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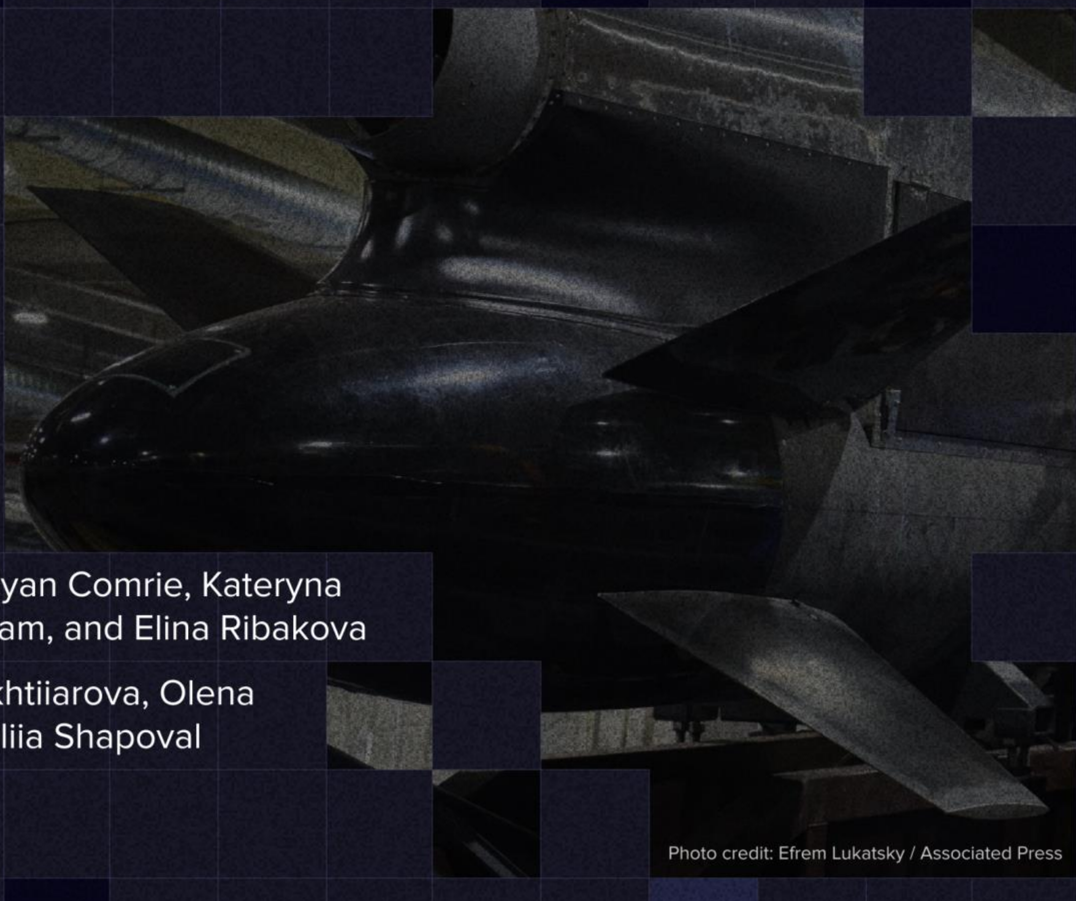
FROM WORDS TO ACTION: BARRIERS TO DEFENSE INDUSTRIAL COLLABORATION BETWEEN UKRAINE AND EUROPE



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EXECUTIVE SUMMARY

With Europe rearming in the face of the Russian threat, defense industrial deficiencies—particularly in unmanned systems (UxS) and counter-UxS (C-UxS)—have become urgent liabilities. Beyond NATO's Article V umbrella, Ukraine has shown remarkable resilience by developing a world-class ecosystem of UxS and C-UxS manufacturers despite limited capital and constant Russian attacks. In fact, the Ukrainian defense industry currently operates significantly under capacity. This report seeks to address how Ukrainian and European defense industries can expand production with positive-sum collaboration, transferring know-how to European partners while allowing Ukrainian firms to grow and take advantage of efficiencies of scale. With the help of 14 stakeholder interviews, we examine the barriers to collaboration and offer low-cost, high-leverage policy recommendations to overcome them.

Our key findings are:

- The top barrier to defense industrial cooperation has been Ukraine's de facto export ban for defense products. A limited number of Ukrainian firms have engaged in joint ventures outside of Ukraine, but successes have been driven by government-to-government negotiations that are inherently difficult to scale and involve governments "picking winners." New regulations in Ukraine have begun to loosen restrictions, however.
- Relaxing Ukraine's export restrictions will be insufficient to usher in a wave of joint ventures due to structurally misaligned incentives. Ukrainian policymakers are hesitant to give up a key comparative advantage and fear the politics of exporting weapons when the front's needs are unmet. European firms want certainty for returns on their investments that is often unrealistic without exports or procurement guarantees from their governments. Both Ukrainian and European governments will need to enact policies specifically designed to overcome these misalignments.
- Protection of intellectual property (IP)—including technological innovations, data, and trade secrets—perceptions of corruption in Ukraine, and misaligned public and private incentives in Europe are the primary sticking points that must be addressed once export restrictions have been relaxed.

Our key policy recommendations are:

UKRAINE

- As the de facto export ban is being relaxed, provide a transparent and stable path to export approval that allows Ukrainian defense companies to enter joint ventures with European partners. In order for any joint venture to take place, the Ukrainian government must grant export approvals for relevant technology and know-how. Recent programs such as Defence City have promised to facilitate this process; the government must now in practice approve private firms to enter defense-related joint ventures with manufacturing outside of Ukraine.
- Beyond joint-venture agreements, allowing defense exports will help attract European capital, as Ukrainian defense firms will have a viable export-led growth strategy.
- Reduce perceived risks related to IP protections by educating firms on legal methods to ensure protection and by improving the standardization of regulations and IP protections between the EU and Ukraine.

- Build international trust by continuing efforts to improve the business environment through transparency and anti-corruption enforcement, particularly in the defense sector and in defense procurement.
- Assist private firms in standardizing their financial planning and ownership structures in a way that prepares them for international partnerships and reduces due diligence costs for potential European partners. This can be accomplished by the Ukrainian government—Ministries of Defense or Economy, for instance—or by industry groups and accelerators.

EUROPE

- Streamline regulatory approval process for European private partnerships with Ukrainian defense companies, thus reducing burdensome and time-consuming regulatory hurdles. One method of achieving this is to follow the example of Denmark and pre-vet and approve specific Ukrainian defense firms for partnerships, reducing the need to seek individual approvals for every project. At the EU level, pre-vetted firms could become preferred suppliers for joint procurement.
- Support firms' due diligence efforts, namely via embassies, chambers of commerce, and industry groups. Assist firms in obtaining, verifying, and translating required due diligence information to reduce frictions caused by differing EU-Ukrainian corporate structures and practices.
- Help joint ventures exporting to Ukraine navigate the bureaucracy of licensing defense exports and create a "fast lane" for approving exports to Ukraine.
- Shift the public benefits European Governments seek through expanding their defense-industry capability to private firms by providing financial incentives for partnerships, including insurance backstops and procurement guarantees.

