READING LIST AND RESOURCES – INVESTMENT IN THE DEFENCE SECTOR IN EUROPE

August 2025

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ABOUT THE PRI

The Principles for Responsible Investment (PRI) works with its international network of signatories to put the six Principles for Responsible Investment into practice. Its goals are to understand the investment implications of environmental, social and governance (ESG) issues and to support signatories in integrating these issues into investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. More information: www.unpri.org

ABOUT THIS BRIEFING

These resource lists focus specifically on the intersection of investment and the defence sector, with an emphasis on developments, frameworks, and debates within the European context. They do not aim to cover the broader geopolitical discussions around rearmament or defence readiness. This is not an exhaustive collection, and investors are encouraged to conduct their own research and due diligence, particularly when operating outside the European regulatory and policy landscape.

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GENERAL READING AND INFORMATION ON DEFENCE AND INVESTMENTS

The following resources represent a selection of recent discussions—primarily from Europe—on investment in the defence sector. They explore the evolving perspectives of asset managers, regulators, academics, financial institutions, and other stakeholders on how defence-related activities intersect with ESG principles.

- MSCI's Sustainability Now podcast: Can Bombs and Bullets Be Sustainable? – April 2025
- The Geopolitics of Business podcast: Investing in the New Defence Economy: Ambassador Stefao Pontecorvo – May 2025
- International Capital Market Association (ICMA): Guidance Handbook – June 2025
  - Restates "the likely ineligibility of defence projects for Green, Social and Sustainability (GSS) Bonds while underlining the role of Social Bonds in supporting vulnerable populations with dedicated projects in fragile and conflict states."
- Global Alliance for Banking on Values: Finance for War. Finance for Peace. - February 2024.
- Mirova: "Rearm Europe, Rearm Finance: What role for responsible investment in the financing of European defence?" - June 2025
- ESG Investor (Philippe Zaouati): A European Model for Responsible Defence Financing – March 2025
- Robeco: Investing in Defence as a Sustainable Investor – March 2025
- Candriam: The Complexities of Investing in Defence – April 2025
- Shareholders for Change: Critical Shareholding in the Defence Sector – June 2025
  - Includes case studies of engagements with companies in the defence sector.
  - Highlights seven key sustainability concerns:
    - arms exports to countries with human rights violations;
    - production of weapons of mass destruction;
    - controversial weapons;
    - autonomous weapons systems;
    - final destination risks and diversion to illicit markets;
    - carbon footprint of the military sector;
    - high ESG risks due to product governance failings and controversial business behaviour.
- Allianz Global Investors: Defence: Your Questions Answered – May 2025
- Responsible Investor: 'The World Has Changed': Allianz GI Sustainable Investing Head on Defence Rethink – May 2025
- Responsible Investor: European Investors Warm to Defence but Article 9 Still out of Reach – April 2025
- Financial Times: ESG Investors' Dilemma over Bombs and Bullets – March 2025

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- NATO: Secretary General at NATO-Industry Forum: Without Industry There is no Defence – October 2023
- NATO Innovation Fund: Responsible Investing in Defence, Security and Resilience – January 2025
- PAX: Moving Away from Mass Destruction – 109 Exclusions of Nuclear Weapon Producers – July 2023

INVESTOR GUIDANCE AND TOOLS – DEFENCE

This collection of resources includes tools, reports, databases, and frameworks—primarily from European sources—that may support informed decision-making on investment in the defence sector. This is not an exhaustive list and should be complemented with additional research and context-specific analysis, especially when considering non-European markets. While these materials offer valuable insights, investors should approach them with care and conduct their own due diligence. Terminology in this field varies, and key terms—such as "controversial weapons"—do not have universally accepted definitions under international humanitarian law or other international frameworks. Certain regulatory or regional instruments, such as the EU's Delegated Regulation 2022/1288 supplementing the SFDR, contain context-dependent working definitions. It is important that any use of terms like "controversial weapons" be clearly defined and transparently applied.

