

## A New Era in NATO Transatlantic Industrial Base Cooperation

Transatlantic defense industrial base cooperation is critical to addressing today’s security environment and upholding the international rules-based order. Russia’s 2022 invasion of Ukraine presents one of the greatest threats to European and transatlantic stability since the Cold War. Simultaneously, the United States and its allies must balance resources to address conflict in the Middle East and promote deterrence in the Indo-Pacific. As a result, international demand for defense capabilities and equipment is soaring, putting pressure on the existing industrial base in the U.S and Europe.

According to the U.S. Department of Defense’s (DOD) National Defense Industrial Strategy (NDIS), a “robust, resilient, and modernized industrial ecosystem” is required to deter threats and sustain U.S. and allied interests abroad.<sup>1</sup> The global strategic environment demands a comprehensive, ally-centric approach to identify industrial base risk, address vulnerabilities, and deliver capabilities to the warfighter. While domestic U.S. production is primary to promoting resiliency, cooperation with allies is essential to the health of our respective and integrated industrial bases.

The North Atlantic Treaty Organization (NATO) has a deep history of traditional security cooperation, and its members’ industrial bases are tightly integrated. Leveraging decades of security cooperation and industrial base development, and utilizing the existing shared commercial industrial base contained within NATO countries, the U.S. and its allies should use the existing NATO framework to promote information sharing, harmonize strategic documents and policies, and make targeted – and coordinated – industrial base investments. Only by working together can the NATO Alliance strengthen its industrial resiliency to develop and produce the products, services, and technologies required to combat threats at scale, speed, and cost.

### ADDRESSING INDUSTRIAL BASE GAPS

NATO member states acknowledge the need to bolster supply chain resiliency, increase production capacity, and replenish critical defense stockpiles. The NATO Defense Production Action Plan (DPAP) seeks to accelerate joint procurement, boost production capacity, and enhance the Alliance’s interoperability through joint defense industrial planning and procurement. However, the DPAP does not include a mechanism to bridge industrial divergence among member states or track implementation of joint planning, procurement, and production goals. NATO members should leverage the DPAP to facilitate joint industrial base strategic planning and build off domestic and regional frameworks across NATO member states.

**National Defense Industrial Base Strategy (NDIS).** The NDIS outlines discrete avenues for the U.S. to expand domestic production while also pursuing global production diplomacy initiatives with key allies and partners, including NATO, to ensure the long-term health of its defense industrial base (DIB). The U.S. DOD highlights the need to increase stockpiles of strategic and critical systems to decrease near-term risk, diversify the DIB supplier base, expand production methods, and develop a skilled and staffed workforce. NATO, with its shared warfighting and combined planning experience, is central to the United States’ strategy, bringing unique skills and know-how needed to ensure the health of the DIB.

The NDIS seeks to leverage the strengths of its closest allies by bolstering economic security agreements and creating new mechanisms for sharing technology. While the NDIS provides

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<sup>1</sup> *National Defense Industrial Strategy*, U.S. Department of Defense, 2023.

strategic guideposts for building U.S. industrial base resiliency, AIA recommends the U.S. DOD continue to press for clear and predictable funding in the U.S. and across the NATO Alliance as a demand signal for increased investment.

**European Industrial Base Strategy (EDIS).** Twenty-three of the 32 NATO members are part of the European Union (EU). In 2024, the EU released the EDIS, a first-of-its-kind strategy to support EU member states' efforts to strengthen the European Defense Technological and Industrial Base (EDTIB). The EDIS outlines approaches to “invest more, better, together, and European” and increase EU-level defense readiness and strategic autonomy while reducing defense dependencies.

The EDIS included a joint regulatory and budgetary proposal for implementation, known as the European Defence Industry Programme (EDIP), currently budgeted at EUR 1.5 billion from 2025-2027. While the EDIS provides a clear framework and investment structure for EU industry, allies, and partners such as the United States are excluded from its strategic approach. The approach presents a potential challenge to increasing near-term production to support global security efforts. AIA recommends EU Member States contained in the NATO Alliance continue to emphasize the value of transatlantic industrial base integration to meet global security threats.

## **EXISTING FRAMEWORKS LEVERAGE A TRANSATLANTIC STRATEGY**

While the NDIS and EDIS strive to build domestic industrial base capacity, they lack harmonization. To meet the current security challenges, transatlantic industrial cooperation across the NATO allies is needed. NATO allies can build a transatlantic industrial base that is interoperable and resilient through clearly defined commitments and strategic objectives.

