KPMG

Romanian defense market

Opportunities and challenges

Future Directions, Growth Potential, and Strategic Partnerships

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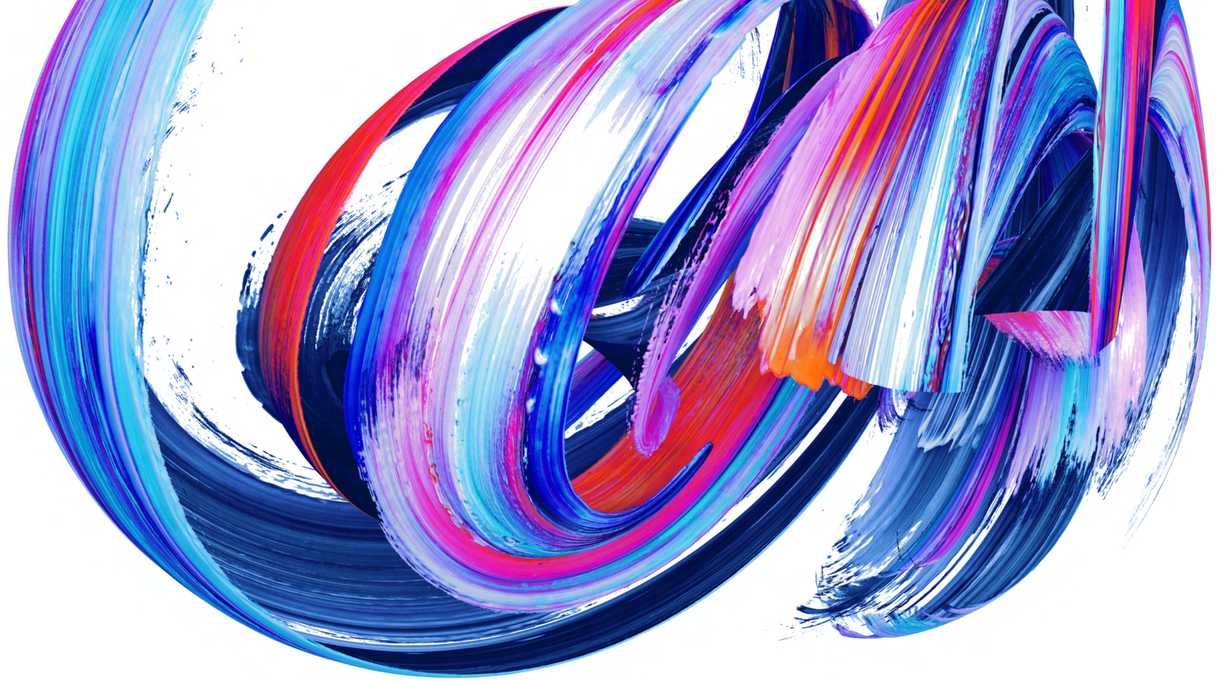


Executive Summary

This paper introduces and discusses the current state of Romania's defense market, focusing on (a) the current growth opportunities and (b) the key challenges that defense contractors, policymakers, and industry stakeholders face in the current increasingly dynamic environment. This discussion is necessary as Romania's defense market, already strongly shaped by Romania's strategic geopolitical position, NATO and EU membership, as well as by its relevance for the traditional security landscape in Eastern Europe, the Black Sea Area, and the Middle East, now presents a newer and unique blend of opportunities. These circumstances are fueled by a growing defense budget, technological advancements, changing geopolitical realities, and evolving challenges that cause this market to become even more profoundly integrated into the global defense industry, which itself is undergoing significant transformations.

Romania has a strong background in military production. Before the 1989 revolution, during the communist era, Romania established a solid foundation for a robust and competitive weapons industry in this sector. After 1990, the development of Romania's defense industry was marked both by the transition of Romania to a market oriented economy and by the reform of the Romanian Armed Forces. Throughout the 1990s, however, military sales went down, and many factories closed or reduced the number of their employees. Attempts to revive the industry have been ongoing since 1997, but these efforts have faced numerous challenges. At present, the center of gravity of the defense industry is the state company ROMARM SA, which includes 15 production units.

The Romanian Government has emphasized its focus on modernizing its armed forces, enhancing capabilities to meet NATO commitments, and addressing domestic and foreign security challenges. The Strategic Defense Review (SDR, 2020) outlines the country's approach to security, focusing on territorial defense, cyber security, and multinational cooperation. According to the SDR, Army 2040 will be a flexible, multi-domain force structure with a broad spectrum of capabilities specific to the 21st century.[1] Through the Defense White Paper,[2] our policymakers seek to enable the implementation of the Romanian Government's defense objectives, to ensure the security of citizens and the defense of our territory, values, and national interests. At the same time, the Defense White Paper is designed in a new strategic paradigm, with the goal of strengthening the defense and deterrence posture, based on five essential elements:

1. high-tech capabilities;
2. highly educated and trained human resources;
3. a strong domestic defense industry;
4. developing an institutional culture centered on knowledge and innovation and
5. resilience.

The recently approved National Defense Industry Strategy 2024 – 2030 is the first strategic document of its kind that outlines Romania's ambitions to bolster its defense sector's capabilities, ensuring not only national security but also a competitive position within the global defense market. One of the highlights of the strategy is its comprehensive approach to modernization. Recognizing the rapidly evolving nature of global threats, the strategy emphasizes the need for cutting-edge technology and innovation. The document focuses on digital transformation, including investments in cybersecurity and artificial intelligence, and the prioritization of research and development, aiming to foster a homegrown defense industry that is both self-sufficient and export ready. Furthermore, the strategy underscores the importance of collaboration and partnerships. It advocates strengthening alliances with NATO partners and other European Union countries and fostering a collaborative environment.

In line with global trends - world military expenditure increased for the ninth consecutive year in 2023, reaching a total of $2,443 billion- Romania has steadily increased its defense budget, exceeding the 2% NATO threshold for the eighth consecutive year. In 2024, the defense budget was approximately €8.6 billion or 2.3% of GDP, and the budget structure reflects a growing interest in robust investments in military capabilities. As a share of the overall defense budget, Romania's acquisition spending is expected to rise considerably from 33.8% in 2020 to 45.2% by 2029. This exceptionally high percentage is driven by the replacement of old equipment and efforts to revitalize domestic defense production.

Through the endowment plan for the Romanian Army 2025-2034, approved by the Romanian Supreme Defense Council in September 2024, the state encourages a process of transformation, re-technologization and adaptation of the defense industry by attracting new high-tech and know-how, through collaboration with foreign companies. Key procurement programs include modernizing air force capabilities with 5th generation fighter jets, naval enhancements, modernization of ground forces, as

[1] https://www.presidency.ro/ro/presa/securitate-nationala-si-aparare/sedinta-consiliului-suprem-de-aparare-a-tarii1601904261

[2] Carta Alba a Apararii

well as cyber and space capabilities development. Upcoming acquisitions provide a substantial opportunity for foreign and domestic defense companies in a wide range of fields.

Defense equipment and service providers benefit from a clear opportunity due to the increased spending levels that started in Romania during 2017. Among the main opportunities that lie ahead are the strategic objective of deepening sovereign capability, acquisition of domestic companies, defense modernization programs, technological advancements, digital transformations and cybersecurity capabilities development, as well as foreign direct investments. Moreover, the international defense cooperation and North Atlantic Treaty Organisation (NATO)/European Union (EU) frameworks provide many funding and technological opportunities.

Even though many opportunities can be expected for investors, there are also key challenges and constraints that the Romanian defense market is facing. Some of these challenges consist of the current Romanian defense industry status, different constraints on defense spending, lack of transparency and bureaucratic hurdles, and rapidly evolving geopolitical landscape and security risks.

To maximize opportunities and address potential challenges in the region, in this paper we are aiming to expand on a few strategic recommendations for defense market participants in Romania delving deeper into each of the key areas: developing local partnerships, transfer of technology, focus on R&D and system integration as well as dialogue and engagement among market participants. By focusing on these strategies, defense market participants in Romania can establish a strong presence, develop sustainably, and foster long-term partnerships that benefit both companies and the public defense ecosystem. To support this section, we follow up by presenting several case studies of successful collaboration, examining partnerships involving companies like Lockheed Martin, Rheinmetall, Airbus, and Elbit Systems.

Finally, we wrap up with a set of key takeaways, summarizing insights and strategic directions for Romania's defense sector:

Key take-aways

- The defense sector is poised to play an increasingly important role in the Romanian economic system and in strengthening both national and regional security frameworks.
- The Romanian defense market presents substantial growth opportunities, amidst some challenges that need to be navigated. To succeed in this complex and dynamic environment, stakeholders must have a deep understanding of local circumstances, actively build partnerships, and prioritize technological innovation.
- The Romanian Defense Technological and Industrial Base (DTIB) is a dynamic, evolving sector that has transformed significantly over the decades and is on the threshold of entering a new stage. Romania is determined to build a robust, future-ready defense industry sector. The conditions are in place for substantive growth, based on strategic investments, strong partnerships, effective use of national resources, and a commitment to innovation.
- The Romanian defense industry's growth will heavily rely on large procurement programs, which can create offset contracts within the framework of technological and industrial cooperation. These offset contracts will have an accelerating and multiplier effect in the local economy, transferring technology, skills, or production capabilities. This approach not only supports Romania's defense modernization but also stimulates local industry development, enhances technological expertise, and strengthens the country's overall defense, economic and societal resilience.
- The Romanian Defense Industry Strategy 2024–2030 is widely seen as a major advancement for the modernization and strengthening of the sector. The document also highlights several challenges and areas for improvement:
  - The first is related to fiscal constraints. The strategy outlines ambitious projects that will require substantial investment, posing a financial challenge. While the strategy suggests potential funding sources, such as public-private partnerships and EU funds, the successful design and execution of these plans will be essential.
  - The second area is workforce development. A skilled workforce is essential for the success of the defense industry. Although the strategy briefly addresses education and training, a more detailed plan may be necessary to fully address skill gaps and ensure the industry has the necessary expertise to meet future demands.
  - Last but not least are sustainability and ethical standards. The document notably emphasizes sustainability and ethical practices in defense manufacturing. This commitment aims to reduce environmental impact and align Romania with global standards in responsible defense, positioning the country as a leader in advanced defense practices.
- To conclude, the main duty of the state is to ensure security against external threats. On the other hand, the costs of providing a military force should be proportionate so as not to affect the free functioning of the economy and individual initiative.

01

Overview of the Romanian Defense Industry Landscape

1.1

Historical Context

Post-1989, Romania transitioned from a communist dictatorship to a democracy with aspirations towards NATO and EU integration. Joining NATO in 2004 marked a significant turning point, aligning Romania's defense policies with Western standards and increasing defense spending.

Romania has a strong background in military production. Before the 1989 revolution, its nationalistic communist authorities were keen to preserve independence from the USSR, manufacturing and selling arms in exchange for hard currency. According to the news and propaganda of the time, Romania became one of the top weapons exporters in that period. Setting aside the propagandistic nature of these claims, the fact remains that, during the communist era, Romania established a solid foundation for a robust and competitive weapons industry and for technologically advanced manufacturing capabilities in this sector.