- PRI Screening guide: An introduction to responsible investment: screening and exclusions | PRI.
- PRI – The defence sector in focus: Common ESG risks.
- The Norwegian Council on Ethics' 2018 annual report
  - Emphasises the distinction between product-based and conduct-based exclusion.
- Examples of weapon exclusions
  - Agreement on International Responsible Investment in the Insurance Sector – ESG Investment Framework for the theme: Controversial Weapons and the Trade in Weapons with High-Risk Countries (2020)
    - Includes a list of international frameworks that regulate weapons.
    - Note that a weapon can be prohibited under a treaty even where the treaty has not been signed by all countries.
    - Given the general absence of a universally agreed definition of "controversial weapons" it is important to define which weapons are meant when using the term.
  - Norwegian Council on Ethics: Guidelines for Observation and Exclusion of companies from the Government Pension Fund Global (GPFG), Section 4(c) (on exclusion of companies selling weapons).
  - Swedish Council on Ethics: Controversial Weapons
  - German Banking Industry Committee (DK), German Association for Structured Securities (BSW), German Investment Funds Association (BVI): Supplement to the Target Market to

Include Information on Sustainability-Related Objectives and Sustainability Factors – December 2024

- Refers to “banned weapons” (weapons as per the Convention on the Prohibition of the Use, Stockpiling, Production and Transfer of Anti-Personnel Mines and on their Destruction (“Ottawa Convention”), the Convention on the Prohibition of Cluster Munitions (“Oslo Convention”), as well as biological and chemical weapons pursuant to the respective UN conventions (UN BWC and UN CWC), see definition in Art. 12(1) Delegated Regulation 2020/1818 and list of controversial weapons in Annex I Table 1 No. 14 RTS to the SFDR).

- Arms Trade Litigation Monitor
  - Lists litigation relating to arms trades linked to conflicts in Yemen and Palestine.
  - Includes external analyses of cases.
- Stockholm International Peace and Research Institute (SIPRI)
  - SIPRI Military Expenditure Database
    - Shows the annual military spending of countries since 1949, allowing comparison of countries’ military spending in local currency at current prices; in USD at constant prices and exchange rates; as a share of GDP; per capita and as a share of government spending.
  - Mapping the International Presence of the World’s Largest Arms Companies - December 2020
- Principles for a Responsible Civilian Firearms Industry – November 2018

REGION-SPECIFIC GUIDANCE AND TOOLS

The following is a selection of recent Europe-specific developments related to investment in the defence sector. These examples illustrate how national regulators and industry bodies within Europe are beginning to address the relationship between ESG frameworks and defence-related activities. Not all jurisdictions have issued formal guidance on this topic. As the conversation continues to evolve, investors should stay informed of emerging policies, reassess their positions regularly, and monitor for new regulatory or market developments relevant to their operating contexts.

- United Kingdom
  - ADS Group: UK Defence ESG Charter – October 2024
  - FCA: Our Position on Sustainability Regulations and UK Defence – March 2025
- Germany
  - German financial industry associations updated the minimum requirements for sustainable investments in December 2024 by removing the general exclusion of the defence industry from sustainable funds — however, the exclusion of “banned weapons” prohibited under international law remains in place.

    - Previously, investment was only possible where the company had less than 10% of revenue from weapons.

- France
    - Responsible Investor: French regulator AMF calls for defence category in SFDR review – May 2025
    - BPI France: European Defence Bond Framework – July 2025
- EU Policy Initiatives
    - European Commission: Defence Readiness Omnibus
        - The Commission highlights that generalised exclusions of the defence sector based on turnover would not be consistent with a case-by-case logic to mitigate risks related to sustainability considerations. The Commission also deems this inconsistent with the EU's strategic needs and priorities, since use of revenue thresholds to exclude the defence sector could particularly penalise SMEs.
        - The Commission says from the outset that the sustainable finance framework is fully consistent with the EU's efforts to facilitate the European defence industry's access to sufficient finance and investment, and that it does not impose any limitations on the financing of the defence sector (both for CSRD and SFDR) and only 'controversial weapons', are deemed subject to additional disclosure requirements. Therefore "excluding the defence industry as such would not be consistent with applicable legal framework".
    - European Commission: Commission Unveils the White Paper for European Defence and the ReArm Europe Plan/Readiness 2030 – March 2025
- Voluntary European Market Standards
    - Towards Sustainability Label: Towards Sustainability Position on Defence Investments – June 2025

