ANALYSIS

Friedrich Ebert Stiftung

Defence Industry in Central Eastern Europe

The Romanian Defence Sector: An Analysis of Industrial Capacity, Fiscal Challenges, and the Potential for European Cooperation

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1. The Romanian Defence Sector: Context and Trajectory

The New Geostrategic Imperative in the Black Sea Region

Romania's defence sector is in the midst of the most profound and urgent transformation since the country's integration into Euro-Atlantic structures. The European security environment, altered by Russia's full-scale invasion of Ukraine in 2022, served as a powerful catalyst, validating Bucharest's long-standing strategic assessments and requiring a complete review of its defence posture (MApN, 2020; Stockholm International Peace Research Institute, 2018). Romania's official position identifies the Russian Federation as a revisionist actor that uses hybrid warfare to undermine the European order, with the Black Sea region being an area of critical strategic importance and vulnerability (CSAT, 2020; Binnendijk et al., 2020).

In response, the government followed a two-pronged strategy: the rapid modernisation of the Romanian Armed Forces to achieve full interoperability and credible deterrence within NATO, and the parallel revitalisation of the nation's Defence Technological and Industrial Base (DTIB) (MApN, 2020). This strategy is fuelled by a baseline policy decision to increase the defence budget to 2.5% of GDP from 2023 onwards, a significant increase from the previous target of 2% set in 2015 (Center for European Policy Analysis [CEPA], 2020; GMFUS, 2024). Although the execution and absorption of these funds have faced challenges, the commitment signals a clear and sustained political will to allocate resources to the country's defence ambitions.

The Historical Legacy: From the Power of the Warsaw Pact to the NATO-Era Deployment

The current state of Romania's DTIB is a direct consequence of its development during the Cold War and its subsequent collapse (KPMG, 2025). During the Warsaw Pact era, Romania cultivated a large, largely self-sufficient and heavily export-oriented arms industry. Conceived under an autarkic model aimed at vertical and horizontal integration into the national economy, the industry was structured to equip the Romanian Army with systems produced domestically or under Soviet license, while at the same time generating hard currency through exports (Vasilachi & Vasilachi, 2021; Petrescu, 2018). At its peak, Romania ranked among the top ten arms exporters in the world, with its defence industry employing over 220,000 people and meeting a significant part of the needs of the armed forces (IRIS, 2024). This period established a vast physical infrastructure for manufacturing everything from small arms to armoured vehicles and aircraft – a legacy that persists in the form of numerous factories spread across the country (Oprișor, 2024).

The fall of the communist regime in 1989 and the dissolution of the Warsaw Pact triggered a "great dislocation" from which the state sector never fully recovered (IRIS, 2024). The industry has faced a multifactorial shock: the collapse of its traditional export markets in the developing world and the Eastern Bloc; a drastic reduction in domestic demand, as the Romanian Armed Forces were reduced; and, most critically, a growing technological gap, as Romania has reoriented itself towards NATO (Epicenter Network, 2024). The industry's production, built according to Warsaw Pact standards, was incompatible with NATO's interoperability requirements. This shock was not only a market shock, but also a fundamental one related to standards and interoperability. The industry's core competence – the production of equipment to Soviet standards – has become a strategic vulnerability, creating a much deeper and more costly barrier to modernisation than simply finding new customers. Lacking investment capital and a managerial culture capable of adapting to a competitive market, most of the state-owned industry has entered a prolonged period of decline, technological obsolescence and financial difficulties (KPMG, 2025).

This historical legacy is not just a background detail; it is an active and continuous constraint. The managerial culture inherited from the planned economy persists in today's state sector and does not prioritize innovation or efficiency (Sucală, 2018). This "Sovietized" culture, resistant to change and unsuitable for a market environment, is a key contributor to the current deficit of absorption capacity, manifested by bureaucratic delays and chronic underspending (IRIS, 2024; Epicenter Network, 2024). Thus, the historical managerial culture is a direct cause of the current inability to plan, execute and absorb modern, large-scale procurement projects, which creates a direct link between the points of failure of the past and those of the present.