After 1990, the development of Romania's defense industry was marked both by the transition of Romania to a market-oriented economy and by the reform of the Romanian Armed Forces. Throughout the 1990s, military sales decreased, and many factories closed or reduced the number of their employees. Key factors behind this were: the economic transition, loss of export markets with countries in the Warsaw Pact and the Global South (e.g. Middle Eastern & African countries) and the Armed Forces restructuring process, which was carried out in preparation for integration into NATO. The introduction of NATO interoperability standards,[3] which could not be met by an industry struggling to adapt to NATO requirements, also contributed to a certain extent to this decline.

Attempts to revive the industry have been ongoing since 1997, but these efforts have faced numerous challenges such as: aging infrastructure which dated back to the Cold War, competition from global players and limited budgets. At present, the center of gravity of the defense industry is the state company ROMARM SA, which includes 15 production units.

In the past few years, the Romanian authorities have made efforts to expand their defense cooperation networks across Europe, and beyond, to improve their competitiveness in future EU defense program bids. However, the results have been slow to emerge and will require further consolidation over the course of the next decade to better align national defense requirements and priorities with EU defense programs.

1.2

Current Defense Strategy

The **National Defense Strategy for 2020 – 2024** outlined Romania's primary security objectives, including:

a. safeguarding Romania's sovereignty and territorial integrity;

b. ensuring the safety and protection of Romanian citizens;

c. providing regional, European, and Euro-Atlantic security through strengthening partnerships with entities such as the United States and the European Union, alongside alliances such as NATO; and

d. enhancing military cooperation within strategic partnerships, underpinning diplomatic, informational, and economic endeavors to advance national interests.

The recently approved **Romanian National Defense Industry Strategy 2024 – 2030** has sparked considerable debate, during public

[3] NATO interoperability standards

consultation, among defense analysts and policymakers alike. This strategic document outlines Romania's ambitions to bolster its defense sector's capabilities, ensuring not only national security but also a competitive position within the global defense market.

One of the primary strengths of the strategy is its comprehensive approach to modernization. Recognizing the rapidly evolving nature of global threats, the strategy emphasizes the need for cutting-edge technology and innovation. The focus on digital transformation, including investments in cybersecurity and artificial intelligence, aligns with the global shift toward more technologically advanced defense systems. By prioritizing research and development, Romania aims to foster a homegrown defense industry that is both self-sufficient and export ready.

Furthermore, the strategy underscores the importance of collaboration and partnerships. It advocates strengthening alliances with NATO partners and other European Union countries and fostering a collaborative environment where the transfer of technology and exchange of knowledge is fluid. Such alliances are crucial not only to support shared security goals but also for the economic benefits of joint ventures and co-development projects.

The Romanian Government has emphasized modernizing its armed forces, enhancing capabilities to meet NATO commitments, and addressing domestic and foreign security challenges. The **Strategic Defense Review** (SDR, 2020) outlines the country's approach to security, focusing on territorial defense, cyber security, and multinational cooperation. The SDR underpins a new concept of organization, staffing, equipment, and training of the Romanian Armed Forces, that aims to determine the structure and directions of development of capabilities until the year 2040. To ensure the continuity and coherence of the process, as well as adaptation to future developments, the document provides for three stages, with quantifiable objectives:

a. completion of the Army 2026 Modernization Program;

b. the introduction of new technologies and the reorganization of the Romanian Armed Forces for multi-domain operations (2032); and

c. the completion of the "Armata 2040" ("Army 2040") Program. To achieve the new force structure, the military system will go through a phased process of profound changes.

Army 2040 will be a flexible, multi-domain force structure with a broad spectrum of capabilities specific to the 21st century.

Through the **Defense White Paper,** our policymakers seek to enable the implementation of the defense objectives established by the Government Program, to ensure the security of citizens and the defense of our territory, values, and national interests. At the same time, the Defense White Paper underpins the Military Strategy and the Defense Planning Directive and is designed in a new strategic paradigm, with the goal of strengthening the defense and deterrence posture, based on five essential elements:

a. high-tech capabilities;

b. highly educated and highly trained human resources;

c. a strong domestic defense industry;

d. developing an institutional culture centered on knowledge and innovation; and

e. resilience.

The establishment of the **Romanian Agency for Technological and Industrial Cooperation for Security and Defense - ARCTIS** (under Government Emergency Ordinance no. 124/2023) marks a significant step forward in bolstering Romania's defense industry, reflecting the country's commitment to enhancing its strategic autonomy and integrating more robustly into European and NATO defense frameworks. Government Emergency Ordinance no. 124/2023 establishes the principles, general framework, and procedures for carrying out technological and industrial cooperation operations resulting from the awarding of certain public procurement contracts in the fields of defense and security to protect Romania's essential security interests.

Replacing the former Office for Offset – OCATS,[4] the agency is poised to facilitate greater collaboration between domestic defense industries and international partners, fostering an environment which is conducive to technological innovation and industrial growth. Its creation underscores Romania's intention to modernize its defense capabilities and optimize the domestic defense industry's alignment with global standards.

One of the key roles of the agency will likely be to streamline processes for partnerships, both public and private, ensuring that the Romanian defense sector can compete efficiently in the global market. By acting as a central hub for coordination, the agency can help reduce bureaucratic hurdles and enable smoother transitions from research and development to production. Cooperation formats pursued by the Agency are:

- technology transfer;
- research and development;
- subcontracting/localizing production; and
- export of products, services and works.

Moreover, the agency's focus on defense technology suggests an emphasis on advancing Romania's capabilities in cybersecurity, artificial intelligence, and other emerging technologies critical for modern warfare. This can not only enhance national security but also contribute to the global push toward innovation-driven growth in defense sectors. By investing in joint projects and sharing expertise, Romania can enhance its role as a valuable partner in regional security initiatives.

The creation of the Romanian Agency for Defense Technological and Industrial Cooperation is a forward-thinking move that aligns with the broader trends of increased collaboration and integration in defense sectors worldwide. As it develops, the agency will be pivotal in shaping the future of Romania's defense industry and its position on the global stage.

1.3 The Romanian Defense Technological and Industrial Base

The Romanian DTIB plays a crucial role in the country's national security and economic development. Its evolution from the Cold War era to the present day reflects significant efforts to adapt to changing geopolitical conditions and technological advancements.

During that time, Romania developed significant military production capabilities, focusing primarily on land systems, small arms, and ammunition. Notably, the country produced its version of the AK-47 rifle and various armored vehicles.[5] The collapse of the Soviet Union and the disintegration of the Warsaw Pact in the early 1990s marked a turning point for Romania's defense industry. The need to re-evaluate and restructure became evident as the country reoriented itself towards joining NATO and the European Union.

High budgets allocated to the defense sector in recent years have been used for acquisition of equipment from foreign countries instead of investments in domestic production capabilities. The European Union's plans to relaunch the continental heavy munitions industry could also jumpstart revitalization of the Romanian defense industry. In 2023, Former Internal Market Commissioner Thierry Breton stated: "Romania is able to play a more significant role in Europe's defense industry".[6] Andrius Kubilius, the first European Commissioner for Defense & Space stated in 2024 that his aim is to boost EU's arms industry, by getting EU countries to spend more on European weapons and procure jointly - as well as by getting companies themselves to cooperate more across borders.[7] Within this context, the German group Rheinmetall,[5] plans to build a hub in Romania to service Ukraine's military equipment. The hub, located near the border with Ukraine, will provide services for self-propelled howitzers, Leopard 2 and Challenger tanks, Marder infantry fighting vehicles, Fuchs armored transport vehicles and military trucks.

[4] OCATS - Oficiul de Compensare pentru Achizitii de Tehnica Speciala / Special Equipment Procurement Clearing House

[5] Virginia Economic Development Partnership – International Trade, Defense and Security Market Report – Romania, May 2023

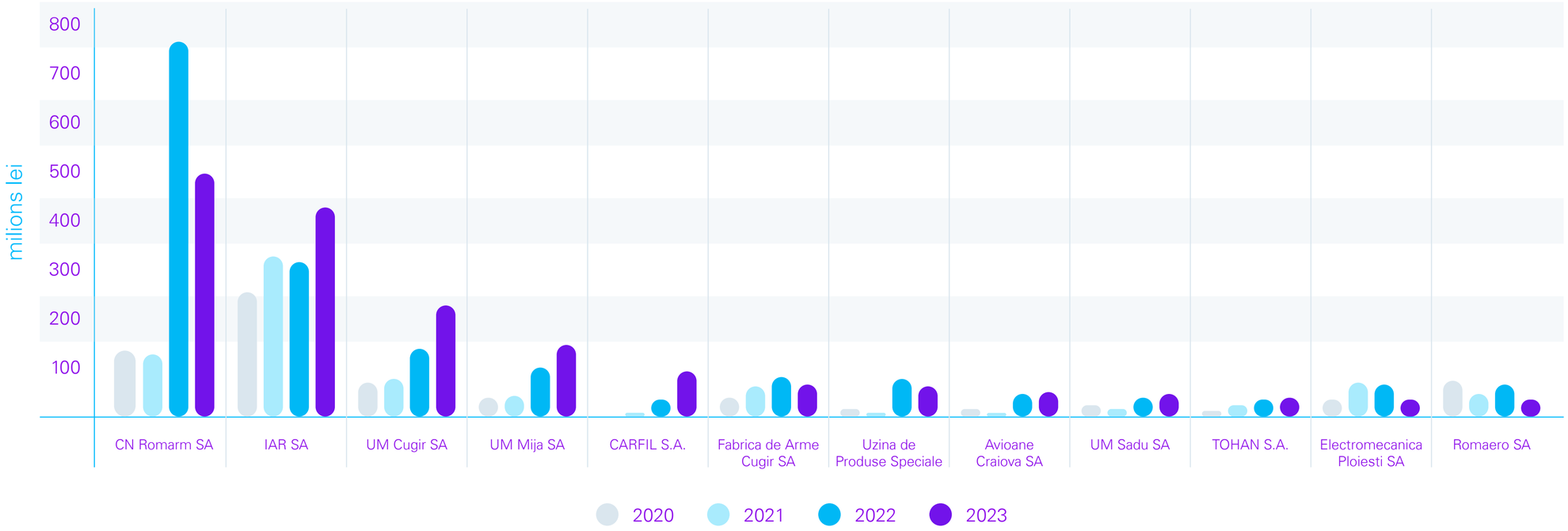
[6] https://www.euractiv.com/section/defence/news/romania-can-increase-its-defence-production-capacity-eus-breton-says/

[7] https://elpnariai.lt/en/kubilius-keynote-berlin-security-conference/

Today, the Romanian DTIB consists of various state-owned enterprises and privately-owned companies. The government-operated defense industry producers are coordinated by the Romanian Ministry of the Economy and managed by the state enterprise ROMARM SA, which faces significant technology and management challenges, with most of its subsidiaries struggling for growth opportunities.