TECHNOLOGY COMPANIES AND THE DEFENCE SECTOR

The following resources explore the complex and evolving relationship between technology companies, conflict affected and high-risk areas (CAHRA), and the defence sector, with a focus on human rights risks, legal accountability, and the use of emerging technologies in armed conflict. Drawing from European and international sources, the materials cover issues such as AI-based decision-making tools, facial recognition, and cyber-enabled operations—highlighting both policy developments and real-world controversies involving major tech firms. This is a selected—not exhaustive—list intended to help investors and other stakeholders understand the growing relevance of tech-business models in defence-related contexts, and the associated considerations.

- B-Tech: Human Rights Risks in Tech: Engaging and assessing human rights risks arising from technology company business models – March 2023
- IAHR: Salient Issue Briefing: Artificial intelligence-based technologies - 2025

- BHRRC: Big Tech companies face allegations of war crimes complicity amid Israel's war in Gaza – May 2025
- Emelie Andersin, Journal of International Humanitarian Legal Studies: The Use of the 'Lavender' in Gaza and the Law of Targeting: AI-Decision Support Systems and Facial Recognition Technology – May 2025
- International Criminal Court (ICC): Draft Policy on Cyber-Enabled Crimes under the Rome Statute – March 2025
  - The ICC's policy confirms that genocide, crimes against humanity, war crimes and aggression as well as offences against the administration of justice, can all be perpetrated or facilitated by cyber means.
  - Note that "[t]here is no requirement that the perpetrator intended the act in question to further the armed conflict; there is only a requirement for the awareness of the factual circumstances that established the existence of an armed conflict." [para. 61]
  - Corporations are not subject to the ICC's jurisdiction, but individuals (e.g. executives in a company) are.

ACTIVE NETWORKS OR ORGANISATIONS THAT ADDRESS DEFENCE

The following is a selection of active networks and organisations—mainly based in Europe—that engage with the intersection of defence and investment. These groups, ranging from civil society coalitions to sustainable finance forums, offer insights, events, advocacy, and in some cases conduct strategic litigation on issues related to arms production, exports, and investor responsibility. While not exhaustive, this list highlights some of the key actors currently contributing to the European debate and shaping the evolving discourse on investment in the defence sector.

- PAX – a civil society organisation focussing on peacebuilding, business, conflict & human rights, and humanitarian disarmament.
- The organisation has a few publications on investments in defence (focussing on specific weapons).
- Heartland Initiative – a non-profit investor advisory supporting investors in managing human rights risks.
- European Centre for Constitutional and Human Rights (ECCHR) – has launched strategic litigation in national courts in Europe to stop arms exports to Israel and Yemen and hold States and companies accountable for serious violations of international law.
- International Campaign to Abolish Nuclear Weapons (ICANW) - a coalition of non-governmental organizations promoting adherence to and implementation of the United Nations nuclear weapon ban treaty.
- Finnish Sustainable Investment Forum (Finsif) – hosted an event (2 April 2025) on sustainable investment in the defence industry.

- The Business & Conflict Community of Practice (B&C CoP) - a network of professionals from various organisations that work on business and conflict.

HUMAN RIGHTS, ARMS TRANSFERS & LEGAL RISKS

The resources below span a range of years and include reports, studies, and expert commentary on arms transfers, business conduct in conflict-affected areas, and the human rights impacts of the defence sector. While some materials may be dated and reflect the context of past conflicts, many of the underlying principles—such as due diligence expectations, legal risks, and the humanitarian consequences of arms availability—remain relevant today. These resources can provide useful background and help investors situate current debates within a broader historical and legal context.