The Contemporary Industrial Landscape: A Forked, Two-Speed Ecosystem

Today, the Romanian DTIB is best understood as a bifurcated structure, comprising two distinct segments with unequal performance. The central observation of this report is the accentuated dichotomy between a small number of private or foreign-invested firms, which are globally competitive and integrated, and a large state sector, which is stagnant and technologically outdated (IRIS, 2024).

The state-owned sector remains the largest in terms of assets and employees, but it is the most problematic. It is dominated by the national holding company C.N. ROMARM S.A., which is subordinate to the Ministry of Economy and controls 15 production subsidiaries focused mainly on terrestrial systems and ammunition (IRIS, 2024; Epicenter Network, 2024). Other significant state entities include IAR S.A. Brașov, which specialises in the maintenance and modernisation of helicopters, and the Bucharest Mechanical Plant, which is involved in the production and maintenance of armoured vehicles (IRIS, 2024).

In stark contrast, the private and foreign-owned sector is made up of more agile, technologically advanced and globally integrated companies. This segment is led by key players such as: Aerostar S.A. Bacău, a formerly state-owned enterprise that has been privatized and has become a national champion in aerospace MRO and aerostructure manufacturing; Damen Galati Shipyard, the largest and most productive shipyard in the country (owned by the Dutch group Damen); and Elmet International SRL, the Romanian subsidiary of the Israeli company Elbit Systems, which serves as a crucial integrator of advanced terrestrial systems (IRIS, 2024). The success of these private firms is not just a function of capital investment, but also of their fundamentally different business models, which involve export orientation and integration into global value chains. Damen builds almost exclusively for export (Damen, n.d.-a), Aerostar is a key supplier for Airbus and Boeing (Aerostar S.A., 2024), and Elmet is a regional hub for a global defence contractor (Elmet International, n.d.).

A detailed examination of the leading companies within the Romanian DTIB reveals a striking performance gap between state-owned enterprises and their private or foreign counterparts. This two-speed reality – in which a few competing firms coexist with a struggling majority – is the central feature of the contemporary defence industrial landscape of Romania. The success of private and foreign-invested firms is directly attributable to modern management, access to global markets, and sustained investment, providing a clear blueprint for necessary reforms in the state sector.

State-owned Enterprises: ROMARM Conglomerate and Its Legacy

The state segment is dominated by C.N. ROMARM S.A., the holding company for 15 subsidiaries in the field of earth systems and ammunition. Although it is the designated vehicle for the government's industrial strategy, ROMARM as

a whole has struggled with profitability and modernisation (IRIS, 2024). Data from 2020–23 shows a volatile turnover, with a significant increase in 2022 followed by a decrease in 2023, indicating a reliance on large and scarce orders rather than a stable business model (IRIS, 2024). The holding's management structure has been criticised for failing to drive effective reform within its component factories, which continue to operate with a high degree of autonomy and inefficiency (IRIS, 2024; Epicentre Network, 2024).

The principal subsidiaries of ROMARM include:

- **Uzina Mecanică Cugir S.A. & Fabrica de Arme Cugir S.A.:** These two entities in Cugir represent the historical heart of the production of small arms and infantry ammunition in Romania. While UM Cugir recorded strong turnover growth through 2023, the Arms Factory experienced a decline, reflecting uneven performance even within the same industrial cluster (IRIS, 2024). Their technology is largely inherited, focusing on Warsaw Pact calibres and their derivatives, although some production of NATO calibres has also been introduced (IRIS, 2024).

- **Sadu Mechanical Plant S.A.:** Another key ammunition manufacturer, its financial performance was modest compared to other ammunition factories, indicating significant operational challenges (IRIS, 2024).

- **Automecanica Moreni S.A.:** The only manufacturer of armoured personnel carriers (APCs) in the country, its turnover remains extremely low, reflecting the lack of major orders (the last major indigenous project being the SAUR 2 APC prototype) and a primary focus on MRO for obsolete fleets (IRIS, 2024).