NATO officials should consider drafting a joint strategic framework, through the NATO Defense Industrial Production Board (DIPB), that outlines shared priorities, establishes voluntary goals, and includes clear outcomes and metrics that NATO members can leverage to guide their domestic policies. The framework should include clear funding and incentive structures for industry across the NATO Alliance.

## **INDUSTRIAL SCALING REQUIRES CLEAR DEMAND SIGNALS**

**Budgeting.** Industrial base cooperation requires clear demand signals that allow companies to develop a business case for financial investment. Strategic frameworks, such as the National Defense Strategy and NDIS must be tied to clear decision making, requirements, predictable budget timelines, and secure funding streams to allow U.S. and European industry to plan for the long term and allocate the appropriate resources that lead to increasing production capabilities. While the EDIP aims to promote long-term investment into European-led defense procurement, NATO allies need sustained funding over multiple years for industrial base integration.

NATO allies may expand upon previous defense pledges (i.e., Defence Investment Pledge) to incentivize direct and indirect funding for NATO industrial base initiatives. NATO allies should coordinate on budget constraints and member needs to bolster joint planning and aggregate demand for industrial base gaps and key technologies and capabilities. Additionally, NATO should consider building upon mechanisms like the EDIP's Defence Industrial Readiness Board to facilitate joint funding arrangements among member states and support coordination and deconfliction of procurement plans.

Increased financial commitments among NATO allies are essential to building multinational, multi-year procurement agreements. These procurement agreements are critical to a resilient DIB

and building resiliency across the Alliance. Current frameworks such as NATO’s Aggregating Demand Initiative and the UK’s Multinational Procurement Initiative should be leveraged to support multinational procurement agreements.

**An Alliance-centric approach to scaling production and information sharing.** A NATO-centric approach should be considered to guide investment in member states in accordance with industrial base need in strategic sectors, stockpiles, and facilities (i.e., mining and processing of critical minerals and materials, sustainment, and production facilities for key defense items such as 155mm munitions).

For example, in May 2024, the DOD announced a regional sustainment framework designed to establish distributed Maintenance, Repair, and Overhaul (MRO) facilities closer to the point of need. The framework provides policies that allow U.S. government officials to leverage existing authorities to invest in NATO allies. If successful, the framework will lead to a resilient sustainment network and stable picture of demand to inform U.S. and foreign partner investment.

In addition, NATO officials should consider avenues to bolster information sharing across the Alliance with the goal of strategic harmonization. Members should utilize the DIPB to collect and iteratively share information on capability demand and investment opportunities in key sectors, technologies, and mining, processing, and certification practices and facilities. Increasing information sharing will allow NATO officials to identify industrial base challenges, discuss scaling opportunities, share best practices for obsolete programs or platforms, and augment demand. For example, the Ukraine Contact Group is an information sharing mechanism designed to identify creative solutions by leverage the strengths of each partner.

#### **Leveraging Existing Authorities to Incentivize Private Sector Investment.**

- **Tax incentives.** Existing NATO member state policies, such as the U.S.’ Section 45X of the *Inflation Production Act* or the EDIS-proposed Structure for European Armament Program (SEAP), provides broad based tax credits incentives to guide industry investment into products and capabilities vital to collective security interests. NATO officials should encourage member states to consider pursuing additional domestic tax incentives aimed at addressing industrial bases vulnerabilities through targeted private sector investments. However, new tax incentives should be accompanied by clear guidelines and limitations to promote transatlantic industry utilization.
- **Flexible Contracting Authorities.** Flexible contracting authorities, such as DIB consortiums and “other transaction authority” (OTA), should be utilized more frequently with NATO allies to promote global industrial base scaling. OTAs were designed to be a streamlined contract vehicle that enables more communication between industry and government and rapid execution of Defense Production Act (DPA) funding. Leveraging OTAs and other flexible mechanisms can support NATO partners in strengthening DIB and supply chain resiliency. Partners have already explored cross-border consortiums.

In 2024, the DOD awarded \$14.7 million to two Canadian companies through the Defense Production Act Investment (DPAI) program to strengthen North American cobalt and graphite supply chains. In turn, Canada matched the U.S.’ investment. While this authority is only available to “domestic sources” under Title III of the DPA, it’s an example of strategic burden sharing through flexible contracting and funding mechanisms. Joint NATO funds, consortiums, and new economic agreements should be considered to qualify new suppliers, augment demand, and share costs to achieve mutual aims.

- **Expand financing loans and guarantees.** Direct loan and guarantee programs have demonstrated success in building interoperability with NATO allies. However, the available loan authority can be quickly exhausted on major defense sales and requires regular reauthorization. Clear and accessible financing frameworks mitigate perceived risks for industry and facilitate private investment. Loans and loan guarantee programs should be expanded to meet industrial base needs.

