

CLIENT ALERT

The EU Defense Readiness Omnibus Bill: Key Takeaways for Industry Stakeholders and Investors

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Abstract

On June 17, 2025, the European Commission unveiled the Defense Readiness Omnibus Bill (the **DRO**), a comprehensive package of legislative and policy measures designed to bolster the EU's defense preparedness and remove regulatory bottlenecks hampering the defense ecosystem. This initiative builds on the White Paper on European Defense-Readiness 2030¹ and answers a call by EU leaders in March 2025² for a more sovereign and better-equipped Europe. The DRO aims to mobilize up to EUR 800 billion in defense investment by 2030, streamline rules across procurement, permitting intra-EU transfers, and integrate defense considerations into the EU's

¹ [White Paper on European Defence-Readiness 2030](#).

² [Conclusions of the European Council of 6 March 2025](#).

sustainable finance framework. This memo summarizes the DRO's key components and discusses implications for defense sector companies and financial investors.

Background and rationale

Russia's invasion of Ukraine and evolving global threats have prompted the EU to rethink its defense strategy. Europe's security landscape has fundamentally changed. Immediate challenges at the EU's borders exposed how "peacetime" regulations and fragmented national regimes impede rapid defense responses. In response, the European Council in its March 6, 2025 conclusions explicitly urged the European Commission to "swiftly take work forward on simplifying the legal and administrative framework" for defense, including public procurement, industry cooperation, permitting, and reporting requirements. There was also recognition that existing tools like the European Defense Fund were underutilized due to complex procedures. In short, EU leaders identified the need to cut red tape, harmonize rules across Member States, and accelerate joint efforts to strengthen Europe's defense technological and industrial base.

The DRO is the Commission's answer to these calls. It consists of a package of legislative proposals and policy guidance intended to remove obstacles to defense investment and cooperation. By updating multiple EU laws in one omnibus initiative, the Commission seeks to establish a "defense-readiness mindset" across Europe, making it easier for Member States and defense firms to finance, develop, and deploy the capabilities required to credibly deter aggression and respond to crises.

Key measures in the DRO

The DRO proposals span three pillars: (1) defense-specific measures, focusing on the defense industry, (2) cross-sectoral enablers that adjust broader EU regulations to accommodate defense needs, and (3) competition enforcement measures, designed to ensure that EU competition rules are effectively applied within the defense sector. Key measures include:

Defense-specific measures (Pillar I):

- **European Defense Fund (EDF) simplification:** The Omnibus would streamline EDF procedures to reduce administrative burdens and speed up funding. Application requirements and reporting obligations for EDF projects are to be simplified, cutting time-to-grant and improving the predictability of EU defense research & development funding. This addresses industry feedback that EDF processes were too onerous, and aims to accelerate disbursement of funds for collaborative defense projects.
- **Joint procurement incentives:** To encourage joint acquisitions among member states, the DRO introduces legal and financial incentives for common procurement programs. In practice, this means easier pathways for at least three Member States to jointly buy "off-the-shelf" defense products and to form multi-country framework agreements. The Defense Procurement Directive's thresholds for certain contracts would be

doubled, expanding the scope for simplified tendering. These steps intend to foster economies of scale in defense spending and help countries replenish stockpiles together more efficiently.

- Streamlined intra-EU transfers: The DRO proposes to harmonize and expedite authorizations for cross-border transfers of military equipment within the EU. Currently, varying national licensing rules can delay intra-EU defense shipments by up to a year. The new framework would significantly reduce transfer times, ensuring that components and systems can move more freely between Member States.

Cross-sectoral enablers (Pillar II):

- Fast-track permitting for defense infrastructure: To accelerate expansion of defense production and testing facilities, the DRO introduces a uniform 2-month permitting deadline for designated defense projects, along with a single national point of contact to streamline approval processes. This fast-track regime will apply to projects such as building new defense-sector related factories or enlarging training grounds, cutting through the peacetime bureaucratic delays that in some countries take several years. By simplifying construction and expansion permits, the EU aims to enable a rapid scale-up of industrial capacity in response to urgent security needs.
- Regulatory derogations (environment & chemicals): The package clarifies that defense projects can leverage existing exemptions in EU environmental and chemicals laws when critical for security. For example, defense-related activities may invoke “overriding public interest” derogations under environmental legislation (such as Natura 2000 or habitat rules) to proceed with vital projects. Likewise, the Commission is urging a balanced approach in chemicals regulation so that essential substances for defense manufacturing can be exempted when necessary. These clarifications give Member States a clear mandate to prioritize defense readiness in the application of environmental and health standards, preventing regulatory compliance from stalling key defense investments.
- Sustainable finance integration: In a significant policy shift, the DRO integrates defense into the EU’s sustainable finance and ESG framework. In view of improving access to finance for the defense sector, it was deemed necessary to mobilize the full potential of EU financial instruments, in particular InvestEU, as these are key in de-risking financing.