- UN Human Rights Council: Impact of Arms Transfers on Human Rights – January 2025
- OHCHR press release: States and companies must end arms transfers to Israel immediately or risk responsibility for human rights violations: UN experts – June 2024
  - The failure of financial institutions "to prevent or mitigate their business relationships with these arms manufacturers transferring arms to Israel could move from being directly linked to human rights abuses to contributing to them, with repercussions for complicity in potential atrocity crimes, the experts said."
- UN Working Group on Business and Human Rights: Responsible Business Conduct in the Arms Sector: Ensuring Business Practice in Line with the UN Guiding Principles on Business and Human Rights – August 2022
- UN Business and Human Rights Forum 2024: Is the Arms Industry Exempt from Human Rights Due Diligence? - November 2024
- Tulia Machado Helland from Storebrand Asset Management spoke on the panel.
- UN Working Group on the Use of Mercenaries: Role of mercenaries, mercenary-related actors and private military and security companies in the trafficking and proliferation of arms – September 2024
- International Committee of the Red Cross: Arms Availability and the Situation of Civilians in Armed Conflict: A Study Presented by the ICRC – 1999
  - Examines the extent to which the availability of weapons is contributing to the proliferation and aggravation of violations of IHL in armed conflict and the deterioration of the situation of civilians.
  - Although an older source, this study provides insights into the harm weapons inflict on civilians in conflict. It also highlights the adverse impacts of small arms and light weapons, offering useful context for assessing harms associated with different weapon types.

SELECTED ACADEMIC RESOURCES

This section contains selected academic resources and thought pieces that consider the relationship of investors, investment and the defence sector, or in relation to perceptions of certain investment types, screening or divestment.

- Vergne, J. P. (2012). Stigmatized categories and public disapproval of organizations: A mixed-methods study of the global arms industry, 1996–2007. *Academy of Management Journal*, *55*(5), 1027-1052.
    - Using qualitative and quantitative methods, the paper draws on the categorization and stigmatization literatures to predict the amount of negative social evaluations received by firms, i.e. disapproval. Association with a stigmatized category does not automatically result in disapproval, because straddling multiple categories dilutes stakeholder attention from the stigma. Findings highlight how managers can modify categorical associations at the industry and customer levels to decrease disapproval, and I discuss implications for diversification and internationalization strategies. Results also show that 9/11 modified the saliency of the categories used by arms industry stakeholders. Finally, the paper suggests that stigmatized industries manage to thrive in the long run despite stigmatization thanks to their members' category straddling behaviour, which makes social evaluations more neutral (less negative).
- Marti, E., Fuchs, M., DesJardine, M. R., Slager, R., & Gond, J. P. (2024). The impact of sustainable investing: A multidisciplinary review. *Journal of Management Studies*, *61*(5), 2181-2211.
    - We conduct a multidisciplinary review of how sustainable investing impacts the environment and society. Our review starts from the insight that shareholders can create impact not only through (1) portfolio screening and (2) shareholder engagement (two impact strategies most used by mainstream shareholders) but also through (3) field building (an impact strategy most used by shareholders at the periphery of the financial sector). Based on this framework of three impact strategies, we integrate insights from four disciplines (management, finance, sociology, and ethics/sustainability) to reconstruct how each impact strategy influences corporate sustainability. We identify 15 impact mechanisms through which the impact strategies produce three types of impact: portfolio screening and shareholder engagement mostly create direct impact on companies, while field building creates indirect impact via other shareholders and indirect impact via the institutional context. Our review suggests that shareholder impact emerges gradually as different types of shareholders build on each other's efforts, which we use to outline a research agenda on shareholder impact as a distributed process.
- Durand, R., & Vergne, J. P. (2015). Asset divestment as a response to media attacks in stigmatized industries. *Strategic Management Journal*, *36*(8), 1205-1223.
    - In stigmatized industries characterized by social contestation, hostile audiences, and distancing between industry insiders and outsiders, firms facing media attacks follow different strategies from firms in uncontested industries. Because firms avoid publicizing their tainted-sector membership, when threatened, they can respond by divesting assets from that

industry. Our analyses of the arms industry demonstrate that media attacks on the focal firm and its peers both increase the likelihood of divestment for the focal firm. Specifically, attacks on the focal firm are the most consequential, followed by attacks on peers in the same industry subcategory, and by attacks on peers in different subcategories. These findings shed new light on divestment as a response to media attacks in stigmatized industries and lead us to rethink impression management theory.