Evolution of the turnover of state-owned companies in the defense industry sector, 2020-2023, is depicted in Figure 1:

Figure 1: Evolution of turnover of the main public companies in the defense industry, 2020-2023



Source: National Strategy for the Defence Industry 2024-2030 (2024)

However, the state-owned companies in the Romanian defense industry are likely to continue their economic decline due to the lack of contracts, the scarcity of government investments, and the exodus of skilled workers. There could be a revival of ammunition companies and maintenance and repair centers for newly purchased equipment if the government increases investments and ensures efficient, competitive management. The private sector will continue to develop, but the number of successful Romanian companies can be expected to remain limited for as long as the development of this sector depends mainly on foreign markets. Local subsidiaries of international companies are more likely to grow, as they benefit from a business strategy that integrates them into global markets.

There are currently 31 players with state owned capital in the Romanian aerospace industry and auxiliary sectors, including manufacturing, R&D and other related activities. The sector has a large pool of products and parts that are used and bought by many large global companies. The main products manufactured in Romania are aircraft, helicopters, gliders and motor gliders, aircraft engines, helicopter power units, dynamic assemblies for helicopters, actuators, and servo valves, landing gears, brakes, hydropneumatics accessories and equipment, electrical/electronic equipment, components, and subassemblies.

There are also approximately 80 private companies with Romanian and foreign capital. While private companies in the defense industry are currently more profitable, most companies with state owned capital have a high debt to equity ratio, against a backdrop of an extended period of functioning at a suboptimal capacity utilization rate and with relatively low capital expenditures, which reflects a lack of priority given to investing in upgrading production capabilities.

A non-exhaustive presentation of the companies that make up the Romanian Defense Technological and Industrial Base can be consulted in the Appendix to this document.

02

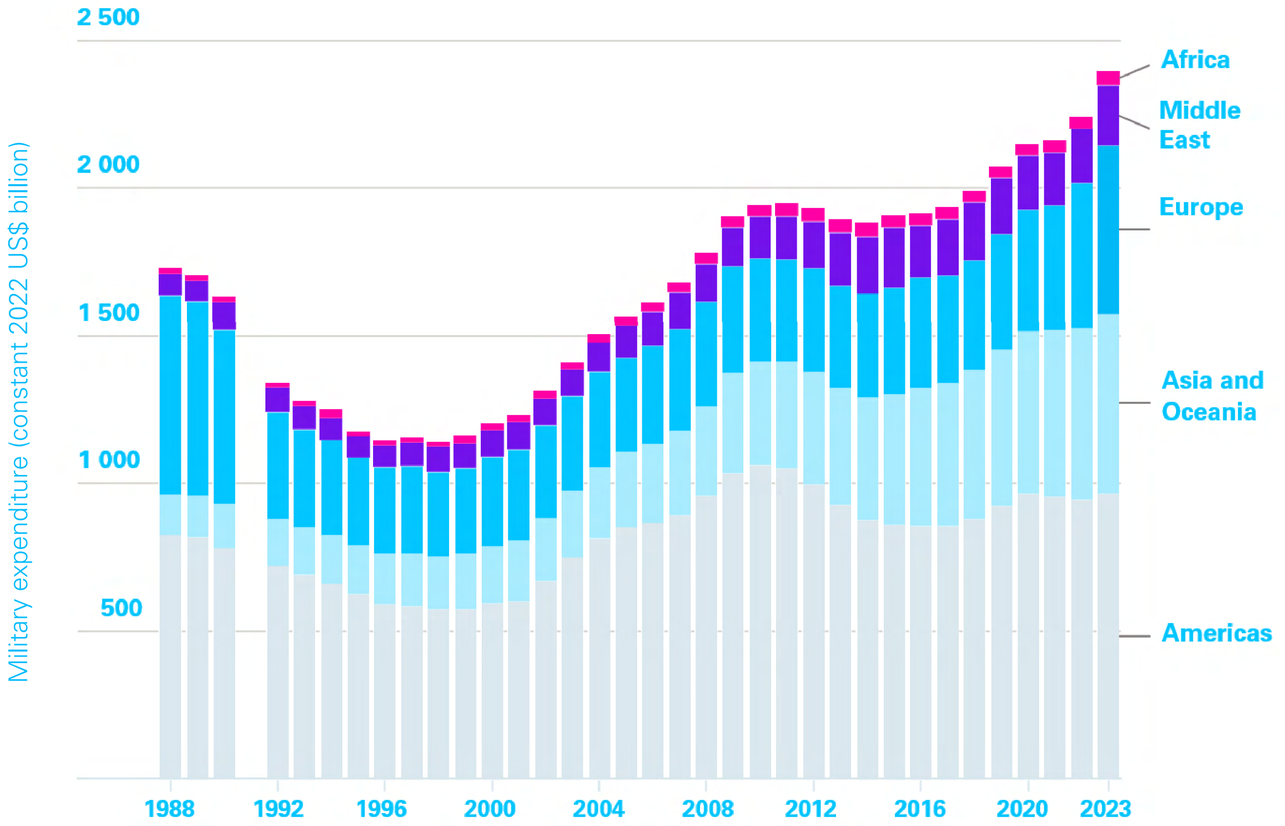
Market Size and Growth Projections

2.1

Budget and Defense Spending Trends

World military expenditure increased for the ninth consecutive year in 2023, reaching a total of $2,443 billion. The 6.8 per cent increase in 2023 was the steepest year-on-year rise since 2009 and pushed global spending to the highest level ever recorded (see figure 2). The world military burden – defined as military spending as a percentage of global gross domestic product (GDP) – increased to 2.3 per cent in 2023. Average military expenditure as a share of government expenditure rose by 0.4 percentage points to 6.9 per cent in 2023 and world military spending per person was the highest since 1990, at $306. The rise in global military spending in 2023 can be attributed primarily to the ongoing war in Ukraine as well as escalating geopolitical tensions in Asia, Oceania and the Middle East, while military expenditure went up in all five geographical regions.

Figure 2: World military expenditure, by region, 1988–2023



Note: The absence of data for the Soviet Union in 1991 means that no total can be calculated for that year.
Source: SIPRI Military Expenditure Database, Apr. 2024.

NATO member states' defense spending in 2023 on armaments and military equipment reached $1,341 billion or 55 per cent of world military spending. In 2023, eleven of the 31 NATO members met NATO's 2 per cent of GDP military spending target, which was 4 more than in 2022.

Despite these advancements, some economically advanced NATO members, including Germany, Canada, Italy, and Spain, have yet to meet the 2% GDP defense spending target. This indicates that while progress has been made, further efforts are necessary to achieve equitable defense contributions across the alliance.[8]

Overall, the increased defense spending among NATO members in 2023 highlights a collective effort to strengthen the alliance's military capabilities and address emerging security challenges. However, the differences in defense spending among member states indicates that further commitment and collaboration are essential to ensure the alliance's readiness and resilience in the face of evolving threats.

TRENDS IN WORLD MILITARY EXPENDITURE 2023

- World military expenditure, driven by Russia's full-scale invasion of Ukraine and heightened geopolitical tensions, rose by 6.8 per cent in real terms (i.e. when adjusted for inflation) to $2,443 billion in 2023.
- In 2023 military spending increased in all five geographical regions for the first time since 2009.
- Total military expenditure accounted for 2.3 per cent of global gross domestic product (GDP) in 2023.[9]
- The five biggest spenders in 2023 were the United States, China, Russia, India and Saudi Arabia, which together accounted for 61 per cent of world military spending.
- The USA and China remained the top two biggest spenders in the world and both increased their military spending in 2023. US spending was $916 billion while Chinese spending was an estimated $296 billion.
- Russia's military spending grew by 24 per cent in 2023 to an estimated $109 billion. This was equivalent to 5.9 per cent of Russia's GDP.
- Ukraine became the eighth largest military spender in 2023, increasing its spending by 51 per cent to $64.8 billion, or 37 per cent of its GDP.

[8] Chart: Where NATO Defense Expenditure Stands | Statista

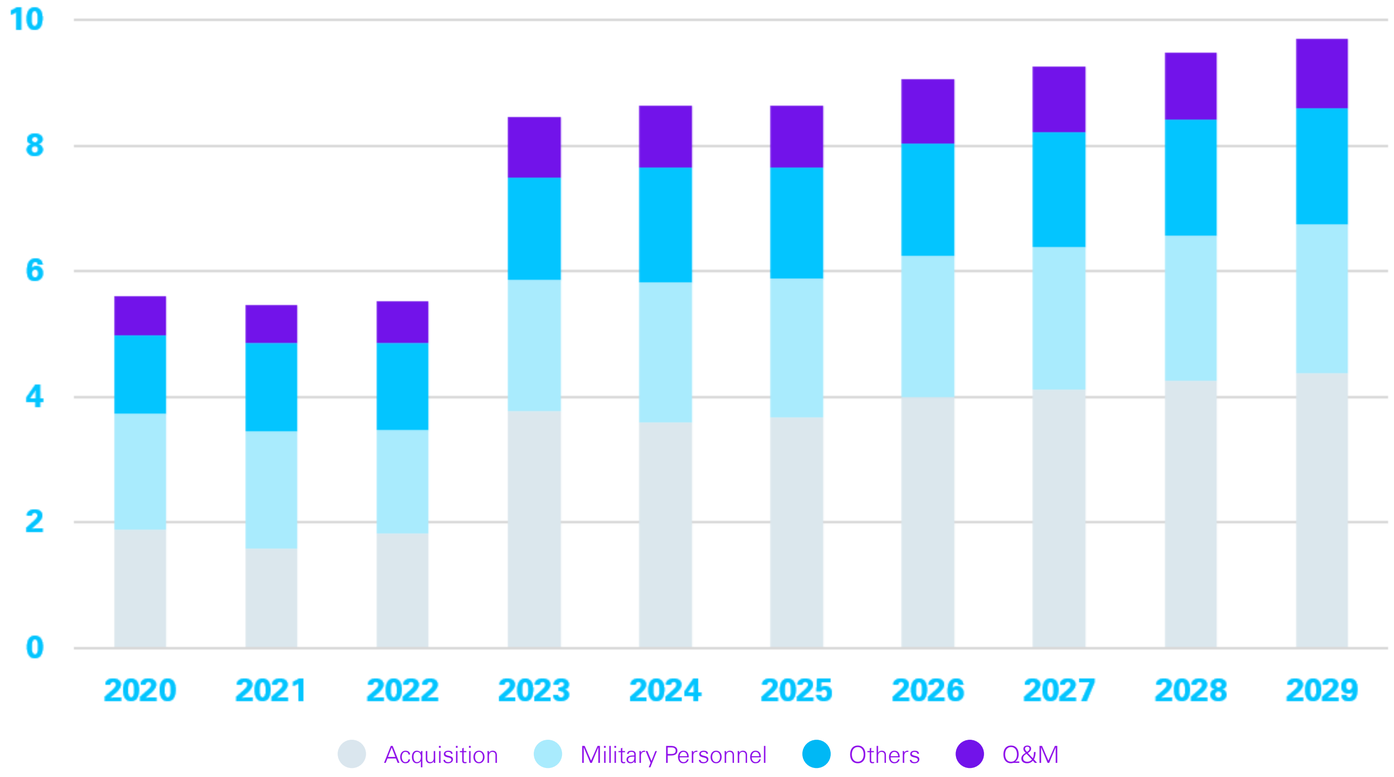
[9] Source: GlobalData ADS Intelligence Center

Romania has steadily increased its defense budget, exceeding the 2% NATO threshold for the eighth consecutive year. In 2024, the defense budget was approximately €8.6 billion or 2.3% of GDP, much higher than in 2023. The budget structure reflects a growing interest in robust investments in military capabilities.