This report builds on KSE Institute's series on European defense and Ukraine's strategic defense partnerships with Western countries. Previous reports include:

- **Rethinking European security in the face of the Russian threat: Learning strategic lessons from Ukraine and relying upon Ukraine for the defense of Europe**
- **From the battlefield to the future of warfare: Harnessing Ukraine's drone innovations to advance US military capabilities**
- **Ukraine's drones industry: Investments and product innovations**

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I. INTRODUCTION

Since Russia's full-scale invasion of Ukraine in February 2022, myriad announcements of defense industrial cooperation between Ukraine and its Western partners have appeared in press releases and summits. Heads of state, defense ministers, and industry leaders frequently profess their desires to support and learn from Ukraine by implementing coproduction agreements, while bilateral security agreements put these commitments in writing. Nonetheless, tangible progress lags far behind the goals set by political leaders.

This report seeks to explain why cooperation between the defense industries of Ukraine and its European partners has not met expectations, then offers policy recommendations to spur mutually beneficial investment. To do so, we draw upon 14 interviews with stakeholders in Ukraine and the EU. They included: two officials from Ministries of Defense, two high-level diplomats, representatives from two industry groups and one chamber of commerce, one venture capitalist, one EU official, and five legal and compliance experts. Most interviewees hailed from the EU, including Denmark, Estonia, Germany, Latvia, Lithuania, and Sweden. To ensure honest conversations about sensitive topics, all interviewees were granted anonymity.

For the purposes of this report, we assume that the collaboration desired is mutually beneficial for European and Ukrainian defense industries, i.e., aid or weapons donated to Ukraine would not be classified as 'collaboration.' This naturally shifts the focus to investment, joint ventures, and coproduction agreements (see Box 1 for definitions of key terms used throughout this report). This report focuses on the latter two. While these agreements are generally positive-sum, key barriers stand in their way. We focus on two types of barriers: legal and regulatory, and incentive-based. While legal and regulatory barriers, particularly on the Ukrainian side, have been the dominant roadblock thus far (see sections II and III), it is not the case that merely changing Ukrainian export laws will lead to an avalanche of joint ventures. The Ukrainian government has recently begun to lay the groundwork for future defense exports (see section IV), and many interviewees accurately predicted that a relaxation of export controls would come in early 2026. But to seize the opportunity—the urgency and volume of European rearmament, European public support for Ukraine, and Ukraine's comparative advantage of quickly developing weapons systems during a full-scale war—other incentives must also be aligned (see section V).

Positive-Sum, Not 'Ideal'

A throughline in this analysis is that a policy does not need to be ideal to be positive-sum and, more concretely, that idle defense industrial capacity in Ukraine is detrimental to Ukrainian and European national security. For Ukraine, the ideal solution would be for Europeans to finance Ukrainian production to its full capacity in Ukraine—keeping know-how, IP, and manufacturing lines in Ukraine—during the war, then for European militaries to import Ukrainian products after the war. For Europe, the ideal solution would be for Ukrainian firms to 'teach' their domestic firms how to produce drones and utilize Ukrainian war-time innovations, allowing their firms to scale production under NATO's Article V umbrella. Neither extreme is feasible.

For defense industrial collaboration to reach its potential, the Ukrainian government will need to accept (and convince the Ukrainian population) that in order for there to be more Ukrainian-made weapons,[1] some will need to be exported. To best align incentives between Ukraine and its

[1] While Ukraine's defense industry spans numerous weapons systems, European interviewees told us that their defense industries were primarily interested in partnering with Ukraine's UxS and C-UxS producers.

European partners, these exports would be best suited to joint-venture agreements. The economic logic underpinning this conclusion is threefold:

1. Increasing returns to scale, which has become a hot topic in European defense,[2] will make Ukrainian producers more efficient. As producers expand to meet European demand, their cost per unit will decrease for Ukrainian procurement contracts.

2. Given that the Ukrainian defense industry is already operating under capacity due to a lack of funds, and Europe collectively spends far more on its own defense than it does in aid to Kyiv, exports would give Ukrainian firms access to otherwise-inaccessible funds.

3. Allowing defense exports would reassure firms and investors that their investments in manufacturing capacity will not go idle once the war ends. Exports during the war will create a 'backstop' of European demand that will help firms mature and diversify their revenues, making them better prepared to survive the inevitable decline in Ukrainian procurement after the war. This will reduce risks for the capital-intensive investments necessary to scale up production lines.

According to interviewees, Ukraine's de facto export ban of defense goods has been the greatest barrier to collaboration—whether in the form of joint ventures, investments, or trade—between Ukraine and its European partners. Some projects already exist, namely through government-to-government (G2G) negotiations, but have been limited in scale. We explore the current legal and regulatory landscape in sections II-IV.

Box 1: Definition of Terms

- **Joint Venture:** An agreement between two firms to share resources in order to achieve a common goal. We use this term to describe agreements between European and Ukrainian firms, typically which involve European firms providing capital and manufacturing capabilities and Ukrainian firms providing technology and know-how developed during the war.
  - **Coproduction:** A specific type of joint-venture agreement in which two firms combine their resources to establish new, jointly owned manufacturing capabilities. Typically, this involves the creation of a new jointly owned legal entity.
- **Intellectual Property (IP)**
  - **Background IP:** the pre-existing IP brought into a project by one partner.
  - **Foreground IP:** the IP developed as a result of the project, typically under joint ownership.
- **Know-How:** confidential practical knowledge of how to do something (such as manufacturing techniques, processes, and skills) that may give a business a competitive edge. This is distinct from formal patents but can be protected through contracts.
- **Trade Secrets:** confidential business information (such as formulas, data, or processes) which a business intends to keep secret.

[2] See "The Draghi report on EU competitiveness, Part A," Chapter 4, European Commission; "Improving the quality of European defence spending," European Parliamentary Research Service; "Europe stands increasingly alone on defence production and needs to act," Bruegel; "Investing in defence as a European public good," Vox EU

- **De Facto Export Ban:** The effective, though not official, prohibition on exports of defense-related goods from Ukraine established due to a lack of permits being granted.
- **Build with Ukraine:** A program announced in the summer of 2025 to establish joint ventures between Ukraine and Europe. Ukraine will share technology and set up production abroad.
    - With Denmark: Ukrainian firms are pre-vetted and approved to enter joint ventures with Danish partners, and legislation expedites administrative processes for Ukrainian defense firms to enter Danish market.
- **Defence City:** A special legal framework for Ukraine's defense companies to facilitate defense exports with a simplified administrative procedure for its "residents."
- **G2G:** Government-to-government – a type of agreement established as a result of governments (typically ministries of defense) negotiating directly with each other, as opposed to private firm to private firm negotiation and agreement.
- **Danish Model:** A model of agreement based on the 2024 G2G agreement between the Ukrainian and Danish governments. In this model, the partner government finances Ukrainian manufacturing of defense goods for use by Ukraine.
- **Cross-border:** any joint-venture agreement or other transaction which involves parties from multiple nations.

