996) argue, institutions persist because they generate increasing returns, organisational routines, and vested interests that discourage radical reform (pp. 937–938). This analytical lens enables tracing how contemporary instruments, such as PESCO, the EDF, and the Defence Readiness Roadmap, operate within structures created decades earlier. HI does not minimise the importance of national interests but rather demonstrates that such decisions are made within inherited institutional constraints, which continue to shape patterns of fragmentation today.

Another important layer of path dependence shaping fragmentation is the West–East divide within the EU. For many Eastern European states, historical memory shaped by the World Wars and decades of Soviet domination creates a strong reluctance to rely on, or contribute to, the defence-industrial leadership of France or Germany. Most notably, Germany now seeks to rapidly expand its defence-industrial capacity after decades in which political caution limited its development. For Poland in particular, the prospect of a more dominant German defence industry is politically sensitive: collective memories of past German and Russian domination, combined with longstanding frustrations over Berlin's earlier reluctance to adopt a tougher stance towards Moscow, explain a preference for maintaining strategic autonomy from German industrial leadership. As a result, Eastern Member States have long favoured US procurement, viewing it as geopolitically reliable and free from the intra-European legacies of past conflicts. Over time, this preference has become self-reinforcing: compatibility with US equipment increases switching and training and maintenance costs and makes European alternatives less attractive. This historical pattern has also contributed to current industrial asymmetries. The West–East

divide therefore illustrates how collective memory and entrenched procurement habits reinforce fragmentation even when strategic incentives for cooperation intensify.

Brexit stands out as another critical juncture that disrupted existing institutional setting in both the EU and NATO. It forced the EU to reassess long standing agreements while still operating under inherited constraints. Charalampaki (2019) characterises Brexit as both a “tipping point” and a “shock” that introduces uncertainty and obliges the EU to reconsider its “equilibrium threshold” in EU–NATO relations (pp. 253–255). Yet, as Kluth (2019) shows, long-standing national preferences, especially the UK’s Euro-Atlantic orientation and commitment to maintaining key industrial capacities at home, had already produced decades of cautious British participation in collaborative armament projects (pp. 182–190). When Brexit occurred, these structural preferences did not vanish. The UK deepened reliance on NATO and bilateral partnerships, while the EU-27 used Brexit to consolidate cooperation through mechanisms such as PESCO and the EDF. From a historical institutionalist viewpoint, Brexit is therefore a critical juncture constrained by path-dependence. It created opportunities for change, but the outcome was shaped and limited by the institutional and industrial legacies already in place.

To sum up, recent scholarship highlights how structural features of the European defence landscape constrain joint procurement. Fiott (2017, p. 408) shows that chronic underinvestment in defence research has produced an enduring “R&D gap” between European and North American allies, limiting Europe’s capacity to generate advanced capabilities independently. Caverley and Kapstein (2025, p. 108) likewise note that, even as European defence investment surges, the United States still accounts for 64% of arms exports to Europe and EU members increasingly buy “off-the-shelf” US systems, reinforcing transatlantic production and supplier networks. Taken together, these findings suggest that nationally embedded industrial structures and long-standing reliance on US technology continue to limit the scope for genuinely joint EU procurement programmes.

4.4 Synthesis of Structural Factors: NATO, US Influence, and Layering

The empirical analysis shows that fragmentation persists because short-term incentives for cooperation operate within long-term institutional constraints: NATO structures still dominate European defence planning, US industrial power shapes procurement choices, and nationally

embedded defence-industrial bases, bureaucratic routines, military planning and historical memories reinforce divergent paths. East–West differences rooted in collective memory and strategic identity, together with EU initiatives that layer new instruments onto existing systems and critical junctures that open only limited scope for change, mean that fragmentation is institutionally reproduced through long-standing industrial, organisational and historical structures that continue to define European defence procurement.