Starting from 2023, the Romanian Defense Budget has increased from 2% to 2.5% of GDP (with a commitment to maintain this percentage of GDP for the next decade), with 30%+ of the budget allocated for procurement of modern equipment for the Armed Forces and more than 2% allocated for research, development and innovation. Thus, for 2023, the defense budget was set at RON 38.7 billion (USD 8.4 billion). Romania's decision to increase its military spending is a result of recent events in the Black Sea region.

Figure no. 3 illustrates the Romanian defense budget forecast until 2029, broken down into spending sectors: acquisitions, military personnel, operations & maintenance (O&M), and others.

Figure 3: The Romanian defense budget forecast until 2029



Source: GlobalData ADS Intelligence Center

In response to rising regional threats, Romania's defense budget has surged, exceeding NATO targets and signaling a shift in priorities. According to GlobalData's "Romania Defense Market 2024-2029" report, the country's defense expenditure has surged by 53.3% since 2023, with a projected cumulative spend of $46.3bn (213.4bn lei) for 2025-2029. Notably, Romania consistently allocates over 2% of its GDP to defense spending, demonstrating a commitment to regional security.

GlobalData's latest report reveals that, as a share of the overall defense budget, Romania's acquisition spending is expected to rise considerably to 45.2% by 2029 (from 33.8% in 2020). This exceptionally high percentage is driven by the replacement of old equipment and efforts to revitalize domestic defense production.

On the other hand, the reality of recent years shows that the Ministry of Defense has never fully spent the entire budget. For example, Romania allocated 2.5% of GDP to defense in 2023, but managed to spend only 1.7%, just below the NATO average of 1.73%. This under-expenditure appears to have been a challenge for Romania for some years. Consequently, the ability to fulfill our defense obligations and maintain readiness in line with NATO standards requires a multifaceted approach in which aspects such as streamlining procurement processes, enhancing budgetary planning, and improving administrative efficiency are essential steps towards reforming the sector.

2.2 Romania's Defense Procurement Plans

In September 2024, the Romanian Supreme National Defense Council approved the endowment plan for the Romanian Army 2025-2034, a document that correlates the needs of military equipment with financial resources. Romania is directly interested in the development of its own industrial military capabilities for equipping the force structures, maintenance of purchased equipment and strengthening military capabilities during crises/war situations.

The state encourages a process of transformation, re-technologization and adaptation of the defense industry by attracting new high-tech and know-how, through collaboration with foreign companies.

Key procurement programs include modernizing air force capabilities with 5th generation fighter jets, naval enhancements, and modernization of ground forces. Upcoming acquisitions provide a substantial opportunity for foreign and domestic defense companies in a wide range of fields.

The allocation of resources for transformation, modernization and endowment of the Romanian Armed Forces' capabilities/structures will take place in accordance with priorities set by the program of transformation, development, and procurement of the Romanian Armed Forces by 2026 and beyond (Armata 2040). This program includes the build-up and refilling of stocks. Financial allowances for the modernization of military endowment by means of new acquisition programs, modernization and/or general overhaul of the existing equipment will target the following categories:

Major Procurement Categories

1. Land Systems

- Tracked and Wheeled Combat Vehicles:
  - Armored Personnel Carriers (APCs), Infantry Fighting Vehicles (IFVs), and Main Battle Tanks (MBTs) and their derivatives.
- Artillery Systems:
  - Medium- and long-range Multiple Launch Rocket Systems (MLRS).
  - Self-propelled 155 mm and 105 mm howitzers.
  - Advanced ammunition development and stockpiling.

2. Air Systems

- Combat and Transport Aircraft:
  - Procurement of 5th generation fighter jets to replace aging fleets.
- Medium and Heavy Helicopters:
  - Versatile rotary-wing platforms for combat and transport roles.
- Unmanned Aerial Systems (UAS):
  - Class 2 and 3 drones with enhanced capabilities for surveillance and attack.

- Ground-Based Air Defense Systems:
  - SHORAD (Short-Range Air Defense), V-SHORAD (Very Short-Range Air Defense), and MANPADS (Man-Portable Air Defense Systems).

3. Naval Systems

- Combat Ships:
  - Modernization of Type 22-R frigates.
  - Acquisition of multifunctional corvettes, missile boats, and mine countermeasure vessels.
  - Anti-submarine warfare capabilities (e.g., torpedoes).
- Support Ships:
  - Harbor and maritime tugs, logistic support vessels, and platforms for special forces operations.

4. C4ISR Systems

- Communication and Control Infrastructure:
  - Brigade and division command and control (C2) systems.
- Surveillance and Reconnaissance:
  - Optical and optoelectronic systems.
  - Radars and ISTAR (Intelligence, Surveillance, Target Acquisition, Reconnaissance) platforms.
- Cybersecurity and IT Systems:
  - Network security solutions and satellite communication systems (SATCOM).

5. Specialized Equipment

- Individual and Group Armaments:
  - NATO-compatible weapons, CBRN detection/protection systems.
  - Portable anti-tank missile systems.
- Engineering and Counter-IED Equipment:
  - Tools for neutralizing improvised explosive devices and constructing battlefield infrastructure.

6. Infrastructure Development

Upgrades to air bases and military facilities to support advanced operational capabilities.

- Integrated Security Systems:
  - Fortified infrastructure and security solutions for military units and objectives.

Current Defense Procurement Priorities

The immediate focus is on the following areas:

- Tracked and Wheeled Armored Vehicles.
- Artillery and Missile Systems (MLRS, howitzers, rockets).
- Combat Aircraft (e.g., F-16 modernization and 5th generation acquisitions).
- Medium and Heavy Helicopters.
- Unmanned Aerial Systems (UAS).
- C4ISTAR Systems for communication, command, and surveillance.
- Satellite Communication Services and ground-based infrastructure.

Moreover, according to Global Data's representatives: "The prominent role played by cruise missile attacks and UAVs in the war in Ukraine and the complex systems required to defend against them have transformed assumptions for how 21st century wars will be fought. These lessons will inform procurement decisions in NATO states going forward. Romania is acquiring Patriot batteries and operates Gepard anti-aircraft artillery that has proven itself useful in Ukrainian service. The country will likely adjust its procurement policy to these new developments."

Recently, Romania's Ministry of Defense (MoD) has acquired primarily through US Foreign Military Sales (FMS). International companies may be asked to contribute to this goal on a voluntary basis in FMS cases or under the compensation law for all commercial contracts over €10 million ($11 million). In recent years, the national security interest has been invoked based upon security of supply, as a mandatory criterion for awarding contracts in these cases, with related technological and industrial cooperation (former offset obligations) defined from the beginning. The Romanian Parliament must approve all defense acquisitions with a value of more than €100 million (approx. $110 million).

03 Opportunities in the Romanian Defense Market

Defense equipment and service providers benefit from a clear opportunity due to the increased spending levels that started in Romania during 2017, which translates to more procurement being undertaken faster. A more agile and responsive approach to procurement is required given the need to balance requirements against the reality of medium-term threats. Romania's contribution to developing multilateral capabilities as part of NATO should be considered alongside the need to develop appropriate independent defense strength.

3.1 Deepening sovereign capability

We expect western countries to reduce reliance on challenged global supply chains and boost domestic industries, taking a whole-of-alliance approach to responding to geopolitical pressures. With supply chain disruptions potentially impeding access to critical components, consumables and systems, on-shoring and near-shoring are on the rise, with new agreements between allies and neighbors. Partnerships with established defense suppliers and other industry leaders can improve interoperability and communications with allies and enable defense departments to leverage economies of scale while deepening sovereign capability.

Romania is also looking to modernize its own defense industry and build sovereign defense capabilities through technological and industrial cooperation and international partnerships. The establishment of the Romanian Agency for Technological and Industrial Cooperation for Security and Defense will facilitate greater collaboration between domestic defense industries and international partners and will enhance the optimization of the domestic defense industry's alignment with global standards. One of the key roles of the agency will likely be to streamline processes for partnerships, both public and private, ensuring that the Romanian defense sector can compete efficiently in the global market.

3.2 More private investments in the defense industry

The privatization of Romania's defense industry within national interests limits could represent a viable entry route for foreign Original Equipment Manufacturers (OEMs) seeking to establish a foothold in the market. Acquiring a domestic company remains a popular strategy for market entry. As Romania is a member of the European Defense Agency (EDA), foreign investors can also engage in joint product development programs under the agency's auspices. Moreover, foreign companies awarded contracts are mandated to collaborate with local enterprises to stimulate growth within the Romanian economy. But this opportunity also includes a significant challenge: according to the Defense Industry Law (no. 232/2016) "the privatization of economic operators is carried out while maintaining the state's participation share at a minimum 50% of the share capital".

This approach is not unique to Romania, but the extent of state ownership and the framework for private sector involvement vary widely across countries. Here's a comparison with practices in other countries:

1. Western Europe (e.g., France, Germany, UK)

- **France:**
  - State Role:
    France often retains a golden share or partial ownership in major defense companies to ensure strategic control (e.g., Dassault Aviation, Naval Group).

    The government exerts influence through special voting rights or veto powers on key decisions, even with reduced ownership.
  - Private Sector Involvement:
    Encouraged to participate as majority shareholders in many cases.

    Collaboration between private firms (e.g., Thales) and state-owned entities is common.
- **Germany:**
  - State Role:
    Defense companies are primarily privately owned, with limited direct government ownership.

    Oversight is exerted through strict export controls and regulatory frameworks.
  - Private Sector Involvement:
    Actively encouraged, with firms like Rheinmetall and Krauss-Maffei Wegmann leading the industry.
- **United Kingdom:**
  - State Role:
    Most defense companies (e.g., BAE Systems) are fully privatized.

    The UK ensures national security through regulatory measures and contracts, rather than direct ownership.
  - Private Sector Involvement:
    Private investors dominate, but the government can intervene in cases of foreign acquisition of strategic assets (e.g., via the National Security and Investment Act).

2. United States

- State Role:
  The defense industry is entirely private (e.g., Lockheed Martin, Raytheon, Northrop Grumman).

  The government ensures oversight through defense contracts, export controls, and classified R&D partnerships.
- Private Sector Involvement:
  Fully open to private investment, with no requirement for state ownership.

  National security concerns are addressed through restrictions on foreign ownership (e.g., CFIUS reviews).

3. Eastern Europe and Post-Soviet States

- **Poland:**
  - State Role:
    Poland has significant state ownership in key defense firms like PGZ (Polska Grupa Zbrojeniowa), ensuring control over critical capabilities.

    Privatization is limited to non-strategic areas.
  - Private Sector Involvement:
    Encouraged for modernization and technology transfer, but strategic assets remain under state control.
- **Czech Republic:**
  - State Role:
    The Czech Republic has embraced more private sector participation, with firms like Aero Vodochody largely privatized.
  - Private Sector Involvement:
    Foreign and private investment is welcomed, with the state relying on regulatory oversight instead of ownership.