II. THE DE FACTO STATE OF UKRAINIAN EXPORT REGULATIONS

The core Ukrainian law governing the export of military objects is The Official Bulletin of the Verkhovna Rada (BVR), 2003, No. 23, Article 148, referred to as "Law 549"[3]. This law regulates "actions related to state control over international transfers of military and dual-use goods in order to ensure the protection of Ukraine's national interests." It dictates that the export[4] controls regime is to be implemented through a "central executive authority implementing state policy in respect of State Export Control."[5] This authority has been vested in the State Service of Export Control of Ukraine (SSECU).[6]

Box 2 describes the process by which Ukrainian defense enterprises may obtain the necessary approval from the Ukrainian government to begin and implement a foreign joint venture consistent with the Law 549 defense export regulations. In practice, however, since 2022 these approvals are rarely granted and this process has resulted in a de facto export ban. The vast majority of firms that have applied either do not receive a response from the SSECU or are denied approval on various grounds.[7]

Box 2: Legal Process for Joint Ventures outside of Ukraine

1. **Pre-Registration: Identify Controlled Goods or Technologies**
   The Ukrainian partner of the joint venture must determine whether the goods or technology they intend to export is a controlled military or dual-use good. If it is not clear, they may request a preliminary identification from the SSECU.[8]
2. **Registration as an "Entity of International Transfers of Goods"**
   If it is determined that the goods or technology do fall under the controlled list, the Ukrainian partner of the joint venture must be registered by the SSECU. The application process requires various forms and an examination from the SSECU and results in a Registration Certificate which outlines the conditions under which the company may export controlled goods.[9]
3. **Establish an Internal Export Control System**
   The company must have an internal export control system (IECS). This is to ensure the company has proper procedures for classification, documentation, data protection, and staff training. SSECU must certify this system.[10]

[3] Titled "On the State Control over International Transfers of Military and Dual-Use Goods," Document No. 549-IV, last revised October 5th, 2025.
[4] Defined both as the "sale or transfer on other lawful grounds of goods t*o foreign business entities* and subjects for other activity with or without exporting of these goods the customs border of Ukraine" as well as the "sale or transfer in Ukraine or abroad of the right to manage (control) goods, respectively, *to a legal entity of a foreign state* or its representative" (emphasis added).
[5] Originally described as a "specially authorised executive body on issues of State Export Control," law No. 5463-VI revised this name to the current title on October 16, 2012. This law can be found here [ua].
[6] See "Ukraine's answers to the OSCE questionnaire on participating states' policy and/or national practices and procedures for the export of conventional arms and related technology," Permanent Mission of Ukraine to the International Organizations in Vienna
[7] See "Arms exports: 97% of producers await access to foreign markets," Censor.NET; "Ukrainian arms exports: risks, government positions and frontline realities," LB.ua
[8] See "On the state control over international transfers of military and dual-use goods," Article 12, Verkhovna Rada of Ukraine
[9] See above, article 11
[10] See above, article 14

4. **Cabinet of Ministers' Authorization**
   For military goods or classified technologies, the company must receive special authorization from the Cabinet of Ministers.[11] The Interagency Commission on Military-Technical Cooperation and Export Control Policy, informed by the Ministry of Defence, determines whether the company has surplus capacity not used by the Ukrainian Armed Forces.[12]
5. **Negotiation Permission**
   For goods or technology under partial embargo/sensitive use, the SSECU must issue a "positive conclusion" allowing the Ukrainian company to enter joint-venture negotiations with a foreign partner.[13]
6. **Export/Import Permit**
   Once a joint-venture agreement has been made, the company must obtain an export/import permit from the SSECU that specifies the parties allowed to transact, the quantity and type of goods/technologies, the destination and end-use, and the validity period. There is a max period of 1 year for a single-use permit or 3 years for a general/open permit.[14]
7. **End-Use Control**
   The Ukrainian company must obtain an End-User Certificate from the foreign partner or its government and an International Import Certificate for controlled items.
8. **Post-Transfer Obligations**
   Regular reports on actual exports must be made.

While the de facto export ban has severely hampered Ukrainian companies' efforts to engage in cross-border transactions, a limited number of Ukrainian companies have been able to export military and dual-use products and engage in defense-related joint ventures outside of Ukraine. The majority of these agreements result from direct negotiations between the Ukrainian government and foreign governments. Numerous interviewees emphasized that the only way to progress joint-venture agreements while the export ban is in effect is through G2G negotiations. There has thus been a divergence between the European governments that are less involved in negotiations on behalf of their defense sectors (e.g., Germany), and those that are more active (e.g., Denmark, Sweden). G2G agreements build on previous successes, led by Denmark, to support Ukrainian producers by funding procurement of defense-related goods for the Ukrainian Armed Forces (i.e., Danish Model).[15]

There have been several examples of successful G2G negotiations creating defense coproduction agreements between Ukraine and European governments. In line with the "Build with Ukraine"

[11] See above, article 13
[12] See "Ukrainian weaponry to go global: Ukraine restores arms exports mechanism," Militarnyi
[13] See above, article 18
[14] See above, article 15
[15] The Danish Model operates through Ukraine's Defense Procurement Agency, whereas other partners have opted to procure goods for the Ukrainian Armed Forces directly from Ukrainian producers.

initiative, the Ukrainian government signed an agreement with Denmark in 2025 to allow the two countries' governments to vet Ukrainian companies for approval to produce their goods in Denmark. As part of the agreement, the Danish government allocated 500 million DKK (~$78 million) to facilitate the establishment of Ukrainian defense companies in Denmark.[16] Soon after the agreement was announced, Fire Point was selected to begin production in Denmark and established an in-country legal presence.[17] In order to establish a legal presence abroad, obtain the necessary Ukrainian government approval to move production to a foreign country, and build a new factory, a company needs to have substantial revenue and familiarity with governmental administrative bodies. With over $1 billion in revenue, 30 classified facilities, and senior advisors including former US Secretary of State Mike Pompeo, Fire Point may simply be in a better position than many of its competitors to expand internationally.[18] The main product to be produced at this factory is solid rocket fuel, which presumably will be reimported into Ukraine to power Fire Point's Flamingo cruise missile.[19] The company is also receiving funding from other Western countries, including Germany and the UK.[20] More recently, the Netherlands and Ukraine announced a coproduction agreement in December, 2025, for the production of drones. The production will occur both in Ukraine and the Netherlands, with funding for the procurement provided by the Dutch Ministry of Defense (MOD) and the end products being shipped to Ukraine for use in the war.

G2G negotiations have also been successful in setting up coproduction agreements in situations where the defense-related IP is owned directly by the Ukrainian government. In November 2025, Ukraine signed a licensing agreement with the government of the United Kingdom, allowing them to start production of Octopus interceptor drones.[21] The technology for these drones was developed by the Armed Forces of Ukraine, meaning that the IP license is owned directly by the Ukrainian MOD, not a private company. Previously, the Ukrainian MOD had allowed only Ukraine-based manufacturers access to this technology in order to mass-produce these high-tech drones, which are critical to defending against attacks from Russian one-way-attack drones, such as Shaheds. The agreement with the United Kingdom will allow Ukraine to dramatically scale production of these drones to several thousand per-month, with the UK-manufactured drones being transferred to Ukraine post-production. Ukraine has also pursued a similar agreement to produce interceptor drones with the US. In November 2025, President Zelenskyy openly encouraged "American-Ukraine production [and] coproduction," stating that he hopes to increase the amount that will occur in the future.[22]

Now that war has broken out in the Middle East, and Iran has regularly launched hundreds of Shaheds at US military bases, critical infrastructure, and civilian areas in neighboring Arab states, Ukrainian exports and expertise have become a point of geopolitical leverage beyond Europe. Ukraine has signed bilateral deals with Saudia Arabia, the UAE, and Qatar thus far.[23] It remains to be seen how these partnerships will develop—all negotiations have been conducted at the