Outside the ROMARM umbrella, **IAR S.A. Brașov** is an important state-owned aerospace company and a key partner for the Ministry of Defence in the modernisation of the IAR-330 Puma helicopters (IRIS, 2024). Its turnover has seen steady growth, making it one of the best-performing state-owned enterprises (IRIS, 2024). In contrast, the modernisation program for the IAR-99 training aircraft, essential for the training of F-16 pilots, faces significant difficulties. Although the contract was awarded to the state-owned company Avioane Craiova in partnership with Elbit Systems from Israel, the program accumulated significant delays, exceeding the contractual delivery deadlines and requiring multiple renegotiations (TVR Info, 2025a; Aviația Magazin, 2025). Disputes over software integration and homologation issues have blocked the delivery of completed aircraft, illustrating the systemic challenges faced by complex projects in the state-owned industry (G4Media, 2025).

Meanwhile, several privatised or foreign-invested firms are highlighting the potential of the private sector:

- **Damen Galati Shipyard:** Owned by the Dutch group Damen, this shipyard is the largest in Romania and a successful foreign investment model. It has a high production, delivering more than 450 ships since 1999, including 30 military ships for 13 countries (Damen, n.d.-b). Its portfolio is diverse, covering everything from offshore patrol vessels to complex naval support vessels, all built for the export market (IRIS, 2024). This demonstrates an advanced level of technology and integration into a global supply chain (IRIS, 2024).

- **Elmet International SRL:** A subsidiary of Elbit Systems (Israel), Elmet is a critical technology partner in advanced terrestrial systems. It operates a production and integration facility in Magurele for sophisticated turrets and weapons stations, including those for the Army's Piranha V APCs (e.g., the UT30 MK2 turret and the SPEAR mortar system) (IRIS, 2024; Elbit Systems, 2023a). This role exemplifies a successful model of technology transfer and local production linked to a major government procurement program.

The following table provides a concise comparison of the leading industrial players, illustrating the performance gap between the state and private sectors:

Table 1

Profile of the Main Defence Companies in Romania

(Latest data available, fiscal year 2023, unless otherwise specified)

Company Name	Main Defence Products	Turnover (Year)	Employees (Year)	Property	Technological Level	Flagship Programs/ Products	Export Activity (Key Markets)
C.N. ROMARM S.A. (Holding)	Armoured vehicles, ammunition, artillery, small arms	RON 495.1 M (2023)	~7,000 (est. group)	State (100%)	Legacy / Environment	TR-85-M1 tank, APC SAUR 2, artillery ammunition	Asia, Africa, Middle East (historical)
Cugir Mechanical Plant S.A.	Small arms, ammunition, components	229.3 M RON (2023)	916 (2023)	State (ROMARM)	Inherited	AK rifles, NATO and Warsaw Pact ammunition	Civil Markets (USA); some military exports
IAR S.A. Brașov	MRO & Helicopter Upgrades, Aircraft Components	427.5 M RON (2023)	~1,200 (est.)	State (72%)	Medium	Upgrades IAR-330 Puma SOCAT; IAR-99 SM upgrades	Limited defence exports
Aerostar S.A. Bacău	MRO F-16, military aircraft upgrades, aerostructures	506.3 M RON (2023)	1.846 (2023)	Private (71% românesc)	Advanced	F-16 Maintenance Centre; supplier for Airbus/Boeing	Europa, America de Nord, Asia (civil & apărare)
Şantierul Naval Damen Galați	Naval platforms (frigates, corvettes, OPVs), support ships	€389.2m (2021)	1.700 (2021)	Private (Damen Group, NL)	Advanced	SIGMA class frigates; Global Marine OPVs	Worldwide (Netherlands, Pakistan, etc.)
Elmet International SRL	Turrets, weapons stations, mortar systems, systems integration	€109.9m (2021)	~400+ (est.)	Privat (Elbit Systems, IL)	Advanced	UT30 MK2 turret; SPEAR mortar for Piranha V	Hub regional for Elbit Systems
Carfil S.A.	Grenade launchers, ammunition, pyrotechnics	96.6 M RON (2023)	~300 (est.)	State (ROMARM)	Inherited	AG-7/AG-9 grenade launchers; Mortar projectiles	Limited
Sadu Mechanical Plant S.A.	Infantry ammunition	50.7 M RON (2023)	~500 (est.)	State (ROMARM)	Inherited	Small Ammunition (NATO & Warsaw Pact)	Limited

Source: Own elaboration based on data from IRIS (2024), Aerostar S.A. (2024), Damen (n.d.-b; 2022), and Elbit Systems (2023a).

