

Breaking new ground

Successful market entry
into the defence sector



The defence sector is becoming increasingly attractive for companies from civilian industries. Entering opens up new opportunities for diversification in the corporate portfolio and sustainable growth.

While European industry as a whole is struggling with stagnating growth, the defence sector is experiencing a boom. Between 2021 and 2024, the annual growth in EU Member States' defence spending rose by more than 30 % to EUR 326 billion. It could increase by a further EUR 100 billion by 2027.



Between 2021 and 2023, sales in the European defence industry rose by almost 30 % to EUR 158.8 billion.



A two-fold increase would have been possible if there had been sufficient production capacity. In view of the continuing high demand, the industry is destined to grow.

Entering the highly regulated defence sector offers great opportunities for growth, but also presents companies with a number of complex challenges.

The challenges

Market access and competitive environment

Access to the defence market is largely determined by political framework conditions and tendering procedures and requires a deep understanding of the (security) political framework as well as the structures of public agencies. Early visibility, proven expertise, and continuous dialogue with key industry stakeholders and institutional decision-makers are essential success factors.

Technological requirements and financial investments

The requirements for processes, materials, production techniques and quality standards differ considerably from those of many civilian industries. Building up the necessary infrastructure and expertise requires considerable financial resources.

Corporate governance, image & ethics

Companies must carefully consider how they deal with the potential impact of their business activities in the defence sector on their brand and reputation.

Legal challenges

Public pricing law: As a contracting authority, the Bundeswehr is subject to public pricing law, which means that companies must fulfil certain obligations to provide evidence regarding pricing.

Public procurement law: There are special provisions in public procurement law for defence and security contracts. In addition, the Bundeswehr has increasingly applied accelerated awarding which are direct awards without a formal procedure.

Export control and sanctions: Strict legal requirements apply to ensure that military goods are not exported to conflict regions or to unauthorised parties. Companies must also observe international sanctions that restrict trade with certain countries or organisations and can have significant legal consequences in the event of violations.

War Weapons Control Act: If a product is classified as a war weapon, licences are required, as its manufacture would be punishable without them. However, according to the coalition agreement, the CDU/CSU and SPD want to focus more on supply contracts and purchase guarantees in particularly critical areas.

Legal requirements in supplier relationships:

Existing contracts must be reviewed and adapted and new legal requirements on product safety and due diligence (LkSG) must be observed. Compliance measures such as supplier audits and non-disclosure agreements are crucial to minimising legal risks.

Confidentiality and security precautions:

Companies must expect regular security checks on their employees. The handling of state secrets and classified information is subject to strict regulations.

Competition law aspects of co-operations: Co-operations and joint ventures are widespread in the defence sector, but restrictions of competition must be prevented or justified.

Sustainability and financing options: Since last year, it has also been possible for so-called ESG funds to invest up to 20 % of their capital in areas that are not considered sustainable. The exception only applies to weapons outlawed under international law, which are considered "controversial weapons".



Support for entry into the defence sector

Thanks to our many years of advising in the aerospace and defence sector, we are very familiar with project-related requirements and industry specifics, and understand both the perspective of public clients and, in particular, the challenges the industry faces. In addition, we have extensive political expertise and a broad network among decision-makers. We are able to strategically position potential and address all relevant legal risks associated with entering the defence sector:

- **Tendering procedures and procurement projects:** Conducting and participating in public tenders, large defence procurement projects
- **Design and supply contracts:** Drafting and negotiating contracts for the design and supply of defence technologies, systems and services
- **Export control and sanctions:** Compliance with export control regulations, sanctions and international trade regulations
- **Public price law:** Review of cost accounting for public contracts
- **Audits and quality requirements:** Review in the context of government audits and NATO quality requirements
- **Confidentiality and security clearance:** Compliance with confidentiality requirements, security clearance of project staff in accordance with the country list under the Security Clearance Act
- **Employment law, HR compliance and restructuring:** Advice on issues relating to individual and collective employment law, with a focus on HR compliance (including the legally compliant use of external personnel), restructuring and market entry in Germany.
- **IP and licensing:** Intellectual property and licensing arrangements under government and/or NATO contracts, in particular in relation to Vector AI and the innovation platform for drone technology and robotics and ISR systems
- **Cybersecurity:** Government, regulatory and military IT security for Software Defined Defence – also regarding transfer to the supply chain
- **Obsolescence management:** Strategies for identifying and managing component aging and availability
- **Compensation regulation (offset):** Requirements for local production or investment, selection of partners and suppliers, as well as ensuring compliance with national and international regulations
- **Cooperations and consortia:** Development and negotiation of cooperation agreements
- **M&A including carve-outs, joint ventures and mergers:** Structuring and executing complex transactions and collaborations
- **Private equity, family offices and venture capital:** Structuring and execution of investments
- **Investment review procedures:** Advice on sector-specific investment review procedures in the field of military and internal security (Sections 60 et seq. Foreign Trade and Payments Ordinance – AWV)
- **Competition law and merger control:** Review and structuring of cooperation projects, joint ventures and distribution models; R&D-related competition law; Representation in competition and abuse proceedings as well as advice on transaction competition law
- **Financing:** Structuring and design of financing models
- **Public affairs:** Confident and strategic positioning of issues at the (federal) political level and support in successfully representing your interests.



Thanks to many years of advising leading companies in the defence sector and public authorities, our team has the expertise to master regulations and market dynamics in equal measure. In recent years, we have supported many major projects, e.g. the construction of combat systems in all military dimensions such as frigates, corvettes and submarines, battle tanks, howitzers, armoured infantry combat vehicles, combat and military transport air-crafts, combat and heavy duty transport helicopters, air defence systems, software-defined radio and satellites. In addition, we regularly advise on investments and transactions – both for those entering the defence sector and for those looking to strengthen existing defence portfolios, both nationally and internationally.

Your contact persons



Timo Stellpflug
Head of Aerospace & Defence,
Projects, Energy & Infrastructure,
Partner, Hamburg
+49 40 36803-226
t.stellpflug@taylorwessing.com



Thomas Kahl
Co-Head of Automotive
Automotive, Partner,
Frankfurt
+49 69 97130-241
t.kahl@taylorwessing.com



Michael-Florian Ranft
Co-Head of Automotive
Automotive, Partner,
München
+49 89 21038-252
m.ranft@taylorwessing.com



Dr. Michael Brüggemann
Competition, EU & Trade,
Partner, Düsseldorf
+49 211 8387-108
m.brueggemann@taylorwessing.com



Prof. Dr. Norbert Kämper
Environmental Planning & Regulatory,
Partner, Düsseldorf
+49 211 8387-123
n.kaemper@taylorwessing.com



Franziska Tilse
Environmental Planning & Regulatory,
Senior Associate, Düsseldorf
+49 211 8387-120
f.tilse@taylorwessing.com



Dr. Marco Hartmann-Rüppel
Competition, EU & Trade,
Partner, Hamburg
+49 40 36803-127
m.hartmann-rueppel@taylorwessing.com



Martin Kraus
Corporate/M&A, Partner,
München
+49 89 21038-235
m.kraus@taylorwessing.com



Robert Wethmar, LL.M.
Corporate/M&A, Partner,
Hamburg
+49 40 36803-118
r.wethmar@taylorwessing.com



Dr. Amir-Said Ghassabeh
Corporate/M&A, Partner,
Hamburg
+49 40 36803-156
a.ghassabeh@taylorwessing.com



Jan-Patrick Vogel, LL.M.
Employment, Pensions & Mobility,
Partner, Frankfurt
+49 69 97130-283
j.vogel@taylorwessing.com



Dr. Martin Knaup, LL.B.
Disputes & Investigations,
Partner, Hamburg
+49 40 36803-360
m.knaup@taylorwessing.com



Dr. Michael Kieffer
Commercial Agreements & Distribution,
Partner, München
+49 89 21038-241
m.kieffer@taylorwessing.com



Dr. David Klein, LL.M.
Technology, Media &
Telecoms, Salary Partner, Hamburg
+49 40 36803-168
d.klein@taylorwessing.com



Hans-Joachim Reck
Regulatory
Salary Partner, Berlin
+49 30 885636-234
h.reck@taylorwessing.com



Dr. Martin Jäger
Regulatory
Associate, Berlin
+49 30 885636-176
m.jaeger@taylorwessing.com

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Taylor Wessing 2026

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