[16] See "Denmark to host Ukrainian missile fuel production in NATO first," DefenseNews

[17] See "Ukrainian Fire Point to be able to start production in Denmark in coming months – defense minister," Interfax Ukraine

[18] See "Mike Pompeo joins billion-dollar Ukrainian weapons maker Fire Point amid corruption probe," Kyiv Post

[19] See "Denmark to host Ukrainian missile fuel production in NATO first," DefenseNews

[20] See "Inside Ukraine's Quest to Build a Missile to Strike Deep in Russian Territory," WSJ

[21] See "Ukraine and the United Kingdom conclude licensing agreement for large-scale production of the Octopus interceptor drone," Ministry of Defence of Ukraine

[22] See "Ukraine starts producing interceptor drones together with US – Zelenskyy," Ukrainska Pravda

[23] See "Ukraine finalizes air defense deals with gulf nations amid war in Mideast," New York Times

government level—but the opening of the Middle Eastern market, as both a source of capital and customers, could be quite lucrative for the post-war Ukrainian defense industry.

Hurdles to partnership also exist through partner-country regulations. Setting up defense production involves additional permitting and safety precautions on top of all of the usual requirements in the civilian sector, which adds up to a considerable bureaucratic burden. In this regard, the Danish approach has stood out as a clear leader in alleviating these regulatory roadblocks for Ukrainian defense partnerships. The Danish government has, via legislation, expedited permissions and administrative procedures for Ukrainian firms investing in Denmark. According to one Danish interviewee, this has been the most important factor driving partnerships in Denmark.[24]

[24] See "Parliament passes law giving the Minister of Defense unprecedented power," DR.dk [dk]

III. ATTEMPTS TO CIRCUMVENT THE DE FACTO EXPORT BAN

Other Ukrainian defense companies have sought ways around the de facto export ban, such as through legal and structural mechanisms that may not constitute direct exports of controlled goods. According to one legal expert, these mechanisms typically rely on sharing knowledge and capabilities rather than complete military products or technology. Ukrainian specialists assist in designing or assembling technologies in foreign jurisdictions, allowing Ukrainian companies to engage in legitimate international cooperation without violating Ukraine's export restrictions. In doing so, however, they must carefully walk a thin legal line, as the law governing exports explicitly prohibits offering military-related services and includes in the definition of military-technology "special information of any kind (except for public information), necessary for the development, manufacture, or use of military products and output of military services."[25] Firms attempting to work around this restriction face investigation and potentially prosecution if they are found to have stepped over the line of what is legal.

Ukrainian companies using these mechanisms are able to manufacture products abroad through subsidiaries or by using foreign incorporated entities as a way to market their products to foreign parties.[26] For example, Skyeton, a Ukrainian aircraft company that has begun production in Slovakia, has been able to do so by establishing a subsidiary company called Tropozond.[27] Tropozond is part of the Skyeton group of companies, and has established a manufacturing facility in Eastern Slovakia. Production outside of Ukraine has two key upsides for Skyeton. First, it reduces the risk that facilities within Ukraine are struck by Russian attacks. Second, it allows Skyeton to market their products to other countries, such as NATO and EU member states. In doing so, Skyeton has access to new clients, and can increase their profit per unit[28] (currently, the Ukrainian government restricts profits per unit to 25%[29] in order to ensure that the government can sustainably purchase much-needed equipment).

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[25] See the Official Bulletin of the Verkhovna Rada (BVR), 2003, No. 23, Article 148, "On the State Control over International Transfers of Military and Dual-Use Goods," Document No. 549-IV, last revised October 5th, 2025, Verkhovna Rada of Ukraine [ua]

[26] "A branch is an unincorporated, direct extension of a parent company that operates business activities on behalf of the parent to the extent the business purposes of the parent permit. In contrast, a subsidiary is a separate entity that is incorporated or formed by the parent company, may have its own business purposes separate from its parent's and has its own management structure — although, in the case of a single-member, member-managed limited liability company, the sole member, i.e., the parent, will manage the business of that entity." From Choosing a Branch or Subsidiary for Overseas Expansion, Baker McKenzie

[27] See "Skyeton expands: new UAS manufacturing facility opens in Slovakia," Skyeton

[28] See "Drone manufacturer Skyeton entered the Slovakian market. $3.5M was invested in the launch," AIN

[29] See "Government has adopted important resolutions that will further strengthen Ukraine's defence industry: Denys Shmyhal," Cabinet of Ministers of Ukraine

IV. BUILD WITH UKRAINE AND DEFENCE CITY

Though the export control regime is incredibly strict given the ongoing war, a forthcoming alternative process will ease export restrictions. Along with the "Build With Ukraine" initiative, the government has announced the creation of "Defence City." Defence City is a program by which Ukrainian companies will be able to export their products to European countries, including technological know-how.[30] As part of this program, companies are required to register with the Defence City legal regime in Ukraine with the eligibility requirements described in Box 3. Defence City "residents" may be eligible for special privileges, including the ability to export military goods with reduced permit requirements.[31] The Build with Ukraine initiative has been referenced in connection with the above discussed G2G agreements for coproduction, however, as of the publication of this report, the private sector has yet to see any non-government-negotiated agreements come to fruition through Defence City, as legislation to launch the initiative has only taken effect on January 5, 2026.[32] On February 8, 2026, President Zelenskyy announced that Ukraine was "opening exports" with "ten export centers across Europe," specifically mentioning Baltic and Nordic states. [33]

Box 3: Eligibility Requirements for Defence City[34]

1. The company must be registered only in Ukraine in a non-occupied territory;
2. The company's qualified income share (income generated from domestic arms production, maintenance) from the prior calendar year must be either:

   a. at least 75% of total income; or
   b. at least 50% of total income, if the company is an aviation manufacturer falling under the Law of Ukraine "On the Development of the Aircraft Manufacturing Industry";
3. The company submits yearly reports, including on qualified and total income;
4. The company is a corporate income taxpayer under the general rules and has no outstanding tax or single social contribution arrears;
5. The company is not undergoing bankruptcy or liquidation proceedings;
6. The company has no owners/beneficiaries from aggressor states or the "FATF blacklist" countries, or any beneficiaries under sanctions from the Ukrainian government, and itself is not under sanctions from the Ukrainian government; and
7. The company has provided information and disclosed its ownership structure and ultimate beneficial owners.

Notably, the Build with Ukraine program is substantially different from the Build in Ukraine program *(emphasis added).* The programs are similar in that they are designed to help increase defense cooperation between Ukrainian entities and foreign entities. However, while the former is

[30] See "Ukraine's defense export pivot is a game-changer," The Cipher Brief
[31] See "Ukraine's 'Defense City' tax regime takes effect on October 5, 2025," Dentons
[32] See "Government passes package of decisions to launch Defence City on 5 January next year," Cabinet of Ministers of Ukraine
[33] See President Zelenskyy's announcement on X (formerly Twitter)
[34] See "On amendments to the Tax Code of Ukraine and other laws of Ukraine regarding support for enterprises of the defense-industrial complex," Verkhovna Rada of Ukraine [ua]; "Ukraine's 'Defense City' tax regime takes effect on October 5, 2025," Dentons

tailored towards helping Ukrainian companies build outside of the country, the latter is designed to encourage foreign companies to begin or expand production in Ukraine.[35]

Some attempts within the private sector have been made to prepare for a loosening of restrictions on exports. For example, the Ukrainian Council of Defence Industry *(Українська Рада Зброярів)* announced the creation of an 'export support office' in early December 2025 and published an 'export map' with guidelines for Ukrainian firms seeking to export defense goods.[36] Interviewees expect various clusters and industry groups within Ukraine to follow suit.