Considering this, the Commission will adjust InvestEU eligibility criteria and issue guidance to ensure that defense projects (excluding only those involving weapons banned by international conventions) are not automatically barred from sustainable investment funds and indices. The defense industry will as such not be in conflict with ESG principles provided certain safeguards are met (e.g. exclusion of controversial products like cluster munitions). This is a notable rebalancing of the EU’s stance on defense in ESG, aiming to unlock private capital for defense projects. By supporting the mobilization of EUR 800 billion in defense investments and clarifying benchmark rules, the EU seeks to give investors greater certainty that mainstream defense activities can qualify as sustainable.

However, while the Omnibus package opens up access to finance, voluntary restrictions adopted by financial market participants, particularly for reputational reasons, continue to weigh heavily on the defense sector. As noted by the Draghi report in 2024, access to finance for European defense companies is often shaped less by legal constraints than by how financial actors interpret and apply sustainability rules. Many collective investment funds, for instance, impose self-imposed bans on nuclear weapons exposure, even when not required by EU law. On the banking side, the European Investment Bank Group's long-standing exclusion of defense funding (only recently lifted in May 2024 despite the War in Ukraine) underscores how institutional policies have historically constrained investment. Although the European Investment Bank has since begun broadening the scope of eligible defense projects, this shift has yet to be fully mirrored by commercial banks and private investors, who may take longer to unwind internal restrictions rooted in longstanding caution and regulatory uncertainty.

Competition-enforcement measures (Pillar III):

- EU merger control regime: the Commission signaled the commitment to take the specificities of the industry into consideration already in May, when it launched the review of its merger control guidelines. For background, the existing guidelines do not provide any guidance specific to mergers relating to security or defense. The Commission currently seeks input from stakeholders to address these aspects in the new version of the guidelines.
- General antitrust rules: the Commission communicates its readiness to provide guidance to the defense industry to ensure antitrust compliance of cooperation projects between competitors to scale up production or to implement joint procurement of raw materials. We understand that the Commission signals a guidance in the form of case-by-case validation of agreements, rather than the adoption of more generic guidelines.

Implications for industry and investors

If adopted, the DRO has the potential to be a game-changer for defense companies and defense-related investors in Europe. Once the DRO is implemented, defense firms can expect simplified compliance and faster procedures in many areas: securing EU research & development grants should become easier, joint ventures with European partners more attractive, and cross-border supply chains more fluid. A harmonized regulatory environment could reduce duplication and uncertainty, allowing companies to focus on scaling up production and innovation. Notably, the fast-track permitting and coordinated rules on transfers may facilitate the rapid expansion of manufacturing capacity and cross-border collaborations, which is critical for meeting the surge in demand for defense equipment.

Financial stakeholders are also poised to benefit from the DRO. EU leaders have underlined the importance of mobilizing private financing for the defense industry, and the DRO's ESG clarifications directly address a major barrier to investment. By signaling that defense (apart from banned defense products) is “investible” under EU sustainable finance criteria, the Omnibus could broaden the pool of capital available to defense contractors. Banks, private equity, and institutional investors who were hesitant due to ESG concerns may review their position in a

sector that is now framed as essential to Europe's resilience. We are already seeing movement in this direction (for instance, new defense-focused investment funds are being launched in some Member States to capitalize on the changing policy landscape). Going forward, defense companies should engage with their financiers to highlight compliance with the EU's ESG guidance, and investors will closely watch how defense firms align with stated safeguards.

Next Steps

The DRO's proposals have now been submitted to the European Parliament and the Council and will undergo the EU's ordinary legislative procedure. Under this procedure, the European Parliament and the Council will act as co-legislators on equal footing, jointly adopting the text throughout a process that may involve up to three readings, though in practice, a large proportion of proposals are agreed to at the first and second reading. While there is no formal deadline, the Commission has explicitly called on the co-legislators to move swiftly *"in light of the pressing need for industrial readiness and the Member States' shared interest in stronger and faster defense products delivery"*, stressing that *"the proposal should not be used as an opportunity to revise unrelated provisions of the legal text for which amendments are proposed"*.

The draft measures may evolve during negotiations, but there is strong political momentum for timely adoption given the pressing security context. In strategic terms, the DRO signals that the EU is committed to reducing red tape and actively supporting defense investment. Stakeholders would be well-advised to prepare for a new policy environment by 2026 in which defense projects enjoy streamlined approvals, greater access to funding, and an enhanced legitimacy within ESG-focused portfolios.

Conclusion

The EU DRO represents a comprehensive effort to align Europe's regulatory framework with its defense ambitions. By unlocking EUR 800 billion in investment, incentivizing joint procurement, fast-tracking crucial projects, and reconciling defense with sustainability goals, the DRO could significantly lower barriers for doing business in the European defense sector. This enabling stance from Brussels is likely to catalyze growth and innovation in Europe's defense industry, and savvy industry players and investors will position themselves to take advantage of the upcoming opportunities and regulatory simplifications.

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