- Kim, Y. H., & Davis, G. F. (2016). Challenges for global supply chain sustainability: Evidence from conflict minerals reports. *Academy of Management Journal*, *59*(6), 1896-1916.
    - The vertically-integrated corporation of the 20th century has been replaced by disaggregated global supply chains across many industries. Dis-integration can reduce costs but also limits the ability to monitor and control critical processes, including labour practices and the sourcing of supplies. This article asks: What organizational factors distinguish corporations that can vouch for their supply chains from those that are not? The Section 1502 of the Dodd-Frank Act of 2010 gave companies over three years to determine and report on whether their products contained "conflict minerals" from the Democratic Republic of Congo (DRC) area. Our analysis of every conflict minerals report submitted to the SEC by over 1,300 corporations found that 80% admitted they were unable to determine the country of origin of such materials, and only 1% could certify themselves conflict-free with certainty beyond reasonable doubt. Internationally diversified firms and those with large and more dispersed supply chains were less likely to declare their products conflict-free: complexity reduces the visibility of a firm's supply chain. Our results suggest that widespread outsourcing may have reduced the corporate sector's capacity to account for the practices that yield its products.
- Antolin-Diaz, Juan, and Paolo Surico. 2025. "The Long-Run Effects of Government Spending." *American Economic Review* 115 (7): 2376–2413**.** DOI: 10.1257/aer.20231278
    - Military spending has large and persistent effects on output because it shifts the composition of public spending toward R&D. This boosts innovation and private investment in the medium term and increases productivity and GDP at longer horizons. Public R&D expenditure stimulates economic activities beyond the business cycle even when it is not associated with war spending. In contrast, the effects of public investment are shorter-lived, while public consumption has a modest impact at most horizons. We reach these conclusions using BVAR with long lags and 125 years of US data, including newly reconstructed series of government spending by main categories since 1890.

NOTE ON THE EU DEFENCE READINESS OMNIBUS AND ITS EFFECTS ON SUSTAINABLE FINANCE INVESTORS (JULY 25)

In June 2025 the EU Commission adopted a new "Defence Readiness Omnibus". The initiative's goal is to accelerate work on simplifying legal and administrative frameworks relevant to defence readiness. It includes a Commission Communication and a series of legislative and non-legislative proposals, covering both defence-specific and broader regulatory areas, including sustainable finance.

The focus of this note is on the Notice on the application of the sustainable finance framework and the Corporate Sustainability Due Diligence Directive to the defence sector.

The main points of the paper include:

- Statement that "**the defence industry contributes to broader EU and UN objectives**", including supporting SDG16 (Peace, justice and strong institutions) and the UDHR (with a focus on the rights to life, liberty and security, and the self-defence provision). It highlights that "Given its contribution to resilience, security and peace, the EU defence industry enhances sustainability".
- The Commission says from the outset that the sustainable finance framework is fully consistent with the EU's efforts to facilitate the European defence industry's access to sufficient finance and investment, and that it **does not impose any limitations on the financing of the defence sector** (both for CSRD and SFDR) and only 'controversial weapons', are deemed subject to additional disclosure requirements. Therefore "**excluding the defence industry as such would not be consistent with applicable legal framework".**
- Regarding revenue thresholds:
  - The Commission clearly **refrains from placing revenue thresholds** connected to investing in defence/military-related activities. The note specifically recalls that "the EU sustainable finance framework is neutral regarding the defence sector and only singles out 'controversial weapons' as set out in the SFDR and explained above."
  - Generalised exclusions of the defence sector based on turnover **would not be consistent with a case-by-case logic to mitigate risks related to sustainability considerations**. It is also deemed inconsistent with the EU's strategic needs and priorities, as the use of revenue thresholds to exclude the defence sector would particularly penalise SMEs.
  - Finally, the Commission invites financial market participants to "design their exclusion policies in line with the case-by-case approach and with the list of controversial weapons".
- On the sector's "contribution to social sustainability":
  - The note references the European defence industrial strategy, stating that the defence industry is a crucial contributor to the resilience and security of the Union, and therefore to peace and social sustainability.
  - As a consequence, in the Commission interpretation, under SFDR "financial market participants may conclude, based on a careful case-by-case assessment, that **economic activities conducted by the EU defence industry to safeguard peace and security, provided they do not significantly harm any other sustainability objectives and that the company conducting the activity follows good governance practices, contribute to social objectives.**"
  - Therefore, the Commission **encourages operators to not treat defence as a de facto non-contributing sector** in their assessment of sectors which make a positive contribution towards social sustainability.
- **SFDR** includes specific PAIs that affect the Defence industry in particular:
  - PAI 10 'Violations of UN Global Compact principles and OECD Guidelines for Multinational Enterprises'