[35] See "Build in Ukraine: an initiative driving the localization of international companies in Ukraine," Ministry of Defence of Ukraine

[36] See the announcement here [ua] and the export map here [ua]

V. INCENTIVE STRUCTURES

Despite their publicly expressed interest in joint-venture and coproduction agreements, the incentives that governments in Ukraine and Europe face can impede progress. When compounded with misaligned incentives for firms of varying sizes, a fractured landscape has emerged across Europe, as countries are more or less willing to overcome gridlock.

UKRAINIAN GOVERNMENT

For the Ukrainian government, the number one priority is clearly the survival of the Ukrainian state and the defense of its people from Russian aggression. This creates powerful incentives to enact policies that will strengthen the Ukrainian Armed Forces and the Ukrainian defense industry. The challenge, of course, is determining how that can be accomplished in a way that satisfies political leadership, civil society, and industry stakeholders—particularly when their demands are at odds with one another.

The fundamental case for allowing defense industry coproduction outside of Ukraine—and, more broadly, defense exports—is that there is a well of untapped manufacturing capacity in the Ukrainian defense industry. Demand created by procurement for the Ukrainian Armed Forces, whether funded by the Ukrainian government or its partners, is constrained by limited funds. This left approximately $25 billion of potential capacity idle in 2024 (13% of GDP[37]), according to KSE Institute estimates. By introducing foreign demand to the market, Ukrainian defense firms could scale up production, making Ukrainian government procurement more cost-effective thanks to decreasing marginal costs.

On the other hand, three factors disincentivize the government from loosening restrictions on arms exports and defense ventures outside of Ukraine. The first is straightforward: by allowing Ukrainian defense firms to cooperate with foreign firms outside of Ukraine, the government necessarily cedes some control and autonomy over the direction of its defense industry. Keeping strategic technology inside Ukraine also helps ensure that it does not end up in the wrong hands, which is especially important during an active war. Second, Ukraine is incentivized to keep joint ventures inside its borders to serve as a 'soft' security guarantee—when foreign defense firms operate in Ukraine, they partially interlink the fate of Ukraine and partner governments by creating vested interests in Europe that support a safe and independent Ukraine—and to become a key engine of post-war economic growth. Finally, there is the uncomfortable fact that drones and arms that could help repel the Russian army on the front lines would be leaving Ukraine, even if Ukraine does not have the resources to procure them all.

EUROPEAN GOVERNMENT

On the European side, the greatest upside to cooperation with Ukraine is the transfer of know-how from Ukrainian to domestic firms and the strengthening of the European defense industry. European governments, now largely recognizing the extent to which they have fallen behind the Ukrainian and Russian defense tech sectors, are eager to stand up their own production ecosystems. European defense industrial bases operate at a fraction of the scale that their Ukrainian counterpart delivers each year (particularly in drones), despite the punishing conditions that an active war zone imposes on defense manufacturing (e.g., the necessity of fragmenting production lines to avoid

[37] Note that closing this output gap would not straightforwardly lead to an equally sized increase in GDP. Ukrainian defense manufacturers remain import-dependent for a variety of key components, implying that some of this value would be zeroed out in net exports.

single points of failure). Thus, learning from Ukrainian firms is a matter of national security, particularly for those who view Russia as an imminent threat.

European politicians are also incentivized to facilitate collaboration between domestic and Ukrainian defense industrial bases. Even in countries where the electorate is staunchly pro-Ukraine, interviewees mentioned how it is beneficial for politicians to show their voters that they 'got something in return' for their support to Ukraine.

As straightforwardly positive as this seems for European politicians and governments—particularly when considered alongside their myriad public statements and non-binding agreements for collaboration—there are still impediments to cooperation with the Ukrainian defense industry. The first issue that was consistently raised by interviewees is the tendency to favor domestic firms in defense procurement. While this is not a dealbreaker for Ukrainian-European joint ventures, suspicion towards foreign involvement in domestic procurement will benefit firms that have already-existing relationships with their governments. The second issue is financial. Interviewees in a range of countries, from large defense markets like Germany to smaller ones in the Baltics, noted that European governments have been unwilling to commit to the procurement guarantees that many firms have wanted in order to justify their investments. Finally, many European militaries lag far behind Ukraine in terms of incorporating new technologies, such drones, into institutional frameworks (e.g., doctrine, training, and procurement). While work is actively being done in this regard—both at the level of NATO and national militaries—inconsistent uptake makes decisive action from governments less likely.

UKRAINIAN FIRMS

The defense industry in Ukraine is made up of thousands of firms varying in size from small start-ups to multinational corporations. Naturally, the incentives of these firms differ. Small firms, primarily those created after the 2022 full-scale invasion, seek investment to help them establish and build production capabilities. Larger firms, typically those that existed prior to 2022, generally already have established production lines. What they seek is to scale this production by accessing foreign markets and the increase in demand and capital that comes with them.

In both cases, joint ventures would help the Ukrainian firms reach their goals. For smaller firms seeking investment capital, these agreements would necessarily include an influx of foreign cash, allowing them to build production capabilities for their designs either in Ukraine or abroad. For larger, already established firms, a joint venture would mean opening up aspects of their business to a foreign partner in return for capital that could be used to scale production, also either in Ukraine or abroad.

Given the ongoing war in Ukraine, Ukrainian firms have an incentive to make coproduction agreements that would allow them to move part of their production abroad, away from the danger of Russian drone and missile strikes. Russia has pursued a calculated strategy of targeting Ukrainian weapons manufacturers with aerial strikes. Because of this, production capabilities in Ukraine are at constant risk and must be spread out and concealed, reducing efficiencies of scale and increasing logistical costs. Coproduction agreements with European firms that establish production outside of Ukraine solve this issue by moving manufacturing bases outside of the strike-zone of Russian attacks. This is particularly beneficial for larger firms seeking to scale their operations beyond what is feasible in the current spread-out nature of Ukrainian defense manufacturing.[38] Being able to concentrate all stages of production in one facility allows for reduced transportation costs and increased returns to scale, significantly increasing production capabilities. For smaller firms, where the entire production may often be contained in a basement, moving production outside of Ukraine offers proportionally smaller economic benefits. Nevertheless, reducing the threat of destruction remains a strong incentive even for smaller firms to set up coproduction agreements outside of Ukraine.

In addition to pursuing joint-venture agreements, Ukrainian firms seek to export their drones and other defense-related goods to Western markets. As noted above, Ukrainian defense manufacturing is operating below capacity due to a lack of demand-side funds in Ukraine. The simplest way to solve this is to expand the market by allowing Ukrainian firms to export their products to capital-rich European markets. The increase in demand from these markets would allow Ukrainian firms to get closer to reaching their full production capacity and, in turn, realize increasing returns to scale. While this would result in some defense output not being sent to the war effort, the fact that Ukrainian firms are not currently operating at capacity means that exports would not necessarily reduce the amount of supplies remaining in Ukraine. The added revenue from these exports could, on the other hand, be reinvested into increased production capacity, and the increased scale of production would lower the per-unit marginal cost of production. Additionally, joint development and coproduction of weapons systems with European partners will push the Ukrainian defense industry towards greater interoperability with NATO, further promoting Ukrainian integration into the Alliance's security architecture and removing friction for exports to NATO markets. Expanding the set of potential customers into European NATO will also make Ukrainian firms more attractive to European investors from a purely economic perspective.