2. In-Depth Sector Analysis: Strengths, Gaps and Clusters

Romania's DTIB capabilities are concentrated in several key sectors, each with distinct characteristics, top firms, and critical gaps that the new national strategy aims to address:

Terrestrial Systems:

→ *Capabilities*: Strengths include the production of small arms (AK-type rifles and pistols), infantry ammunition, and anti-tank grenade launchers (AG-7, AG-9) (IRIS, 2024). The sector also possesses significant experience in the maintenance, repairs, and overhauls of Soviet-era armoured vehicles such as the T-55 (modernised as TR-85-M1) and wheeled APCs (TAB series) (International Institute for Strategic Studies, 2024).

→ *Gaps*: The most critical gap is the absence of domestic design and production of modern heavy armoured platforms to NATO standards (tanks, VCI). This is partially addressed through licensed production and integration, as seen in the GDELS Piranha V program, where UM Bucharest is in charge of the assembly, and Elmet International integrates the turret and weapons systems (ROMARM, 2022).

Aerospace:

→ *Capabilities*: The main strength is MRO for military and civilian aircraft. Aerostar provides complex, industrial-level maintenance for F-16 fighter jets as well as commercial airliners (IRIS, 2024; Aerostar S.A., 2024). IAR Brașov specialises in helicopters (IAR-330 Puma) and the IAR-99 training aircraft (IRIS, 2024).

→ *Gaps*: There is no significant capacity for in-house design and mass production of advanced combat or transport aircraft. The sector remains dependent on foreign partners for major platform upgrades and advanced technology.

Naval:

→ *Capabilities*: There are strong capabilities in the construction of complex and diverse naval platforms, including offshore patrol vessels (OPVs), corvettes, frigates, and specialised support vessels (IRIS, 2024). The Damen shipyard in Galati is a highly efficient production facility, integrated into a global corporate structure (Damen, n.d.-b).

→ *Gaps*: While the construction of the hull is a strength, the integration of advanced naval combat systems (radars, sensors, missile systems) is a significant weakness. These high-value components are usually purchased from specialised Western suppliers. The failure to conclude the contract for multi-role corvettes underscores the challenges of domestic naval procurement and integration (Overt Defense, 2023; The Defense Post, 2023).

Ammunition & Propellers:

→ *Capabilities*: ROMARM's subsidiaries have a long-standing capacity to produce a wide range of unguided munitions, including artillery shells (e.g., 122mm, 152mm), mortar shells, and missile shells (122mm GRAD) to Warsaw Pact standards (IRIS, 2024).

→ *Gaps*: The most critical strategic gap – recognised in the *National Defence Industry Strategy 2024* – is the total lack of domestic production capacity for high-power propellants and explosives (TNT, RDX) after the closure of the Făgăraș plant (Romanian Government, 2024). This leaves Romania entirely dependent on imports (e.g., from Serbia) for its ammunition production, a severe vulnerability. Reviving this capacity has been declared a top priority in the strategy (IRIS, 2024).

The analysis of these sectors reveals that Romania's most immediate and scalable contribution to European defence is not in designing new high-tech platforms, but in capitalising on its profitable industrial base for the high-volume production of essential materials and in strengthening its role as an MRO hub. The gap in R&D and platform design is significant. At the same time, existing strengths in ammunition production and maintenance align perfectly with Europe's urgent needs, highlighted by the conflict in Ukraine, which has exposed massive shortages in ammunition stockpiles and a high demand for the maintenance of widely used Western platforms (Center for Strategic and International Studies, 2025; European Commission, 2024). Therefore, a strategy focused on transforming Romania into a European arsenal for artillery shells and the main MRO centre for NATO's southeastern quadrant is a more achievable and strategically relevant path for the revitalisation of the DTIB.