4. Asia (e.g., India, South Korea, Japan)

- **India:**
  - State Role:
    Traditionally dominated by state-owned enterprises (e.g., Hindustan Aeronautics Limited, Bharat Electronics Limited).

    Recently, India has allowed private sector participation to modernize its defense industry.

- Private Sector Involvement:
  Foreign direct investment (FDI) in defense is allowed up to 74% (or more with special approval).

  Joint ventures between Indian and foreign firms are encouraged.

South Korea:

- State Role:
  Defense companies like Hanwha and Hyundai Rotem are privately owned, but the state provides heavy subsidies and regulates exports.

- Private Sector Involvement:
  Encouraged and supported through government contracts and R&D incentives.

Japan:

- State Role:
  Defense production is conducted by private firms (e.g., Mitsubishi Heavy Industries), with significant government oversight.

- Private Sector Involvement:
  The government acts as the primary client, ensuring compliance with national security requirements.

Comparison with Romania

Aspect Romania Other Countries

- **State Ownership** Minimum **50% of share capital** required. Varies: Full privatization (USA, UK), partial (France, Poland).
- **Private Sector Role** Limited due to mandatory state control. Actively encouraged in most Western countries.
- **Foreign Investment** Limited by law due to high state control. Generally allowed with safeguards (UK, India).
- **Modernization Approach** Relies on domestic and foreign partnerships. Heavy reliance on private sector innovation.

Challenges for Romania

- **Attracting Investment:**
  Private investors are discouraged by the **mandatory state majority ownership,** as it limits control and profitability.
- **Technology Transfer:**
  The high level of state involvement can deter advanced foreign companies from entering partnerships.
- **Innovation:**
  Excessive state control may stifle competition and limit innovation in the defense sector.

Conclusion
Romania's **50% state ownership requirement** in defense privatization is more restrictive than in many Western countries, which rely more on regulation and oversight rather than direct ownership. While this approach ensures strategic control, it also limits private investment and technological innovation, posing challenges to the modernization of Romania's defense industry. Striking a balance between state control and private sector participation, as seen in countries like France or Poland, could enhance Romania’s defense capabilities and attract more investment.

3.3

Defense Modernization Programs

Romania's inventory of Cold War-era military equipment is substantial, including approximately 800 Main Battle Tanks (MBTs) based on the T-55 design. Although Romania has plans to eventually replace or retire this equipment, the timeline for such transitions is extended, suggesting that many of these vehicles will remain operationally relevant for the foreseeable future. A segment of the Romanian defense industry specializes in the maintenance and comprehensive modification of these out-of-date systems. Additionally, some equipment is being upgraded to NATO-standard weapons and ammunition to streamline logistics in multinational

operations. To meet NATO standards, Romania can either replace this outright with modern, Western equipment or heavily modify units to bring them into line with NATO's Standardization Agreement (STANAG) criteria. Both options create significant business opportunities for foreign companies interested in the Romanian defense market.

The ongoing war in Ukraine underscores the importance of maintaining reserves of older but operable equipment, particularly in large-scale conventional warfare scenarios characterized by significant combat attrition. The modernization of military forces remains a key driver for increasing defense expenditure in Romania to build strong defense capabilities to face the current and future threats.

As geopolitical tensions continue to simmer in Eastern Europe and the Black Sea Region, Romania has emerged as a player which is shaping the region's defense landscape, prioritizing modernization of its armed forces and interoperability within NATO forces. An analysis of Romania's defense sector reveals a multifaceted approach, spanning budgetary surges, procurement strategies, and market dynamics. Key opportunities lie in:

- Aerospace & Defense Technologies: Upgrading air force capabilities and missile defense systems.
- Cyber Defense: Investments in cyber security, creating demand for software solutions and security services.
- Land Systems: Modernizing armored vehicle fleets and artillery systems.
- Naval Systems: Modernizing naval vessels to enhance power projection capabilities.

For the Romanian Army, investments are channeled towards replacing outdated equipment with modern, like the K9 Thunder artillery gun. Similarly, the Romanian Air Force has prioritized the acquisition of aircraft such as the F-35A fighter jet, while the Navy is focused on modernizing its naval vessels to enhance power projection capabilities in the Black Sea region.

3.4 Technological Advancement

Improvements in simulation and forecasting, as well as the rise of autonomous vehicles are likely to represent new areas of development for the Romanian Defense sector with high potential impact on the battlefield. There is an increasing growth trend in the number of data-gathering sensors on people, vehicles, aircraft, and maritime platforms, which make weapon systems increasingly software enabled. An already solid but constantly improving telecommunications infrastructure allows defense forces to process enormous volumes of information and deliver real-time insights to key decision-makers.

3.5 Digital Transformation

Many institutions in Romania are undergoing digitalization initiatives, expected to also have significant impact in how defense forces can be connected end-to-end, including, but not limited to, areas such as data and analytics, responsive supply chains and logistics, technology architecture and people. Countries' platforms, systems and capabilities should be interoperable with allies and coalition partners and linked to selected industry partners.

One particular use case is the modernization of warehousing and storage facilities through a combination of Internet of Things (IoT) sensors attached to inventory, connected material handlers, and physical robots moving items. Advanced analytics can help optimize inventory levels, drive dashboarding, enable faster response to demand signals, identify potential supply risks, and support mitigation planning. The smart, fully digital warehouse has become progressively more affordable. Such pilot programs with respect to inventory management are also underway in Romania.

3.6 Cybersecurity Capabilities Development

The huge amounts of data that will be generated will help ensure defense sector effectiveness but will also need to be kept secure and private, out of the hands of adversaries. New technologies can increase the risk of infiltration and misinformation, making capabilities to detect hacks a valuable source of competitive advantage. Romania benefits from a strong cybersecurity community, which has the potential to play a key role in the long-term success of the global west.

3.7 International Defense Cooperation

Romania has the following two major objectives in the defense sector which could be achieved through international cooperation:

1. **Equipping Armed Forces to NATO Standards:** Romania aims to ensure that its armed forces meet NATO standards and comply with interoperability criteria, as outlined in key strategic documents, including the National Defense Strategy. To achieve this, Romania needs partnerships with international defense industry players to foster the development of domestic production facilities.

2. **Fostering Economic Development and Reducing External Dependency:** Romania should aim to establish domestic production units capable of supporting its defense needs, from manufacturing to maintenance and repair. The goal would be to localize the entire supply chain for strategic economic units, ensuring that the Romanian Armed Forces can operate without relying on external services. This approach also emphasizes the importance of

technology transfer and the acquisition of know-how, enabling Romania to strengthen its defense capabilities and drive economic growth simultaneously.

Achieving the above objectives requires addressing several significant challenges, but practical solutions could be considered:

1. **Leveraging Foreign Direct Investment and Partnerships:** Developing a national industrial base capable of supporting high-tech weapons programs in the short term is challenging without robust foreign investment and collaboration with international companies. **Solution:** Romania should actively attract foreign direct investment and forge strategic partnerships with global defense leaders to accelerate technology transfer and expertise-sharing.

2. **Modernizing State-Owned Enterprises:** Many state-owned enterprises in Romania struggle to remain competitive due to insufficient national investment programs, inefficiencies, or lack of proper strategies. **Solution:** A dedicated national investment strategy is crucial to upgrade infrastructure, modernize production capabilities, reform and align these enterprises with international standards, and also consider the alternative of privatization of some state-owned companies.

3. **Enhancing Participation in NATO and EU Programs:** While funding opportunities are available through NATO and EU initiatives, Romania's state-owned companies often face barriers to full participation due to limited compliance with global benchmarks. **Solution:** Streamlined reforms should focus on improving the capacity of these enterprises to meet NATO and EU standards, coupled with training programs and technical assistance to boost their competitiveness and absorptive capacity.

By focusing on these actionable solutions – enhancing partnerships, reforming, investing in modernization and privatizing some of the state-owned companies as well as leveraging international funding opportunities – Romania can make significant steps toward realizing its defense objectives.

3.8 NATO Framework for Cooperation

The Romanian authorities have signaled a potential change of the country's strategic direction following the Russian war of aggression against Ukraine and the conflict in the Middle East. In October 2023, the country's Supreme Council of National Defense, Romania's main defense decision-making body, emphasized the development of a sovereign defense industrial base including by leveraging the EU defense toolbox and NATO instruments. This does not necessarily imply a move away from Romania's established tradition of foreign (often non-EU) military procurement, but rather a complementary set of actions. By integrating EU and NATO instruments, Romania seeks to balance its traditional procurement strategies with the development of local defense capabilities. This approach aims to ensure a robust and diversified defense posture, enhancing national security while maintaining strong alliances.

In the current climate of acute regional tensions, the necessity for robust alliances, specifically with NATO, has become increasingly vital. Romania is making concerted efforts to augment its collaborative potential within a multinational framework. This entails developing specialized capabilities and engaging in strategic initiatives, programs, and projects that encompass fields such as cyber defense as well as ballistic missile deterrence and defense. Moreover, Romania is refining its capability to provide host-nation support, along with facilities for reception, staging, onward movement, and integration (RSOI), thereby enhancing the agility and efficiency of allied or partner force deployment in defense of national sovereignty. These efforts bolster NATO's collective security and reinforce Romania's strategic readiness against potential aggressions.

This is an important part of the Government's efforts to enhance Romania's resilience, a core element of NATO's main task – deterrence and defense. Resilience in a NATO context means the capacity, at national and collective level, to prepare for, resist, respond to, and quickly recover from strategic shocks and disruptions, across the full spectrum of threats. Simply put, it is the ability for the Allies individually, the Alliance collectively and NATO as an organization to face disruptions and shocks and continue their activities. Geostrategic and military power redistribution requires the ongoing transformation of the NATO Military Instrument of Power, as well as alignment of military and non-military capabilities throughout NATO member states.

3.9 European Defence Agency Collaboration

Romania acceded to the European Union alongside Bulgaria in 2007, marking a significant shift in its geopolitical orientation towards Western Europe. Since joining, Romania has been a net recipient of EU funds, receiving approximately €62 billion between 2007 and 2022, and it has consistently expressed a strong desire to integrate further into European structures. Additionally, Romania has been an active participant in the EU's Common Security and Defence Policy, contributing to the EU Battlegroup program.

Since becoming a member of the European Defence Agency (EDA), Romania has actively participated in fostering integration within the European Union's Common Security and Defence Policy (CSDP). The EDA's online portal enables defense companies from member states to register and receive notifications of potential purchase requisitions from other member countries. This portal serves as a platform for advertising diverse requirements, from technologies to components, thereby presenting registered suppliers with an array of market opportunities. Its purpose is to advance an open, transparent, and competitive European defense equipment market, consequently enhancing the European Defence Technological and Industrial Base (EDTIB).

In recent years, the EU has developed several initiatives to support defense industrial cooperation between Member States and their defense companies. These initiatives are in addition to those carried out under the framework of the European Defence Agency (EDA), and include, among others, the European Defence Fund (EDF), the Permanent Structured Cooperation (PESCO), the European Peace Facility (EPF), the European Defence Industry Reinforcement through common Procurement Act (EDIRPA), the Act in Support of Ammunition Production (ASAP), the European Defence Industrial Strategy (EDIS) and the future European Defence Industrial Programme (EDIP).