Disincentives do exist that will make European cooperation unpalatable for some Ukrainian firms, even if the benefits outweigh the costs in most scenarios. Most importantly, joint ventures with European firms and exporting to European states will likely raise costs until manufacturers reach economies of scale. First, procurement by NATO militaries requires stricter control of supply chains—for instance, limiting or eliminating dependence on Chinese suppliers—than Ukraine does, which will raise manufacturers' cost of materials. While some progress has been made to indigenize supplies in Ukraine,[39] part of what makes domestically produced drones especially cost-effective is the use of consumer-grade components from East Asia. Second, labor is considerably cheaper in Ukraine than it is in even the cheapest EU labor market, particularly when high-skilled workers (e.g., in IT) are willing to work for a 'patriotic discount' in Ukraine. In a market as competitive as Ukraine's, some firms may conclude that partnerships in Europe are not worth the short-term costs. Third, as multiple interviewees noted, Ukrainian firms are often quite concerned about losing their IP in any agreement with foreign firms. While some of this concern can be alleviated with better knowledge of the IP and legal protections at their disposal, joint ventures nonetheless entail risk in this regard.

EUROPEAN FIRMS

The main benefit that European firms seek to gain through joint ventures with Ukrainian firms is access to their technology and know-how. Since 2022, the war with Russia has necessitated rapid

[38] Fire Point, for example, has more than 40 facilities in Ukraine. According to the Wall Street Journal, each factory has at least one identical copy in order to ensure continuity of production in the event of a Russian strike. See "Inside Ukraine's quest to build a missile to strike deep in Russian territory," WSJ
[39] See "Building the arsenal: Securing the components to sustain combat power," Snake Island Institute.

and extensive innovation of key defense products such as drones—with R&D cycles lasting just a few months.[40] As a result, the Ukrainian firms producing these drones possess expertise that European firms—seeking to set up their own drone production and win government contracts—desire. This expertise comes in multiple forms, including manufacturing know-how, technological advancements for drone components, and mission data gathered by drones that is used to train artificial intelligence. Additionally, European interviewees noted that a joint venture, or at the very least formal cooperation, helps European firms get access to battlefield testing in Ukraine. The official path for European firms to test their products is to go through the Ukrainian General Staff, but they are inundated with requests from companies to trial their technology on the battlefield. Thus, firms go through a Ukrainian cluster or firm, as they often have contacts within the AFU willing to provide feedback.[41]

Private European firms, however, lack the same strong incentives of their governments, such as bolstering European defense capabilities. Unlike government organizations, private firms are profit-driven. The benefits of partnership discussed in the preceding paragraph, such as access to technology and know-how, do incentivize joint ventures and coproduction, but primarily because these are avenues towards increased revenues. Understanding this principal motivation is key to understanding the secondary incentives which drive private European firms to enter joint-venture agreements. It is also illustrative of the reason that many private European firms may be more wary about entering such agreements than their governments, who are aligned with public goals such as national security.

For a joint venture to get off the ground, European firms frequently seek some extent of financial security: procurement guarantees, government funding or tax breaks. In countries with smaller defense markets—even in staunchly pro-Ukraine states such as the Baltics—this may not be feasible. In Lithuania, for example, the government does not finance Lithuanian-Ukrainian joint ventures, instead agreeing to procurement contracts.[42] But because those contracts must stipulate that products may only be delivered to Lithuania and Ukraine (i.e., they cannot be exported to outside markets) to conform to Ukrainian law, and because Lithuania's defense market is comparatively small (limiting the potential ceiling for return on investment), firms are often unwilling to take on the necessary risk and capital expenditures to enter a joint-venture agreement.

BARRIERS TO ALIGNING INCENTIVES

Despite the numerous incentives both sides have to cooperate on joint ventures, there are barriers to aligning these incentives in a way that leads to tangible results. Principal among these barriers for private firms is the question of how to deal with the transfer and protection of intellectual property. Trust issues, uncertainty with foreign business processes, as well as misaligned long-term goals make coming to agreement on joint ventures difficult.

To alleviate concerns about the protection of intellectual property, contracts can be written to ensure clear rules and divisions. Licensing agreements allow a Ukrainian firm to grant a foreign firm the right to use a specific technology for specific purposes and within a defined territory without granting any ownership rights in the technology. Similarly, know-how transfer agreements can be used to govern the disclosure of technical expertise and manufacturing processes under strict confidentiality and other enumerated conditions. Typically, these

[40] See "Ukraine's drone industry: investments and product innovations," KSE Institute

[41] According to one interviewee, this circumvention of official policy is more common amongst SMEs. SMEs often lack the scale or political contacts that could make their requests worthwhile for the Ukrainian General Staff.

[42] Typically, these procurement arrangements consist of a 50/50 split between products going to Ukraine and Lithuania.

agreements provide that all background IP (technology or know-how which existed at the time of the agreement) remain the property of the original contracting party which discovered it. Any new, or foreground IP which is created during the joint venture will be jointly owned by both parties. These agreements allow the sharing of valuable Ukrainian intellectual property while still maintaining ownership and control over future use, and thus may alleviate the concerns of Ukrainian firms that they will lose their valuable innovation.

However, trusting the fair enforcement of these contracts is another issue. Disputes may arise if one party alleges the other breached the contracted terms of the agreement. For example, if after the enumerated duration of the agreement has expired the foreign party continues to use Ukrainian background IP, or if a dispute arises as to what constitutes background and what is foreground, the contracting parties may need to turn to higher powers to provide judgments. In most cases, cross-border agreements dictate that disputes will be decided by international arbitration. This is a trusted, reliable, and more efficient source of dispute resolution. However, in some cases national courts are necessary to resolve disputes. In these cases, choice of law and jurisdiction requirements govern where the dispute will be heard. While these laws can quickly become complicated, the general rule is that the national court of the jurisdiction in which the dispute arose will govern. Ukrainian courts lag slightly behind their European counterparts in the area of IP dispute resolution, as they do not have a specified court system for this area of law. Though the Ukrainian judges are highly trained legal experts, they therefore may lack the IP specialization of their European counterparts, giving hesitancy to European companies to place their trust in them. Ukrainian courts hold exclusive jurisdiction for disputes where the Ukrainian IP Office is involved (for example, any dispute where there is a Ukrainian patent or registered trademark). This overrides even any contractual agreement for arbitration that the parties may have come to, thus reducing parties' ability to contract around their anxieties.