- PAI 11 ‘Lack of processes and compliance mechanisms to monitor compliance with UN Global Compact principles and OECD Guidelines for Multinational Enterprises’,

  To deal with the requirements under PAI 10 and 11, the Commission encourages operators to **factor in due diligence requirements and measures put in place by companies in order to comply with export control legislations as contributing to the fulfilment of the objectives** of UNGC principles and the OECD Guidelines.

- PAI 14 ‘Exposure to controversial weapons”

  This indicator focuses on disclosure of **exposure to four categories of controversial weapons:** anti-personnel mines, cluster munitions, chemical weapons and biological weapons. Note that this **does not include nuclear weapons, either under the Treaty on Prohibition of Nuclear Weapons, or the Treaty on Non-Proliferation of Nuclear Weapons.** Any investment beyond these areas does not require particular disclosures under SFDR.

- EU Taxonomy:
  - Minimum safeguards under Article 18(1), especially regarding the due diligence and remedy procedures to ensure the alignment with international standards. Here too, the Commission encourages **considering the due diligence requirements and measures put in place to comply with the national export control legislations**.
  - Reference to SFDR PAI made by Article 18(2) should ensure that undertakings make sure that their **due diligence and remedy procedures allow for the identification, prevention, mitigation, or remediation of any actual or potential exposure** to the manufacture or selling of controversial weapons.
  - Regarding EU Taxonomy alignment the Commission states that **defence related undertakings involved in defence-related activities can, like any other sector, claim Taxonomy-alignment.** The paper mentions the original Omnibus paper and the changes that will happen, even though it does not go into details as they are unclear at the moment.

- MiFID II
  - MiFID II implies that operators **consider the principle of minimum safeguards under the EU Taxonomy Regulation and the principle of ‘do no significant harm’ under the SFDR** (inc. PAIs) when assessing whether the product they distribute satisfies sustainability preferences.
  - Regarding the PAIs, the Commission states that **no provision prescribes operators from offering investments in the defence sector to clients with sustainability preferences**, since the sole reason of being invested in the sector does not have direct negative impacts.

- CSDDD
  - CSDDD covers the sector the same way as any other, apart for some exceptions which were included in the original text for products subject to export control by Member States: under Article 3 of the CSDDD, **due diligence obligations under this Directive do not extend to activities of companies’ downstream business partners that are related to military and dual-use products when their export has been authorised by Member Sates authorities**.

- The document highlights how the February 2025 Omnibus is going to change CSDDD "including by simplifying for the companies within the scope their obligations to identify actual or potential adverse impacts that arise at the level of their indirect business partners." It does, however, also restate that "once an adverse impact is identified, companies will have to prevent it from occurring or to bring it to an end".

- CSRD
  - The note highlights 2 key provisions in first set of cross-cutting standards that apply particularly to defence companies:
    - General Requirements (ESRS 1, paragraph 105) allows companies to withhold disclosure of classified or sensitive information, even if it is deemed material. In the note, the Commission stresses that "**the defence industry is more likely than other sectors to is more likely than other sectors to use the provision that allows the omission of sensitive or classified information**", and that this should "influence how assurance providers engage with defence industry companies on the use this provision."
    - Consumers and End Users (ESRS S4): This standard clarifies that any **unlawful use or misuse of a company's products or services by consumers or end-users is outside the scope of this standard.**

- Benchmarking Regulation (and supplementing Commission Delegated Regulation (EU) 2020/1818)
  - Only companies involved in prohibited weapons must be considered for the purpose of applying the exclusions under Article 12(1)(a) of that Delegated Regulation. These are producers of "controversial weapons", which according to this note "shall mean anti-personnel mines, cluster munitions, biological and chemical weapons the use, possession, development, transfer, manufacture, and stockpiling, of which is **expressly prohibited** by the international arms conventions to which the majority of Member States is party."