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Strengthening the industrial base: opportunities for German SMEs

An analysis of the German defence industry landscape: how medium-sized companies can benefit from the strengthening of the industrial base.

The Zeitenwende and a realignment of industrial policy

The security policy turning point (Zeitenwende) since 2022 has moved the defence industry to the centre of industrial policy. The 100 billion euro Bundeswehr special fund, the NATO commitment of 2 % of GDP for defence and the EU defence initiatives (EDF, EDIS, EDIP) create an investment framework that will keep the German defence industry supplied with orders for years to come. For medium-sized companies this means: entering the defence industry has never been more attractive than it is now.

- Bundeswehr special fund: 100 billion euros for procurement and modernisation — invested in major equipment, but also in infrastructure and supply chains
- NATO targets: following the 2 % target, the Allies agreed in The Hague in 2025 on 3.5 % of GDP for core defence (plus 1.5 % for defence-related spending) by 2035 — long-term planning certainty
- European Defence Fund (EDF): EU research and development funding for defence technology — accessible to suppliers as well
- EDIP (European Defence Industry Programme): a new EU programme to strengthen the European production base
- National Security Strategy 2023: an explicit commitment to strengthening the domestic industrial base

Note: A political paradigm shift — For decades the defence industry was regarded in Germany as a politically sensitive subject. The Zeitenwende has changed this fundamentally: defence industrial capability is today understood as a national security resource. For suppliers this means not only more orders, but also social acceptance and political support.

Bottlenecks as opportunities: where SMEs are needed

Rapidly scaling up defence production is running into capacity bottlenecks in the supply chain. The prime contractors can only increase their production capacity if the supplier pyramid grows with them. This applies in particular to specialised technologies for which there are only a few qualified providers — a classic field for highly specialised medium-sized companies.

- Metallurgy and casting: capacity bottlenecks in special steel casting, armour steel and engine alloys —

refractory expertise is indispensable for expanding capacity

- Ammunition production: scaling up on a large scale requires new melting and casting capacity with refractory lining
- Maintenance and repair: the Bundeswehr is planning to establish regional maintenance centres — refractory servicing for military heating and combustion systems
- Thermal management: growing demand for high-temperature protection for new weapon systems (hypersonics, DEW, FCAS)
- Recycling and the circular economy: recovering strategic raw materials from decommissioned systems — high-temperature processes as the key

Note: A concrete example: ammunition production — The German government has announced a major expansion of ammunition production. Rheinmetall is building new plants in Germany and Lithuania. Every ammunition factory needs melting furnaces, casting plant and heat treatment furnaces — all with refractory linings. For refractory specialists, this means concrete opportunities for orders in both new construction and maintenance.

Funding and framework conditions

Alongside direct contracts, there is a growing number of funding programmes and framework conditions intended to make it easier for medium-sized companies to enter the defence industry. The EU and the German government have recognised that a strong industrial base is only possible with a broad foundation of specialised suppliers.

- European Defence Fund (EDF): funds collaborative research and development projects — SME participation is expressly encouraged and scored with a bonus
- BMVg research contracts: technology studies and feasibility analyses — also open to small companies with niche expertise
- Federal export credit guarantees: Hermes cover (administered by Allianz Trade on behalf of the Federal Government) can secure export business — for defence goods after a case-by-case review
- Sustainable finance: in 2025 the European Commission clarified that the EU sustainable finance framework does not restrict financing for the defence industry — making financing easier
- Accelerated procurement: new BwBBG rules enable faster procurement — less bureaucracy for suppliers

Strategic positioning for refractory specialists

Companies in refractory construction have specific positioning opportunities in the defence industry. Their core capability — mastering high-temperature processes, manufacturing and installing furnace linings, carrying out maintenance under difficult conditions — is in demand at many points in the defence value chain.

- Support for special metallurgy: refractory linings for melting furnaces producing armour steel alloys and engine materials
- Maintenance for the defence industry: servicing and repair of furnaces in defence plants — plannable and recurring
- Mobile repair services: refractory repairs in field camp energy systems and mobile combustion plants
- Research partner: developing new high-temperature materials for defence applications — together with Fraunhofer, DLR or the prime contractors
- Dual-use products: refractory materials used in both civil and military metallurgy — exploiting the synergies

Note: Competitive advantage: Made in Germany — German refractory expertise enjoys the highest reputation worldwide. In a defence context there is a further advantage: producing in Germany avoids the export and technology transfer problems that can arise with foreign suppliers. Prime contractors prefer local suppliers in order to reduce dependencies on third countries.

Frequently asked questions

How large is the addressable market for refractory suppliers in the defence industry?

The direct market for refractory products and services in the German defence industry is in the low hundreds of millions of euros per year — spread across new construction, maintenance and research. With the current expansion of production capacity (ammunition, vehicles, shipbuilding), this volume will grow significantly in the years ahead.

Does working for the defence/armaments industry conflict with ESG criteria?

In 2025 the European Commission clarified that the EU sustainable finance framework does not restrict financing for the defence sector; this does not, however, make defence activities "sustainable" within the meaning of the EU taxonomy. Many banks and investors have adjusted their exclusion criteria. For suppliers that do not manufacture weapons but supply materials and services, ESG conflicts are therefore usually minor.

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