In addition to trust issues related to IP enforcement, European firms have reported difficulty navigating the Ukrainian business environment. A lack of standardized processes in Ukraine has created the perception for some potential European business partners that the Ukrainian business environment is opaque and that "informal norms and understandings [are] more important than formal contracts and laws."[43] This lack of standardized business practice also makes conducting due-diligence checks more time-intensive and costly, providing a further barrier to agreements. Even if these trust issues could be alleviated through clear legal protections, there remains a gap between both sides' ideal long-run and post-war scenarios. For Ukraine, the defense industry knowledge they've gained during the war is a critical advantage which postures them as the future weapons and defense production backbone of Europe. However, European countries would be much more comfortable directly obtaining, through coproduction on their home soil, access to this Ukrainian know-how and technology and thus not relying on Ukraine in the long run for their own security. How much of this long-run potential advantage Ukraine is willing to trade off in return for short-term financing and increases to productivity will ultimately determine if there is a zone of overlapping incentives that allows for an agreement.

Further, despite the previously discussed safety advantages to coproduction outside of Ukraine, there remain benefits to production in Ukraine that, accompanied with these barriers to agreement, may further tilt the preference of the Ukrainian government away from such joint-venture and coproduction agreements. The biggest advantage is that it is much easier for the

[43] See "Tooling up together: How Europe and Ukraine can improve defense industrial collaboration," RAND

Ukrainian Government to exercise control over defense goods if they are produced within its own borders. In order to ensure that in times of war or escalation of conflict the government can co-opt defense production for its military needs, it must be able to exercise jurisdiction over these goods. Production outside of Ukraine is subject to the terms of the joint-venture agreement and the jurisdiction in which it is physically present. Ukraine cannot use tools such as export bans to keep drones in Ukraine if they are not in Ukraine to begin with. Nonetheless, the fundamental advantages of Ukrainian-European cooperation—that they are positive-sum and make Ukrainian production more efficient—should outweigh these concerns.

On the European side there is a misalignment between public and private incentives. For private firms, profit incentives are often outweighed by potential risks and uncertainty. European governments, however, have ample incentives to partnership, principally the ability to capitalize on Ukrainian wartime innovation to achieve their stated goals of boosting the European defensive sphere. In order to seize these public benefits, European governments must catalyze the creation of defense joint ventures and coproduction agreements in the private sector by shifting some of the public incentive to private firms.

Finally, even where ample incentives exist and are aligned between actors, costs associated with forming agreements can often outweigh the benefits. These costs include legal fees for IP protections and due diligence, procuring export licenses, and other regulatory burdens.

VI. POLICY RECOMMENDATIONS

The advantages of joint ventures and coproduction are clear and numerous for all parties. However, a straightforward and consistent path towards obtaining these advantages needs to be established. While Ukrainian programs such as Build with Ukraine and Defence City aim to alleviate the regulatory burdens creating a de facto export ban on the Ukrainian side, these initiatives have yet to show any advantage to the private sector and could benefit from a clearer and more stable framework. European governments have shown a desire to help Ukraine and capitalize on its defense innovation, however here, too, room for growth exists. Therefore, this section proposes ways that both Ukrainian and European governments, as well as private defense firms, can build on these existing frameworks to create more efficient pathways towards successful joint ventures and seize the advantages they offer.

Because the political and regulatory landscape is so varied, we propose a range of recommendations. Under the status quo, the most surefire way for a European government to establish defense industry cooperation is to enter G2G negotiations with Ukraine (generally between ministries of defense) and provide ample funding—whether in the form of procurement guarantees, investment insurance, or cash. However, this is often untenable due to budgetary constraints, a clogged negotiations pipeline on the Ukrainian side, and a lack of administrative capacity. At the very least, it is difficult to scale, and only agreements of a certain size would make the process worthwhile for the Ukrainian government. Thus, the most sustainable reform would be regulatory, both on the European and Ukrainian side of the border.

RECOMMENDATIONS FOR EUROPEAN GOVERNMENTS

1. Streamline the regulatory approval process for European private partnerships with Ukrainian defense companies

   For European policymakers hoping to incentivize and streamline defense cooperation with Ukrainian firms in their home countries, the highest leverage action would be to ease the regulatory burden for potential private partnerships by streamlining approval processes.

   The European side of a partnership currently offers a much more stable and clear regulatory scheme through well-established laws and processes. Nevertheless, for the defense sector these regulations are burdensome and provide additional costs to partnership. One method to streamline the regulatory approval process is for governments to **pre-vet and approve specific Ukrainian defense firms for partnership**, thus preventing the need to seek individual approval and eliminating the most burdensome part of cross-border partnerships. This is a key feature of the Danish government's approach, which has led to establishing coproduction in Denmark, increasing funding for Ukrainian companies, and ultimately delivering more weapons to the battlefield. And while Denmark's approach relies on government capital contributions, the benefits of a more efficient regulatory approval process could be applied to private capital as well, multiplying the potential gains for Ukrainian firms, the Ukrainian war-effort, and European defense capability.

2. Provide financial incentives for partnerships, including insurance backstops and procurement guarantees

   Providing financial incentives would allow European governments to encourage private firms to engage in joint ventures with the Ukrainian defense industry without having to 'pick winners.' In doing so, the governments would shift some of the public benefits sought through joint ventures—such as increased defense industry capability—to private firms. Reduced-interest-rate loans or tax breaks would make pursuing joint ventures with the Ukrainian defense industry more attractive and profitable for European firms. Insurance backstops and procurement guarantees encourage such agreements by reducing the risk of loss.

3. Support firms' due diligence efforts, namely via embassies, chambers of commerce, and industry groups

   While due diligence is ultimately the responsibility of the private firm looking to invest, European governments can facilitate the process. A typical due diligence check will include items such as analyses of financial and tax records, potential liabilities (e.g., lawsuits, legal compliance issues), employee records, assets, and ownership structures. Even during peacetime, joint-venture agreements require firms to conduct detailed, costly, and time-consuming due diligence before signing an agreement. Obtaining, verifying, and translating this information can be extremely burdensome, particularly as Ukrainian corporate structures and practices often differ significantly from those in the EU. The process is even more convoluted during the war, when otherwise-straightforward tasks like bringing company delegations into Ukraine for meetings and site visits are complicated by security risks and insurance headaches.[44]

   European countries have taken different approaches to supporting private sector due diligence, largely depending on existing infrastructure. Some governments are helping their private sector through official channels, such as through embassies in Kyiv, while others have ceded the responsibility to chambers of commerce and industry groups. Across the board, however, officials and industry leaders told us that firms want their governments to do more to make the process easier.

   In our interviews with officials and business leaders from a range of European countries, we found that the most realistic and effective policy in the short- to medium-term is for embassies in Kyiv to work with industry groups and chambers of commerce (i.e., whoever organizes corporate delegations' trips to Ukraine from a given country) and aid their due diligence investigations as needed. As time goes on, these industry groups and/or chambers of commerce will need to develop their own capacity to aid their corporate members, which will require staff on the ground in Kyiv. Depending on the country and its public-private relations, this may come with governmental support. In the meantime, embassies can provide on-the-ground assistance and potentially liaise with Ukrainian government agencies for background checks and financial reporting. The reality is that for the process to be sustainable and scalable, due diligence must remain the responsibility of the private sector; but governmental support, particularly during the war and in the early stages of industrial cooperation, can and should lower the costs required and encourage more partnerships with Ukrainian industry.

4. Help joint ventures exporting to Ukraine navigate the bureaucracy of licensing defense exports

[44] Two European officials independently raised the challenges—or, at the very least, inconveniences—that companies face to insure their corporate delegations' trips to Ukraine. While there are insurance companies that offer these services, they may not be offered by European firms' home countries or preferred vendors.