4.5 The Persistence of Offsets in EU Defence Procurement

While the theoretical alignment between Liberal Intergovernmentalism and defence procurement is evident, the topic is quite broad to analyse at a purely systemic level. A case study applying Liberal Intergovernmentalism allows to narrow the focus and demonstrate these dynamics empirically through the persistent use of offsets, which embody the intersection of national industrial interests, security concerns, and procurement rules. Offsets are defined as “agreements by which the seller of military goods compensates the buyer with industrial participation or other economic benefits” (Brauer & Dunne, 2004, pp. 117).

Despite being formally discouraged by the 2009 Defence Procurement Directive ((Directive 2009/81/EC, 2009), these industrial compensation requirements have significantly re-emerged following the invasion of Ukraine. This specific policy practice reveals how domestic preferences for industrial protectionism override supranational market rules through intergovernmental bargaining.

Offsets are directly linked to national defence and industry priorities. They are extremely useful politically because they allow governments to present costly military contracts as delivering wider economic and industrial returns. Dumas (2004) notes that offsets often “reclassify existing transactions,” creating limited new value but significant political legitimacy by easing concerns about the defence burden (pp. 25–26). Similarly, Matthews (2004) argues that offsets are usually driven by “pragmatism rather than policy,” with governments prioritising visible domestic benefits over strict economic efficiency (pp. 93). Markusen (2004) links the growth of offsets to an increasingly complex and “illiberal” arms trade, where firms act as intermediaries in cross-border obligations that governments use to meet industrial or political objectives (pp. 70–71).

By tracing how and why offsets endure despite EU-level integration efforts, this case study provides a concrete lens to answer the core question of why joint EU defence procurement remains fragmented.

4.6 Domestic Preference Formation: Why Offsets Align with National Interests

After 2022, domestic pressures intensified as Member States expanded defence budgets and focused on rapid capability replenishment. Linking defence purchases to domestic industry became essential for sustaining public support during high inflation. Anicetti (2024) shows that countries such as Poland, the Czech Republic, and Portugal reactivated or expanded offset policies as a means of legitimising rising defence expenditure and strengthening local industry (pp. 449–451). His later study confirms that offsets persist even in seller dominated markets because they serve long term strategic and political objectives, not only bargaining leverage (Anicetti, 2025, pp. 2–5).

Domestic preference formation is also shaped by structural inequality in the European Defence Technological and Industrial Base (EDTIB). Giumelli and Marx (2023) find that companies from France, Germany, Italy, and Spain accounted for 55% of consortium memberships in EDF precursor programmes and that eight large firms received over 35% of total funding (pp. 596–599). Smaller Member States, lacking prime contractors, form preferences favouring compensatory benefits, thus making offsets an instrument for accessing value within a system that otherwise privileges industrial heavyweights.

4.7 Bargaining and Compensation

Once national preferences are formed, LI expects MS to bargain under conditions of asymmetrical interdependence. Large Member States like France, Germany, Italy and Spain typically oppose formal offset structures because their industries benefit most from open competition and EU level funds. Their bargaining strength derives from their status as capability providers and dominant industrial actors, closely matching Moravcsik and Nicolaïdis’s finding that powerful states shape defence integration according to their national priorities (1999, pp. 65–66).

Smaller Member States enter negotiations with fewer industrial assets but stronger political incentives to secure visible returns. Anicetti shows how Poland, the Czech Republic, and Portugal revived or adapted offset schemes to compensate for their structural disadvantage and to

justify reliance on external suppliers, often under emergency timelines (2024, pp. 449–451). Instead of industrial influence, these states leverage legal and institutional tools, especially Article 346 TFEU, to shield offset arrangements. Article 346 allows EU Member States to bypass normal EU rules when necessary to protect their essential security interests. This mirrors the logic identified by Moravcsik and Vachudova (2003), where weaker states accept asymmetric bargains but later extract compensations relying on institutional rules such as unanimity and veto powers (pp. 52–53).