Romanian participation in EU defense projects is modest so far, but its involvement in multinational frameworks such as PESCO, ASAP, as well as EU collaborative structures provides opportunities for expanded cooperation, collaboration, and funding on European defense projects.

04

Key Challenges Facing the Romanian Defense Market

4.1 Romanian Defense Industry Status

Romania's defense industry faces significant hurdles due to political inertia and internal divisions, which have impeded its growth and modernization, and also because historically, as a satellite state, Romania was heavily dependent on the Soviet Union for military supplies and technological guidance until the dissolution of the USSR in 1991.

Despite the fact that the Romanian Government has prioritized the modernization of its domestic defense, the industry's current capabilities are limited, focusing on small arms, light weapons (SALW), and ammunition. The government envisions that as the industry evolves, there will be increased opportunities for Romanian firms to collaborate with Western industry counterparts through joint ventures or supply chain partnerships. According to the Law no. 232/2016 on the national defense industry, the government aims to retain at least a 50% stake in domestic manufacturers and to attract investors capable of providing essential technology to enhance production capacities. These measures are designed to ensure that Romanian companies maintain their core operational focus, production capacity, and range of services for at least five years following any potential business transactions. Moreover, as part of efforts to rejuvenate the domestic defense sector, Romania announced that it would forgive certain fiscal debts accumulated by companies in this field, benefiting the 15 companies under the authority of ROMARM S.A.

4.2 Constraints on Defense Spending

The expansion of the Romanian defense market has been hampered by budgetary constraints. While defense spending is increasing, there are challenges related to budget allocation and resource management. Ensuring that funds are efficiently used across various programs can be challenging. There are various challenges in terms of human resources, due to an aging population and migration, and it is hard to find specialists for certain operations. The government's limited defense expenditure on procurement and on research and development (R&D) is still a significant barrier to undertaking expansive defense acquisition projects. The constrained financial resources of Romania's relatively small economy have often led to the acquisition of second-hand equipment instead of new commercial off-the-shelf (COTS) equipment or the establishment of local licensed production.

Moreover, the defense industry in Romania is a big consumer of energy due to outdated technologies and the cost of energy is one of the highest in Europe.

4.3 Challenge of EU suppliers to capture market share

Romania's defense procurement decisions are shaped by its commitment to NATO interoperability and its strategic partnerships, including with the United States. This focus on interoperability creates a competitive environment where EU and US defense suppliers have significant opportunities to offer advanced solutions that meet Romania's modernization goals. The deployment of advanced systems, such as the MIM-104 Patriot missile defense system, reflects Romania's alignment with NATO's defense standards and highlights the potential for European suppliers to compete by offering complementary and innovative technologies tailored to Romania's requirements.

4.4 Lack of Transparency and Bureaucratic Hurdles

Despite progress, bureaucratic inefficiencies still hinder procurement processes. The prolonged approval procedures and lack of transparency often deter foreign investment. The sharing of responsibilities between the Ministry of the Economy and the Ministry of Defense contribute significantly to this challenge. Our view on this critical issue is that a superior structure at Government level with a supervision/coordination role would benefit the two ministries on defense acquisitions programs and the defense industry.

4.5 Rapidly Evolving Geopolitical Landscape and Risks

Great power competition has re-emerged as a primary influence on the defense arena, a shift from the rogue state and counter terrorism agenda of the past decade. The ongoing conflict in Ukraine and escalating tensions with Russia heighten the perceived risks. How members of traditional and emerging alliances can cooperate will play a key role in countering growing threats. Areas in focus include connected systems, innovation and investment in infrastructure required to deploy military capabilities. In our view there is a trade-off between investment in conventional versus new capabilities. Thus, companies must navigate a complex security environment and be prepared to adapt to rapid changes.

05

Strategic Recommendations for Market Participants

Expanding on strategic recommendations for defense market participants in Romania involves delving deeper into each of the key areas to maximize opportunities and address potential challenges in the region:

5.1

Develop Local Partnerships

Foreign defense companies should seek partnerships with local companies to gain insight into the market while promoting technology transfer, which can strengthen bids for government contracts. The following steps are recommended:

- Development of Joint Ventures and Collaborations: Creating joint ventures with local defense companies can lead to a better understanding of local market dynamics and regulatory landscapes and could help in sharing risks and benefits.
- Supply Chain Integration: This would involve engagement with local suppliers to build a robust and resilient supply chain, which could also boost the local economy and create more working opportunities.
- Community Engagement: This would involve actively participating in local community development programs to build goodwill and long-term relationships with key stakeholders and the public.
- Government Alliances: Strategic alliances should be built with Romanian governmental organizations to ensure compliance and leverage government networks for business development.

5.2

Technology transfer

- Licensing Agreements: Licensing agreements should be developed allowing the transfer of advanced technologies to local firms under mutually beneficial terms.
- Capacity Building: Investment should be made in training programs to enhance local skill sets, thus supporting the growth of a more competent workforce that can deal with sophisticated defense technologies.
- Defense Innovation Hubs: Foreign defense companies should establish or participate in technology hubs that encourage innovation and foster talent in Romania.
- Knowledge Sharing Platforms: Platforms or forums should be created for continuous dialogue and knowledge exchange between international and Romanian tech experts.

5.3 Focus on R&D and system integration

Investing in research and development tailored to regional needs can position firms as leaders in innovation while responding to specific Romanian defense requirements. It would be advantageous to focus on projects/military programs that involve the integration of complex systems, as Romanian companies mainly produce subassemblies. The following steps are recommended:

- Development of Collaborative Research Projects: Investors should collaborate with local universities and research institutions to explore new defense technologies and innovations.
- Investment in R&D Infrastructure: Investment should be made in state-of-the-art R&D facilities in Romania to support ongoing innovation and product development.
- Development of Government Partnerships for R&D Funding: Public-private partnerships should be sought to co-fund R&D initiatives that align with national defense priorities.
- Development of Open Innovation Networks: Participation should be encouraged in open innovation networks to benefit from diverse perspectives and accelerate technological advancements.

5.4 Dialogue and Engagement

Active engagement with government stakeholders and participation in defense forums can enhance visibility among decision-makers and aid in understanding procurement priorities. The following steps are recommended:

- Understanding and Monitoring the Policy Landscape: Foreign defense companies can actively engage with policymakers and industry groups to stay informed about policies and regulations impacting the defense sector. Through collaboration with policymakers and industry groups, companies can provide insights that support a balanced, forward-looking regulatory framework that enables sustainable growth and alignment with defense sector priorities as well as with the country's strategic objectives and commitments.
- Public Relations and Reputation Building: A robust public relations strategy focused on enhancing corporate reputation and transparency can strengthen relationships with key stakeholders.
- Industry Forums and Conferences: Foreign defense companies should participate in local and international defense conferences and forums to enhance visibility and networking with key stakeholders.
- Stakeholder Engagement Programs: structured engagement programs should be developed to build relationships with customers, government entities, stakeholders and other key groups.

By focusing on these expanded strategies, defense market participants in Romania can establish a strong presence, develop sustainably, and foster long-term partnerships that benefit both the companies and the local defense ecosystem.

06 Case Studies of Successful Investments

Significant defense industry presences in Romania include Airbus Helicopters, which established its Brasov plant in 2016 to produce models such as the H125M, Dauphin, and Super Puma in collaboration with Romanian aerospace manufacturer IAR Brasov. Notably, over 70% of its business now comprises exports. Additionally, Romania will conclude partnerships with Lockheed Martin for collaborative ventures in the aeronautical sector, after signing a Research and Development cooperation agreement in September 2022.

Hereinafter we are briefly examining the partnerships involving Lockheed Martin, Rheinmetall, Airbus and Elbit Systems.

6.1 Lockheed Martin

Lockheed Martin has successfully engaged in the Romanian market through partnerships and community investment, providing sustainable solutions and securing contracts for F-16s and radar systems.

Lockheed Martin Corp provides advanced technology systems and products for defense, civil and commercial applications. The company offers management, technical, engineering, scientific, logistics, and information services. Its product portfolio includes military and rotary-wing aircraft, airlifter, ground vehicles, missiles and guided weapons, radar systems, sensors, unmanned systems, and naval systems. Lockheed Martin provides support and upgrade services for military aircraft, cybersecurity, ground vehicles, missile defense systems, satellites, and space transportation systems. It serves the US government and commercial customers. The company has business operations in the Americas, Africa, Europe, Asia-Pacific, and the Middle East. Lockheed Martin is headquartered in Bethesda, Maryland, US.

The Romanian Air Force is committed to modernizing its fleet with the F-35A, a stealth fighter jet widely considered to be the most modern in the world. The F-35 is a fifth-generation jet aircraft, and the “A” variant is configured for conventional take-off and landing. The acquisition of 17 F-35 aircraft over the 2024 – 2034 period, with a value of $6,908.8 million, forms part of wider investments in Romanian air and air defense systems, and it will likely be the ultimate replacement for the aging F-16 fleet. Up to 2040 Romania intends to acquire 32 F-35 aircraft in total.

Source: Company websites

6.2 Rheinmetall

Rheinmetall's establishment of a joint venture in Romania to produce military vehicles demonstrates the importance of local manufacturing capabilities in winning contracts and fostering goodwill.

Rheinmetall is a leading, globally active, integrated technology group that develops and sells components, systems and services for the security and civil industries. As a well-known development partner and direct supplier to the global automotive industry and a leading international systems provider for security technology, Rheinmetall draws on its high level of expertise in its basic technologies to address long-term megatrends, identify viable new markets with high growth potential and develop innovative solutions for a safe and livable future.

Rheinmetall Automecanica SRL, with its headquarters in Mediaș, Romania, is a producer of special vehicles, truck build-ons and trailers for the civilian and military market. In addition to the repair of logistical vehicles, the chassis of the Romanian armed forces' anti-aircraft systems will be serviced here in the future. The company, in which Rheinmetall holds 72.5% of the shares via Rheinmetall Landsysteme GmbH, also has a service hub in Satu Mare.

Rheinmetall Automecanica is an efficient partner of the Romanian armed forces, ready to support future programs – whether in the vehicle sector or other technologies.

Rheinmetall and ROMARM SA will build a plant for the manufacture of powders and explosives under a project financed by the European Union's Act in Support of Ammunition Production (ASAP). This would be Rheinmetall's second investment in Romania. The gunpowder factory will be built at Pirochim S.A. Victoria, in Brașov, and will also manufacture NATO-standard artillery ammunition. The development is estimated to be worth €400 million (approx. $434 million), with the European Commission financing €47 million (approx. $51 million) of the project.

6.3 Airbus

Airbus has a strong local presence in Romania through Airbus Helicopters Romania and Premium Aerotec, both in Brasov, and Airbus Defence and Space in Romania, a wholly owned subsidiary of Airbus Defence and Space GmbH, in Bucharest. Airbus has strengthened its presence in Romania over the past 50 years by developing exclusive business relations with representative companies of this segment of the industry: IAR, Aerostar, Comoti, Sonaca, Aeroteh, Turbomecanica, Aerofina, INCAS and others.

