

Imperfect balance: the EU's defence loan mechanism (SAFE)

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At its meeting on 27 May, the Council of the European Union adopted a regulation establishing an instrument for low-interest loans to support the joint procurement of weapons and military equipment, which are, in principle, to be produced by companies based in an EU, EEA, or EFTA member state, or in Ukraine. The mechanism – Security Action for Europe (SAFE) through the Reinforcement of European Defence Industry Instrument – constitutes the most important element of the ReArm Europe plan, unveiled by the European Commission in March (see *'The White Paper: the EU's new initiatives for European defence'*). Its primary objective is to help member states address gaps in military capabilities. The Polish presidency of the Council successfully steered the regulation through in a notably short period – approximately two months – by employing a procedure that bypassed the need for European Parliament approval. The maximum ceiling for loans backed by the EU budget under this instrument will be €150 billion, with repayment periods of up to 45 years. Projects carried out under SAFE will also be exempt from VAT.

Although the negotiation process introduced a high degree of regulatory complexity, it ultimately produced a compromise among member states on several contentious issues. These included the presence of components manufactured in third countries, equal access to EU funding, and openness to third-party countries – particularly NATO allies. The total financial volume secured through this mechanism represents an unprecedented level of EU support for defence-related objectives.

Commentary

- **A balance – albeit an imperfect one – was maintained between the need to support the European defence sector and the urgency of addressing capability gaps and continuing military assistance to Ukraine.** Concerning the most controversial issue – the inclusion of components manufactured outside the EU, EEA, EFTA, and Ukraine – SAFE ultimately adopted the rule that such components must not exceed 35% of the estimated cost of the relevant parts of the final product. However, certain exceptions to this rule were introduced. Products involving subcontractors from outside the EU may still qualify for financing if the non-EU contribution ranges from 15% to 35% of the contract's value, provided that the agreement was concluded before the regulation entered into force, or that the primary beneficiary has conducted a feasibility study demonstrating the project could not proceed without a non-EU/EEA/EFTA/Ukrainian partner. This provision will allow countries whose defence industries maintain close ties with foreign partners – such as Poland – to expand the range of products eligible for SAFE funding. The clause

was negotiated despite resistance from the most protectionist member states – France, Belgium, and Luxembourg – joined by Germany. The regulation also includes provisions from earlier legislation, requiring companies operating within the EU but controlled by entities based in non-EU countries to undergo checks to ensure they do not pose a threat to the Union's security interests.

- **The regulation is more open to third-party countries than previous mechanisms – albeit conditionally.** In joint tenders for the procurement of European weapons and military equipment, participation will be extended beyond the EU, EEA, EFTA, and Ukraine to include EU candidate and potential candidate countries, as well as states with which the EU has a security and defence partnership (see '[Breaking the deadlock: the EU-UK security and defence partnership](#)'). Weapons and military equipment produced in a country outside the EU, EEA, EFTA, or Ukraine may be acquired using SAFE loans, but only after the conclusion of a separate bilateral agreement between that country and the EU. These agreements will allow for the individual negotiation of matters such as the share of components, or the value added to the final product. This arrangement benefits EU institutions and the more protectionist member states, as the conclusion of such agreements will require unanimous approval by all EU member states. Concluding agreements with the EU's closest allies who are also NATO members – such as the United States, Canada, the United Kingdom, or Turkey – could help mitigate risks to transatlantic relations and EU–NATO cooperation posed by the excessive protectionism of certain EU member state governments.
- **Poland is likely to benefit from SAFE to a greater extent than from previous EU support mechanisms for the defence industry.** One provision in the regulation introduces an anti-concentration rule, under which the three largest beneficiaries of the mechanism may not borrow more than 60% of the total €150 billion available. Contracts signed up to 30 May 2026 may involve a single member state, provided that it has made efforts to identify a partner. Furthermore, the form of financing – loans rather than non-repayable grants – may appear less attractive to some countries, given that the borrowing state will bear responsibility for repayment. An additional modification to the original SAFE proposal is the delegation of decision-making authority to the Council of the EU regarding the allocation of support. The European Commission will assess only the formal compliance of applications with the established criteria.