4.8 Institutional Design: Why EU Rules Leave Space for Offsets

Defence procurement institutions were explicitly designed with these constraints. Directive 2009/81/EC aimed to improve transparency and restrict offsets but was negotiated in a context where Member States resisted giving up control over defence industrial policy. Meershoek (2021) shows that as a result, the Directive’s impact was limited because structural power asymmetries allowed Member States to retain discretion and rely extensively on Article 346, creating a “legal grey zone” where offsets remain widespread (pp. 835–836, 858–868). This legal provision, originally included in Article 223 of the original Treaty of Rome, has not been changed since (European Commission, 1957). It established an institutional path that allowed states to routinely exempt defence contracts from EU internal market rules.

The persistence of offsets is not only a matter of political will but is structurally enabled by the legal design of the procurement regime. As Butler (2017) argues, the long - standing reliance on Article 346 TFEU has had a profound “conditioning effect on entire defence procurement practices, attitudes and cultures” within Member States (p. 120). Although the 2009 Directive was specifically designed to curb “abusive recourse” to this derogation, the deep-seated administrative habit of invoking essential security interests remains difficult to remove (Butler, 2017, p. 120).

Furthermore, the Directive contains significant loopholes that facilitate fragmentation. Specifically, it excludes specific forms of “cooperative procurement”, conducted between Member States from its strict competition rules (Butler, 2017, p. 121). This exclusion creates a rational incentive for states to label projects as “cooperative” even if they are essentially intergovernmental bargains created to legally bypass EU market liberalisation measures and maintain national industrial interests. Furthermore, Butler highlights how new EU rules continue

to carve out exclusions for cooperative procurement, effectively replicating earlier intergovernmental structures rather than replacing them with fully supranational ones. (Butler, 2017, pp. 121–122).

Genschel and Jachtenfuchs (2016) argue that defence is a “core state power” where integration typically occurs through light, regulatory coordination rather than supranational authority (pp. 42–46). The institutional architecture of PESCO, the EDA, and the EDF follows this pattern: they promote cooperation but do not displace national sovereignty. Recent initiatives - EDIS, EDIP, and the 2030 White Paper - aim to reduce fragmentation by strengthening joint planning, aggregation of demand, and SME participation (European Commission, 2024, pp. 159–168; European Commission, 2025, pp. 6–13). However, they rely on voluntary coordination rather than mandatory procurement rules. This confirms LI’s prediction that states design institutions to support cooperation without undermining sovereignty. Offsets survive because the institutional framework was designed to allow this flexibility.

Offsets also align with LI’s view that foreign and defence policy preferences are formed primarily by governmental elites, not broad societal interests. Lamoso - González finds that in the CFSP domain, executive actors - foreign ministers, defence ministers, senior officials - shape national preferences based on geopolitical and institutional concerns (2025, pp. 443–444). These actors have strong incentives to preserve control over capability development and industrial policy.

Offsets complement these priorities by maintaining national discretion in procurement, supporting local defence sectors, and providing political legitimacy for major purchases. Moravcsik (2018) argues that in areas like defence, integration occurs mainly through intergovernmental coordination because states seek to preserve autonomy while reaping selective benefits (pp. 1656–1657, 1661). Applying this logic, offsets allow Member States to engage with EU initiatives without surrendering domestic industrial goals.

Academic literature also identifies the disadvantages of offsets. Berkok shows that offsets result in inflated costs and minimal industrial development (2025, p. 478). Transparency International highlights corruption risks and calls for stronger transparency and oversight mechanisms (2010, pp. 8–10). Balakrishnan proposes a strategic framework for transforming offsets into tools that support capability development, innovation, and governance reform (2021, pp. 188–189).

However, as LI suggests, reforms requiring redistribution of benefits or tighter supranational control are politically challenging. States that benefit from current arrangements have little incentive to change them, while weaker Member States fear losing one of their few compensatory mechanisms.