Though there is not a de facto ban on defense exports from the European Union, there are still restrictions and licensing requirements that add costs to cross- border agreements. One European official noted that weeks or months can pass between the export of defense products from their home country and their delivery to Ukraine, with most of the delay occurring between Poland and Ukraine. In the modern world of defense production, innovation moves quickly, and by the time licenses are obtained the benefit of technology transfer may have been reduced. This greatly incentivizes firms to produce locally in Ukraine, thus depriving European firms and workers of know-how transfers and countries of industrial capacity growth.

European governments can reduce these costs associated with export licenses by creating a "fast lane" for approving exports to Ukraine. This will require cooperation between European countries (or the EU), Poland, and Ukraine to break the logjam. By allowing such agreements to be processed faster and more efficiently, firms can capture the full benefit to coproduction of Ukrainian technology in Europe.

RECOMMENDATIONS FOR THE UKRAINIAN GOVERNMENT

1. Lift the de facto export ban by providing a transparent and stable path to export approval

Ukraine should allow private firms the ability in practice, not just theory, to export both goods and technologies in order to facilitate agreements with European firms that allow them to utilize their full capacity. Ukrainian officials, including President Zelenskyy and former Minister of Defense Denys Shmyhal, have expressed a strong desire towards increasing the amount of defense coproduction and joint-venture agreements between Ukraine and Europe. The Build with Ukraine initiative has sought to create a legal pathway for private Ukrainian firms to do just this. However, in practice, tangible results have broadly been seen as the result of G2G negotiations. This, to be sure, has helped accomplish some of the goals of both parties outlined in previous sections: such agreements have allowed Ukraine to expand their production capacity and military strength through European production, allowed European countries access to critical defense technology to expand their underdeveloped defense industries, and in some cases allowed private companies like Fire Point to access foreign government capital and scale their production. Yet there remains enormous untapped capacity for growth in the burgeoning Ukrainian defense industry.

This growth can be realized through **more transparent and stable policies**. The current defense export law of Ukraine, Law 549, for example, presents pathways for export approval that do not actually exist in practice. Approvals are rarely granted through this legal process since the de facto export ban began with the imposition of martial law. Defence City outlines what appears to be a clear path towards an easier export regime; however this process is new and the results are yet to be proven. A transparent, stable, and practical way for firms to make defense-related joint-venture and coproduction agreements with foreign firms—a process that necessarily relies on the approved export of defense-related technology and services—is needed.

The lack of clarity in how the law is written and how it is exercised in practice has also led to confusion about what is and is not allowed, and how firms can currently legally circumvent the export ban. In conducting our interviews and research, our sources—including legal experts, government officials, and private sector leaders—frequently contradicted one another regarding matters such as whether the export ban prohibited transfers of know-how related services. This confusion has left many firms, both on the European and Ukrainian sides, uneasy about negotiating agreements, as they are unsure to what extent they are allowed to and what legal protections will apply to them.

The Government of Ukraine can make the regulatory pathway clearer by **outlining clear steps that lead to actual export approvals**. Whether this is through legislation which practicalizes Defence City or amendments to Law 549, Ukrainian firms should have an actual and understandable path to export approval. Furthermore, the Ukrainian government should prioritize consistency, avoiding the confusion caused by the trend of numerous overlapping, short-lived programs that has characterized the past four years.

2. Improve standardization of regulations and IP protections between EU and Ukraine

   Increasing the standardization of export regulations and IP protections between EU and Ukraine would alleviate the unfamiliarity that can lead to anxieties and distrust between actors. As discussed in section V, these anxieties can prevent firms from coming to agreement, even when incentives align. By standardizing regulations and IP laws, foreign laws become less opaque to cross-border firms. Familiar processes and protections increase understanding. Further, when disputes do arise, issues like choice of law and jurisdiction, discussed in section V, become less important and introduce less unpredictability and, thus, less risk.

3. Educate firms on trade secrets and IP protection to reduce fears of collaboration

   An increased understanding of available IP legal protections and how to properly contract technology transfers would decrease actual and perceived risks of cross-border agreements. Several interviewees, both from Europe and Ukraine, mentioned that Ukrainian firms expressed concerns that entering joint ventures would mean losing their ability to protect technology, trade secrets, and innovations. However, the legal experts we spoke with made clear that this is not the case—strong legal protections exist which, when contracted correctly, are proven to protect this information and reduce risks associated with sharing it through joint ventures. The problem that exists, and which creates this perceived risk, is a lack of understanding of these mechanisms.

   Oftentimes, young and small firms, particularly on the Ukrainian side, do not have access to the legal resources required to understand proper protection of their IP (including trade secrets). The demands of an active war subordinate spending time and money on such protections. Access to cheap and easy-to-understand resources explaining IP protections—likely from the Ukrainian government or industry groups—would go a long way in alleviating concerns and helping firms to protect against risk. For example, resources providing and explaining template contracts protecting trade secrets in a cross-border joint venture would allow even those firms that do not have expensive law firms on retainer to guard their interests. This can be provided by the Ukrainian government, industry groups, or both.

4. Build international trust by continuing efforts to improve the business environment, including through transparency and anti-corruption enforcement

   A large majority of European interviewees brought up corruption—or, at least, commonly held fears of corruption—in Ukraine as a barrier to investment and cooperation. Particularly for the foreign *perception* of corruption, there is no single policy that the Ukrainian government can enact or reform in order to assuage fears. Nevertheless, thanks to the incentives that we describe in section V, European firms defense still seek partnerships with their Ukrainian counterparts. In other words, perceived corruption is not inherently a dealbreaker.

To attract new, more risk-averse defense investors, Ukrainian authorities will need to credibly show their commitment to anti-corruption efforts. Luckily, the actions that the Ukrainian government will need to take in order to convince foreign defense firms that they are serious about tackling corruption are effectively no different from those that it must undertake for the European Union, Ukraine's creditors, and civil society. Ensuring the independence of Ukraine's anti-corruption institutions, NABU and SAP, engaging with relevant EU accession-related reforms, and avoiding major corruption scandals in the defense sector will all be crucial.

5. Encourage and assist defense firms to prepare for international partnerships by standardizing financial planning and making ownership structures more transparent for due diligence

   Ukrainian firms can make themselves more attractive to investment and partnership for European firms by **standardizing their financial planning and ownership structures in an organized way that makes conducting due diligence easier**. Because Ukrainian defense firms are typically younger and have been operating under urgent wartime conditions, they generally do not have the kind of sophisticated business plans and pitches to investors—or clear ownership structures—that European partners expect. Though they understood the reasons for this, European interviewees consistently brought this up as a barrier to cooperation; as previously discussed, obtaining, translating, and verifying these documents, particularly during the war, is burdensome, time consuming, and adds additional costs to partnership. Therefore, by standardizing the documents and plans required for proper due diligence checks, Ukrainian firms can reduce the time and burden required for their European partners to conduct due diligence.

   As a short-term solution, the government of Ukraine—either through the Ministries of Defense or Economy, or through UkraineInvest—and industry groups can assist firms by providing guidance on how to standardize their financial planning and set up their ownership structures in a way that will aid due diligence checks. While private-sector firms must ultimately be responsible for establishing their own internal systems and planning, government assistance can help aid the process during the early stages of partnership and when wartime production is a critical public interest.

Photo credit: Efrem Lukatsky / Associated Press