3. Systemic Constraints: The Challenge of Absorptive Capacity

Despite strong political will and increased financial resources, Romania's defence modernisation and industrial revitalisation face a formidable set of deep-rooted, country-specific challenges. These constraints – industrial structure, human capital, and bureaucratic processes – collectively create a significant "absorption capacity gap", which represents the primary risk in achieving the country's strategic objectives. These are not separate problems, but interconnected components of a single systemic challenge. This interconnectedness creates a vicious circle: an inefficient industrial culture discourages investment, leading to the bypassing of local industry through G2G procurement, which in turn perpetuates industrial weakness. At the same time, the lack of skilled labour makes investments risky, hindering the creation of jobs that could attract and retain talent.

The State-Owned Enterprise Dilemma: Overcoming Inertia and Underinvestment

The core of Romania's industrial challenge lies in *its state-owned enterprises (SOEs),* in particular the 15 subsidiaries under the holding company C.N. ROMARM S.A. These entities are burdened by a multi-generational legacy of underinvestment, resulting in the widespread use of outdated Cold War-era machine tools and production processes (Kearney, 2025). This technological gap is compounded by a persistent "Sovietized" managerial culture that is resistant to change, inefficient, and unsuitable for a competitive, market-oriented environment (Sucală, 2018; Epicenter Network, 2024). The holding structure, established in 2000, has largely failed to impose a significant restructuring or stimulate performance improvement in its subsidiaries, which continue to operate with a high degree of autonomy and inefficiency (IRIS, 2024). This structural weakness makes the state sector an unattractive partner for foreign investors and a *significant bottleneck* in the defence production ecosystem.

The Human Capital Crisis: An Existential Threat to Industrial Ambitions

A severe and rapidly deteriorating shortage of human capital presents an imminent threat to both the armed forces and the defence industry, demanding urgent attention. The military has openly acknowledged significant hurdles in recruitment and retention, as well as the absence of a sufficiently trained reserve force (IRIS, 2024). This issue is mirrored and amplified in the industrial base. The workforce in the state defence industry is ageing swiftly, with an average reported age of approximately 50 years (Epicentre Network, 2024). This signals an impending "demographic gap," where a generation of experienced workers will retire without a sufficiently skilled cohort to replace them. Broader national trends exacerbate this industry-specific problem:

- → **Skills shortages:** Romania suffers from acute skills shortages at the national level, especially in technical and vocational fields. The education system – especially Technical and Vocational Education (VTI) – is underfunded and poorly aligned with the needs of modern industry, resulting in graduates lacking practical, applicable skills (IRIS, 2024).

- → **Brain drain:** The emigration of highly skilled workers and engineers to Western Europe has drained the country of critical talent, making it challenging to recruit and retain skilled personnel in high-tech sectors such as defence (World Bank, 2025).

This human capital crisis is not just an industrial problem, but a national security vulnerability: without qualified technicians, Romania cannot independently support the advanced Western equipment it acquires. The global outlook of the defence industry emphasises talent management as a critical success factor, an area where Romania faces systemic challenges (Deloitte, 2023; PwC, 2024).

Bureaucratic Bottlenecks: Reforming Procurement and Improving Budget Execution

Romania's defence procurement process is a significant constraint. The government's tendency to rely on government-to-government (G2G) contracts – specifically the US *Foreign Military Sales (FMS)* mechanism – is a double-edged sword (IRIS, 2024). G2G agreements provide a fast, transparent, and low-corruption path to acquire top-notch military equipment, but often bypass domestic industry, providing minimal opportunities for local production, technology transfer, or long-term support work (IRIS, 2024). This is exemplified by the acquisition of F-16 aircraft from Portugal, which did not include an offset or industrial cooperation agreement (Romanian Energy Center, 2016), in contrast to the Piranha V program, which involved substantial local production (ROMARM, 2022).

The legal framework for industrial cooperation (offset) was recently reformed by Emergency Ordinance 124/2023, which replaced the automatic offset system with a more targeted, case-by-case approach justified by "essential security interests" (IRIS, 2024). Although this amendment aligns Romanian legislation with EU directives, its effectiveness now depends entirely on the ability of the new implementing agency – the Romanian Agency for Technological and Industrial Cooperation for Security and Defence (ARCTIS) – to negotiate and enforce robust industrial cooperation plans in major contracts.