4.9 Synthesis of Political Factors: Industrial Interests and State Discretion

Using Liberal Intergovernmentalism helps explain fragmentation by showing that EU defence cooperation reflects national interests rather than supranational priorities. Governments form preferences based on their own industrial needs, security concerns and political pressures. They then bargain at EU level in ways that protect these interests, using tools such as offsets and Article 346 TFEU to keep control over procurement.

Because Member States design EU instruments like the Defence Procurement Directive, PESCO, the EDF and EDIRPA to fit these preferences, the result is flexible, sovereignty-preserving arrangements rather than genuinely joint procurement. In this sense, LI shows that fragmentation persists because states cooperate only where it aligns with their domestic priorities and resist any reforms that would limit national control.

5. Conclusion

The aim of this thesis was to answer the puzzle: “Why does joint EU defence procurement remain fragmented despite the legal, institutional, and strategic momentum toward integration?”

The analysis revealed that fragmentation is not a result of a simple lack of political will or a temporary delay in implementation. Instead, this thesis argues that fragmentation is a structural outcome produced by the combination of calculated national preferences and entrenched institutional legacies.

The empirical analysis of offset practices and the EU-NATO institutional relationship confirms that the “groeconomic turn” in EU defence is colliding with deep-seated political and structural barriers. While the Russian invasion of Ukraine in 2022 served as a significant external shock and a “critical juncture”, it is difficult to change existing path-dependencies. Instead, it reinforced the reliance on established, national, and US-centric procurement channels due to the urgent need for military capabilities.

The combination of Liberal Intergovernmentalism (LI) and Historical Institutionalism (HI) provides a strong framework for explaining the persistence of fragmentation.

First, the LI analysis of offsets demonstrates that Member States continue to act as rational gatekeepers. Despite the 2009 Defence Procurement Directive's attempt to liberalise the market, governments, particularly in smaller Member States like Portugal and the Czech Republic, actively use Article 346 TFEU to maintain offset practices. As predicted by LI, these preferences are formed domestically, driven by the need to protect national employment and industrial competitiveness. In the intergovernmental bargaining process, states have successfully designed EU instruments (like the EDF) to be "sovereignty-preserving" to ensure that cooperation remains voluntary. Fragmentation, in this view, is a rational choice by states that prioritise domestic industrial control over the collective economic efficiency of a single market.

Second, the HI analysis reveals that even where political will exists, the "switching costs" of moving away from national and NATO-centric models are high. The thesis illustrated that the EU defence landscape is heavily path-dependent. Decades of reliance on US standards and national procurement cycles have created a "lock-in" effect. New initiatives, such as the Defence Readiness Roadmap or the Defence Simplification Omnibus, do not replace existing structures but are "layered" on top of them. This institutional complexity creates friction; as Member States cannot simply move to joint EU procurement because their bureaucracies, military planning and supply chains are historically calibrated toward national or transatlantic solutions.

This research contributes to the academic debate on European defence integration by challenging the assumption that external security threats automatically lead to deeper integration. Contrary to the view that offsets distort the market and should be avoided, this thesis finds that they are essential political tools that allow smaller Member States to participate in defence acquisition. Without them, the asymmetry of the European Defence Technological and Industrial Base (EDTIB), dominated by French and German, would potentially lead to disengagement by smaller states.

The findings of this thesis must be interpreted within certain limitations. First, the secretive nature of defence procurement limits the availability of primary data regarding the specific content of intergovernmental negotiations. Second, many of the post-2022 instruments (such as EDIRPA) are very recent; their long-term impact on industrial consolidation cannot yet be fully

measured. Finally, while LI and HI explain the constraints on integration, they are less equipped to explain the potential role of supranational entrepreneurship by the Commission in the future, which will continue to evolve.

For policymakers, this implies that achieving genuine consolidation will require more than just new funds; it will require a “critical juncture” that forces a revision of the institutional rules themselves, specifically the application of Article 346 and the integration of the Single Market logic into the core of defence planning. Until the structural costs outweigh the domestic political benefits of national protectionism, EU defence procurement will likely remain a collection of national strategies rather than a unified European goal.

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