## **GLOBAL INDUSTRIAL PARTNERS AND ALLIES SUPPORT TRANSATLANTIC SECURITY**

As the NATO Alliance continues to pursue greater industrial strength among the members, the role of the industrial bases of non-NATO partner countries becomes increasingly important.

When NATO was founded in 1949, industrial base manufacturing that supported national security needs was limited to a few nations. In 2024, global industrial partners in North America, the Indo-Pacific, the Middle East, Central and South America, and beyond have assumed a significant role in providing the capabilities leveraged by NATO members. There must be a recognition that the global industrial base is not limited to only the NATO members.

In recognizing the global nature of NATO's industrial strength, and the collective pursuit towards improved industrial base resiliency, the Alliance should consider additional measures to leverage non-NATO industrial capabilities in partner and allied nations. Increased dialogue with industries that contribute to NATO's collective security should be prioritized. From there, partnerships and programs that further draw on partner and allied industrial bases can and should be considered.

## **CHALLENGES REMAIN TO INDUSTRIAL BASE SCALING**

**Offsets and industrial participation requirements.** Defense offset and industrial participation obligations, policies, and requirements often slow the contracting process, increase costs, and delay the delivery of critical defense items and capabilities to NATO allies. The U.S. and other NATO members should limit offset and industrial participation requirements to promote industry investment in coordinated industrial base scaling initiatives.

Should offsets and industrial base obligations be pursued, the U.S. Government (USG) should work with NATO members to ensure obligations are strategic and contribute to collective security needs (i.e., promoting sustainment facilities in strategic locations). Industry is responsible for executing these agreements and is central in determining the viability of offsets projects. Ultimately, predictable, and clear offset and industrial participation policies and practices allow industry to plan, execute, and deliver capabilities quickly.

In addition, Reciprocal Defense Procurement Agreements (RDPAs) and Security of Supply Agreements (SOSAs) should be leveraged to ensure clarity and reciprocity in offset or industrial participation policies of NATO members on industrial base projects. RDPAs and SOSAs ensure that offset negotiations do not negate potential economic and industrial base benefits from increased cooperation.

**Caution on Global Protectionist Policies.** The EDIS and U.S. Buy American content mandates run counter to the global production objectives outlined in the NDIS. U.S. industry encourages NATO members, including the United States, to tailor their approach to industrial base resiliency, encouraging a balance between domestic production initiatives and international sourcing and production requirements.

## **NEW ERA OF THE NATO ALLIANCE**

As NATO celebrates its 75<sup>th</sup> anniversary, NATO officials should leverage this significant milestone to strengthen the Alliance for the next 75 years. As the U.S. and NATO encounter instability in the Indo-Pacific and conflicts in Europe and the Middle East, the Alliance is more important now than in recent history. Policies and funding that promote NATO industrial base scaling are crucial to ensuring members have the capacity and capabilities to respond to and deter shared threats.

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### **SUMMARY OF RECOMENDATIONS:**

- NATO members should leverage the Defense Production Action Plan to facilitate joint industrial base strategic planning and build off domestic and regional frameworks across NATO member states.
- While the NDIS provides strategic guideposts for building U.S. industrial base resiliency, AIA recommends the U.S. DOD continue to press for clear and predictable funding in the U.S. and across the NATO Alliance as a demand signal for increased investment.
- AIA recommends EU Member States contained in the NATO Alliance continue to emphasize the value of transatlantic industrial base integration to meet global security threats.
- NATO officials should consider drafting a joint strategic framework, through the NATO Defense Industrial Production Board (DIPB), that outlines shared priorities, establishes voluntary goals, and includes clear outcomes and metrics that NATO members can leverage to guide their domestic policies.
- NATO allies should coordinate on budget constraints and member needs to bolster joint planning and aggregate demand for industrial base gaps and key technologies and capabilities.
- NATO should consider building upon mechanisms like the EDIP's Defence Industrial Readiness Board to facilitate joint funding arrangements among member states and support coordination and deconfliction of procurement plans.
- A NATO-centric approach should be considered to guide investment in member states in accordance with industrial base need in strategic sectors, stockpiles, and facilities.
- NATO officials should consider avenues to bolster information sharing across the Alliance with the goal of strategic harmonization.
- The NATO Alliance should consider additional measures that leverage non-NATO industrial capabilities in partner and allied nations.
- U.S. industry encourages NATO members, including the United States, to tailor their approach to industrial base resiliency, encouraging a balance between domestic production initiatives and international sourcing and production requirements.