The history of bureaucratic delays and cancelled tenders (e.g., the multifunctional corvettes program, where misunderstandings between Naval Group and the Constanta Shipyard led to the failure to sign the contract (Overt Defence, 2023; The Defence Post, 2023)) suggests that defence procurement remains a high-risk, low-efficiency process that can deter potential industrial partners (IRIS, 2024).

4. The Way Forward: Integrated European Cooperation

The most effective path forward for Romania is to integrate its defence industry into European supply chains and leverage external partnerships to address internal challenges. By establishing itself as a reliable and cost-effective partner for production, assembly, and support, Romania can attract the technology, capital, and managerial expertise needed to revitalise its defence and technology industrial base (DTIB), enhance its military capabilities, and make a significant contribution to European collective security. To implement this strategy, a clear roadmap should be developed that would focus on concrete high-potential opportunities prioritised based on their strategic impact and feasibility.

A key priority is addressing the critical shortage of ammunition in Europe. This presents a short-term, high-impact opportunity to establish joint production of 155mm artillery projectiles, leveraging existing industrial infrastruc-

ture. This initiative aligns with top national priorities and available EU funding mechanisms.

Additionally, there is a medium-term strategic need to tackle Romania's most significant industrial vulnerability: the lack of domestic production of propellants and explosives. To ensure a fully sovereign ammunition supply chain, it is essential to establish a new, large-scale plant for propellants through strategic partnerships, an effort that enjoys strong political support.

In the land systems sector, the focus should be on creating high-value regional maintenance, repair, and overhaul (MRO) hubs. With the national acquisition of new main battle tanks and the increasing number of these platforms in the region, establishing a regional MRO and modernisation centre for heavy armour has become a strategic necessity in the medium term. Additionally, there is a similar opportunity for long-range artillery. Establishing a regional support hub for rocket artillery systems would not only support national battalions but also serve nearby allies, creating a crucial high-tech support facility.

In addition to maintenance, there are medium-term opportunities to re-enter ground system production. These include the licensed production of key components for modern European infantry fighting vehicles, which would enhance surge capacity for European partners while facilitating significant technology and skills transfer. Furthermore, by leveraging existing national experience with legacy anti-aircraft systems, Romania can address a critical NATO capability gap by modernising its short-range air defence (SHORAD) production. This could potentially involve licensed manufacturing of new systems or their components.

The aerospace and naval sectors present distinct opportunities for large-scale development. In aerospace, a world-class national facility lays the groundwork for a short-term expansion into a regional Maintenance, Repair, and Overhaul (MRO) hub for F-16 fleets. This development not only enhances national capabilities but also transforms them into a strategic asset for the Alliance, supporting the increasing number of operators in Central and Eastern Europe and bolstering NATO's forward defence posture.

In the naval sector, Romania's involvement in the European Patrol Corvette PESCO project, coupled with the urgent need to replace its outdated fleet, creates a significant long-term opportunity. National shipyards have the modern infrastructure necessary to effectively contribute to this major European program, especially in hull construction. This potential is further enhanced by the European initiative to establish a regional maritime security centre on the Black Sea, which Romania has proposed to host. This centre can serve as an additional catalyst for the development of the national naval sector.

Future growth should prioritise cooperation by focusing on building capabilities in high-potential, disruptive sectors. The national acquisition of modern Unmanned Aerial Vehicle (UAV) systems will lay a foundation for medium-term integration into European drone programs. These programs are expected to include component manufacturing, assembly, and maintenance, repair, and operations (MRO), offering significant opportunities for collaboration with key partners.

At the same time, a long-term initiative should aim to establish a C4ISR (Command, Control, Communications, Computers, Intelligence, Surveillance, and Reconnaissance) and Cyber Security Centre of Excellence. This initiative would leverage Romania's robust civilian IT sector to address a critical national defence priority, focusing on software development and system integration for defence applications.

By strategically capitalising on these opportunities, Romania will not only revitalise its national defence industry but also strengthen its role as a key contributor to European collective security.

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