Airbus Helicopters Romania, a joint venture between Airbus Helicopters (60%) and IAR (40%), established in 2002, exports 70% of its business. Airbus's commitment to Romania deepened in 2016 with the creation of a new plant, whose primary goal is to produce the H215M helicopter.
Premium Aerotec, a wholly owned subsidiary of Airbus, manufactures complex components for commercial Airbus aircraft. This means that every Airbus aircraft has parts made in Romania.
Airbus Defence and Space Romania, established in 2005, is located in Bucharest. Initially created as a border project company, the legal entity is now an engineering, roll out and service hub for the full spectrum of the Airbus Defence and Space products and projects. The company today has more than 80 employees, mainly engineers (including a software development team, PMO, Product Regulatory Compliance) working from Romania or outside its borders, for various international locations of Airbus in Europe, the Middle East, and South America.

6.4 Elbit Systems

Elbit Systems has been in Romania for decades, owning two local companies – ELMET, the largest defense exporter in Romania, and Simultec, a Training and Simulators Company.

Elbit Systems Ltd. is an international high technology company engaged in a wide range of defense, homeland security and commercial programs throughout the world. The company, which includes Elbit Systems and its subsidiaries, operates in the areas of aerospace, land and naval systems, command, control, communications, computers, intelligence surveillance and reconnaissance (C4ISR), unmanned aircraft systems, advanced electro-optics, electro-optic space systems, Electronic Warfare (EW) suites, signal intelligence systems, data links and communications systems, radios, cyber-based systems, and munitions. The company also focuses on the upgrading of existing equipment, developing new technologies for defense, homeland security and commercial applications and providing a range of support services, including training and simulation systems.

07 Conclusions & Key Takeaways

As Romania advances its modernization efforts, the defense sector is poised to play an increasingly important role in the Romanian economic system and in strengthening both national and regional security frameworks. In this context, the Romanian defense market presents substantial growth opportunities, amidst some challenges that need to be navigated. To succeed in this complex and dynamic environment, stakeholders must have a deep understanding of local circumstances, actively build partnerships, and prioritize technological innovation.

The Romanian DTIB is a dynamic, evolving sector that has transformed significantly over the decades and is on the threshold of entering a new stage. Leveraging its historical foundation while adapting it to modern challenges and opportunities, Romania is determined to build a robust, future-ready defense industry sector. The conditions are in place for substantive growth, based on strategic investments, strong partnerships, effective use of national resources, and a commitment to innovation. Thus, moving forward, the key will be to fully use all these capabilities while aligning with global trends.

A key insight from our analysis is that the Romanian defense industry's growth will heavily rely on large procurement programs, which can create offset contracts within the framework of technological and industrial cooperation. These offset contracts, often a requirement in large defense acquisitions, will have an accelerating and multiplier effect in the local economy, transferring technology, skills, or production capabilities. This approach not only supports Romania's defense modernization but also stimulates local industry development, enhances technological expertise, and strengthens the country's overall defense, economic and societal resilience.

The Romanian Defense Industry Strategy 2024–2030 is widely seen as a major advancement for the modernization and strengthening of the sector, but the document also highlights several challenges and areas for improvement. The first is related to fiscal constraints. The strategy

outlines ambitious projects that will require substantial investment, posing a financial challenge. While the strategy suggests potential funding sources, such as public-private partnerships and EU funds, the successful design and execution of these plans will be essential. Additionally, transparency and efficiency in the allocation of these resources and government funds are critical to sustaining public trust and achieving the strategy's goals.

The second area is workforce development. A skilled workforce is essential for the success of the defense industry. Although the strategy briefly addresses education and training, a more detailed plan may be necessary to fully address skill gaps and ensure the industry has the necessary expertise to meet future demands. Last but not least are sustainability and ethical standards. The draft notably emphasizes sustainability and ethical practices in defense manufacturing. This commitment aims to reduce environmental impact and align Romania with global standards in responsible defense, positioning the country as a leader in progressive defense practices. In brief, while the strategy marks a positive direction for Romania's defense industry, it also points out that addressing these fiscal, workforce, and sustainability challenges is essential for the sector to achieve its full potential.

Romania's Defense Industry Strategy lays a solid foundation for the country's future in defense. While challenges remain, the strategy's comprehensive approach to modernization, collaboration, and sustainability holds significant promise.

Our armed forces play a vital role in the defense of our freedom, and it is essential that they are well equipped to face current and future challenges. Our document aims to include some recommendations on how the public and private sectors can collaborate to support and contribute to the proportional development of Romania's defense sector and the fulfillment of our commitments to NATO, bearing in mind the balance between the economic freedoms and the resources of Romanian society.

KPMG Defense capabilities

Defense organizations continuously face a myriad of new and complex challenges. At both a national and an international level, defending and protecting national interests is paramount.

But as defense budgets start to constrict, government and defense leaders are increasingly seeking opportunities to enhance their defense capability while simultaneously reducing costs.

KPMG firms have the industry expertise and global reach to assist governments with their critical defense and military challenges. KPMG professionals have a strong history of helping defense departments better organize and oversee their underlying capability support infrastructure, such as maintenance, logistics, information and communications technology (ICT), procurement, and facilities to help achieve favorable capability outcomes.

As trusted advisors to government departments around the world, KPMG practitioners understand the unique challenges facing the defense sector. With access to a global network, KPMG professionals can leverage leading defense and industry practices through recent experience, insights and knowledge sharing. Our dedicated, passionate and highly experienced professionals couple sector knowledge and functional knowledge to tailor smart, creative and forward-thinking approaches.

What we do

Our Defense practitioners work hand in hand across KPMG's global network to create tailored and holistic services that can help meet your unique needs in key areas.

- **Equipment acquisition and procurement:**
  Navigate the trade-offs between budget, schedule and delivered capability.
- **Information technology:**
  Help turn diverse IT strategies into value enablers.
- **Supply chain and logistics:**
  Balance efficiency and effectiveness while helping to deliver robust yet cost-effective logistics systems and processes.
- **Human resources, recruiting and training:**
  Streamline and enhance HR functions and organizational structures, and effectively handle the human dimension of change.
- **People and change:**
  Enhance the benefits of your organizational structure, processes and capabilities to help achieve and sustain your strategy and vision.
- **Property and estate management:**
  Effectively administer intricate and diverse property and estate requirements.
- **Finance and budget:**
  Help ensure finance and budget requirements are aligned and met while overseeing complex project budget and finance management challenges associated with major infrastructure and equipment acquisition projects
- **Intelligence and security:**
  Get support for highly specialized functions and coordination with multiple government agencies and departments.
- **Medical and health services:**
  Help deliver and develop specialist medical and health capabilities by leveraging an array of diverse operating models.

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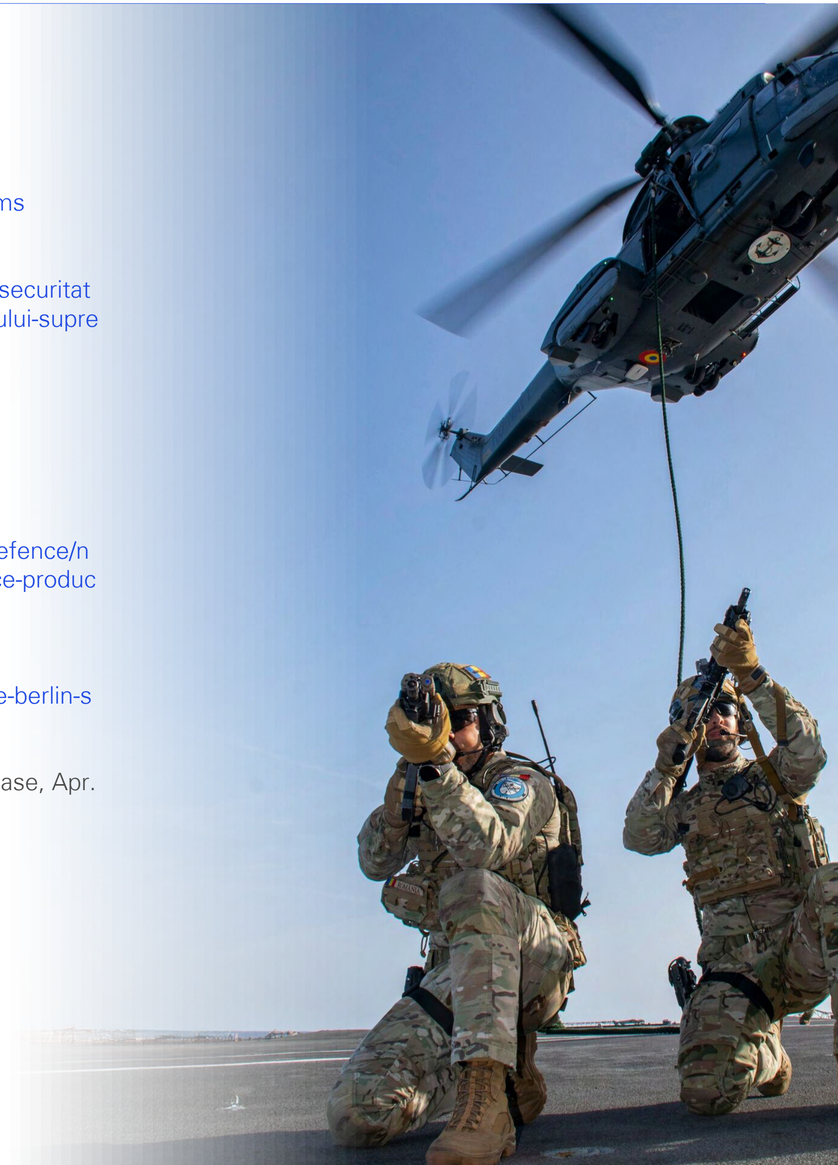

The Romanian Defense Technological and Industrial Base

The Romanian DTIB is comprised of both public, as well as privately owned companies.

The state enterprise **ROMARM S.A.** is the main Romanian supplier of defense technology and services and is well known all over the world, with a constant presence in over 50 markets in Europe, North America, South America, Asia, and Africa. ROMARM has 15 subsidiaries, as follows:

Arsenal Resita S.A. Established in 1972; ISO 9001:2001 certified, it produces 25 mm automatic cannon (KBA type), anti-aircraft cannon (2x35 mm caliber), two-barrel anti-aircraft cannon (type GDF 103 AA, 35 mm), mountain cannon 76mm, anti-tank cannon, 130 mm cannon, as well as 152 mm howitzer cannon. In 2021, Arsenal Resita employed only 31 people.

Bucharest Mechanical Factory ("Uzina Mecanica Bucuresti - UMB"). Established in 1978 under the name "Special Heavy Machines Factory", the factory covers an area of approx. 20 ha. Its activities currently include research, design, production, repair and upgrading of armored vehicles. The company will also assemble Piranha V vehicles bought by the Romanian Army (a joint venture with General Dynamics European Land Systems was created in 2022). UMB has produced tank models TR-580 and TR-85, tank prototypes TR-125 and PMA-50, as well as evacuation and repair tractors TER-85. UMB is the producer of the modern tank model TR 85 - M1 (a modernized version of the TR-85) also called "Bizon". The company has also designed and manufactured two by-products on the TR-85M1 tank chassis, namely the mobile assault bridge and the tank evacuation and repair tractor. In 2021, the UMB factory had 181 employees.

Carfil S.A. Carfil was established in 1922 under the name "Machine and foundry factory Dumitru Voinea". In 2005, the company started the production of NATO-compatible armaments and ammunition. Since 2006, Carfil has been providing service and maintenance for armaments in peacekeeping areas. The company is ISO 9001:2015 / AQAP2110:2016 certified. In 2021 Carfil employed 359 people.

Cugir Arms Factory ("Fabrica de Arme Cugir"). The factory was established in 1799 and started to produce the first Romanian machine gun - Parabellum, type "Orita", 9mm caliber, in 1941. It is a producer of infantry weapons, weapons for the civilian market, sniper rifles and machine-guns. However, the company has not been producing for the Romanian army for years. In 2004, military and civilian production were separated. Cugir has two armaments factories, but neither has been modernized. The Weapons Factory survived on sales for the overseas civilian market. The Cugir Arms Factory exports arms to the American company Century International Arms. One of the latest contracts was signed in May 2021 (worth USD 16 million) for a period of 1 year. In total, about 30,000 machine guns have been produced until now. The Cugir Arms Factory had 853 employees in 2021.

Cugir Mechanical Plant. Producer of NATO type ammunition (pistols, machine-guns, air-to-air cannons, link belts, etc.). In 2021, the Cugir Mechanical Plant employed 914 people.

Fagaras Powders Plant (Fabrica de Pulberi Fagaras) is the only manufacturer of high-powered explosives and solid propellers in Romania with clients from Europe, the US, and Asia but this production has been stopped for several years. Plans to resume production were announced in 2017. A memorandum was signed with the German company Rheinmetall for the reconstruction of the factory. However, the Ministry of the Economy failed to allocate the necessary funds and Rheinmetall eventually broke the memorandum. Fagaras Powders Plant employed 160 people.

Electromecanica Ploiesti S.A. is the only producer of rockets and missiles in Romania. The factory is focused on armored, support and artillery rocket technology. The equipment it produces is mainly military, such as anti-tank missiles, air-to-ground missiles, radio-controlled AA missiles, and partly civilian, such as anti-hail missiles. In May 2022, a memorandum of understanding was signed between the state company Romarm, its subsidiary Electromecanica Ploiesti, and Raytheon Missiles & Defense, according to which

Electromecanica Ploieşti and Raytheon will manufacture SkyCeptor missiles in Romania (the interceptor missiles will be delivered to the domestic and foreign markets). According to the Minister of the Economy, Mr. Ștefan-Radu Oprea, this memorandum is just a first step in developing a long-term strategic partnership between Electromecanica Ploieşti, Romarm and Raytheon. In 2021 Electromecanica Ploiesti employed 381 people.

Metrom S.A. METROM SA is the sole manufacturer of copper and brass sheets and strips and is also a military manufacturer of ammunition components (cups/cartridge case cups / bullet cups for small ammunition, discs for artillery ammunition). In 2021, Metrom employed 96 people.

Mija Mechanical Plant (Uzina Mecanica Mija) is a producer of anti-tank grenades, military grenades, and products for maintaining public order. In 2021, the company employed 416 people.

Moreni Mechanical Plant (Uzina Automecanica Moreni). Producer of amphibious armored 4×4, 6×6 and 8×8 vehicles, amphibious SAUR 1 and SAUR 2 armored vehicles, as well as the Zimbru carrier. In 2021, Moreni Mechanical Plant employed 302 people.

Pirochim Victoria S.A. The company produces military powders. Although listed on Romarm's website, its activity has been closed for several years. Rheinmetall will build a gunpowder factory at Pirochim S.A. Victoria. The project is estimated to be worth 400 million euros ($434 million), with the European Commission financing 47 million euros ($51 million). In 2021, Pirochim officially employed 75 people.

Plopeni Mechanical Plant (Uzina Mecanica Plopeni). Established in 1937, its product portfolio includes a diversified range of artillery ammunition (cal. 23 - 152 mm) for the National Defense System and for foreign beneficiaries. Apart from military products, the company produces parts used in the automotive, oil & gas and machine building industries. In 2021, the plant employed 296 people.

Tohan S.A. manufactures military and civilian equipment, including artillery ammunition, caliber 76 - 130 mm, ground-to-ground and air-ground missiles, 122 mm caliber and 82 mm range from 3 to 20.4 km (exclusive provider in Romania), warheads for missiles and artillery ammunition (main producer in Romania), marine ammunition (the only producer in Romania), pyrotechnical products: prime screws and tracers. In 2021, Tohan SA employed 398 people.

Sadu Mechanical Plant (Uzina Mecanica Sadu) is a producer of infantry ammunition, and is involved in R&D projects, as well as production and repair of tools. In 2021, Sadu Mechanical Plant employed 743 people.

UPS Dragomiresti (Special Products Plant Dragomiresti) is a producer of artillery ammunition, aviation bombs, explosives for civilian use, artillery ammunition loading, assembling, and packing operations, and demilitarization equipment. In 2021, the company employed 183 people.

The following companies subordinated directly to the Ministry of Economy and Trade are major players in the defense industry:

AVIOANE S.A. Craiova is the manufacturer of advanced trainer aircraft IAR 99 SOIM; a provider of maintenance, repair, and overhaul of military aircraft; also, an industrial products manufacturer. Capabilities cover a wide range of engineering, maintenance, testing and certification activities, design and manufacturing of tools and jigs, manufacturing of aircraft and product support. Its manufacturing covers almost all areas for classic metallic aero structures. For many years, the company had only maintenance and repair contracts. In 2020, a contract was signed for Avioane Craiova to upgrade 10 IAR 99 Șoim aircraft to be used for the training of future F-16 pilots: the standard IAR-99s are to be equipped with advanced avionics and Embedded Virtual Avionics training systems, as well as Close Air Support and Air to Air capabilities. In 2021, Avioane Craiova employed 277 people.

IAR S.A. Brasov is a leading Romanian aerospace company with a history of aircraft production stretching back to 1952. IAR acts as a specialized MRO unit for Puma and Alouette III helicopters. IAR SA is an EASA Part 145 authorized maintenance center and an authorized center for manufacture according to EASA Part 21.

In 2017, IAR signed an agreement for exclusive cooperation with Airbus for the H215M multirole helicopter. In 2021, Airbus Helicopters and IAR SA signed an Industrial Cooperation Agreement to personalize the H145M helicopter for attack missions for the Romanian Armed Forces. The H215M would be produced by IAR SA, following the technology transfer from Airbus. Maintenance of both H145M and H215M would be carried out in Romania. In 2021, Israel Aerospace Industries (IAI) signed a cooperation agreement with IAR SA to produce unmanned aircraft (UAV) such as the Tactical Heron: the UAV systems will be manufactured in Brasov and IAI will establish an academy in Romania to train operators and technicians for UAV systems. In 2021, IAR SA employed 367 people.

IOR S.A. is a producer of sighting and aiming apparatus for infantry, artillery, and armored vehicles. It also produces medical equipment, sport optics, eyewear lenses etc. In 2021, IOR SA employed 258 people.

ROMAERO S.A. is an aerospace company that integrates two major activities: aero structure manufacturing and the maintenance and repair of civil and military transport aircraft. It is the largest company in the Romanian Aerospace Industry with a 90-year tradition. As an approved organization for Part-21 (G) airframe manufacturing, ROMAERO has capabilities for tool design, production engineering, CNC machining, stretch forming, chemical milling, painting, as well as laboratory testing and acts as a subcontractor to leading aircraft producers such as: BOEING, BOMBARDIER, SPIRIT AEROSYSTEMS, AERO VODOCHODY AEROSPACE, SABCA, SAAB and AEROLEAN. Its authorized workforce offers high quality services on the following types of aircraft: Airbus A320, Boeing B737, 727, 707, MD 80, BAC1-11, Antonov AN-26, BN-2 Islander, ATP, and C130 Hercules.

In September 2020, a Memorandum of Understanding was signed between ROMAERO and Sikorsky, part of the Lockheed Martin group, to establish a Regional Center for Equipment and Maintenance for Black Hawk Helicopters for Central Europe in Romania.

In October 2020, ROMAERO signed a Memorandum of Understanding with the U.S. group Raytheon, for the two companies to cooperate in producing the Patriot missiles systems to be delivered to Romania. Thus, ROMAERO has become the second local contractor of the Patriot systems after Aerostar Bacau. The MoU also opens prospects for ROMAERO to export its production for Patriot systems worldwide.

Romaero SA is also carrying out the modernization of the avionics of 5 C-27J Spartan aircraft during 2023-2027. In 2021, Romaero employed 777 people.

Among **the largest Romanian private companies** which operate in the defense industry, we mention the following, listed in alphabetical order:

AEROFINA S.A. carries out research, production and testing of military and industrial equipment. It is a manufacturer of products for IAR-99 training aircraft / MiG 21 LanceR fighters (decommissioned)/ IAR 330 PUMA helicopters/ IAR 330 PUMA-SOCAT helicopters. Romanian clients include the MoD, Avioane Craiova SA, IAR Brasov SA, etc. Foreign clients include: Meggitt Defense Systems Ltd, Odesa Viarem, Elbit Systems Ltd, etc. In 2021, Aerofina employed 95 people and had a turnover of RON 26.6 million (USD 5.8 million).

AEROSTAR SA Bacau is a regional leader in aviation manufacture and civil aircraft maintenance, integration, production, upgrading and maintenance for aviation, naval and ground defense systems, MRO and upgrades of military aircraft: L39 jet trainer, MiG 21 jet fighters, aero engines R-13-300, R-25-300, Saphire 5 turbostarter.

The company is approved as the Maintenance Center for the F-16 aircraft in the Romanian inventory, providing maintenance of the Romanian Air Force's F-16 aircraft. Aerostar has also started collaboration with Raytheon International Defense System in producing equipment and components for the multi-level air defense integrated system. Since 2019, Aerostar has been producing parts for the PATRIOT systems. With 1,531 employees in 2021, the company reached sales of RON 376.4 million (USD 83 million).

AEROTEH SA Bucharest carries out design, development, production / repair, assembly, servicing, and marketing of hydraulic and pneumatic equipment used in control and navigation systems of aircraft and aviation engines; complex equipment used in natural gas distribution, transport, extraction, measuring and control systems; stands for testing and checking equipment in the field of aviation and natural gas distribution. In 2021, Aeroteh employed 115 people and had a turnover of RON 97.4 million (USD 21.2 million).

CONDOR SA Bucharest is a manufacturer of parachutes and military flight equipment. With 70 years of experience in the aviation sector, the company produces parachutes and a wide range of special equipment and garments both for the military and civil sectors. In 2021, Condor SA employed 213 people and had a turnover of RON 24.6 million (USD 5.4 million).

TURBOMECANICA SA Bucharest is involved in the manufacture of jet engine components and assemblies. manufacturing of aeronautical components and high-tech parts, repair and overhaul, as well as special processes. Major clients in defense aerospace include the Romanian MoD (Air Force, Navy), IAR SA, Aeroteh SA, Rolls Royce Plc (UK), and General Electric Aviation (USA). In 2021, Turbomecanica employed 501 people and had a turnover of RON 131.3 million (USD 29 million).

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