Joint ventures in the defence industry: how Ukrainian companies can build partnerships with international players

BRIEF OVERVIEW

The Ukrainian defence industry has become one of the most dynamic sectors of the wartime economy and possesses advantages that virtually no other country currently has: the most extensive experience of modern high-tech warfare, the fastest development and implementation cycle, thousands of engineers working alongside the military, and an unprecedented wealth of combat data. At the same time, these advantages are not enough for the sector's further development and entry into global markets: international partners, funding, production capacity, certifications, government contracts and a place in global supply chains are all required.

The window of opportunity is narrow and rapidly closing — the coming years will determine whether Ukraine becomes one of the global hubs for defence technology or remains a platform from which technology and engineering talent flow to other countries. One of the ways to enter global markets is through the establishment of joint ventures (JVs).

On 16 July 2026, the We Build Ukraine think tank, in collaboration with FEU Defence and the law firm Arzinger, held an event entitled 'Joint ventures in the defence industry: how Ukrainian companies can build partnerships with international players'. The event focused on the practical, investment and legal aspects of setting up joint ventures. This brief summarises the key points and proposals put forward by participants, which do not necessarily reflect the official position of the event organisers.

PARTICIPANTS

The following representatives took part in the discussion:

- Ukrainian manufacturers of weapons and unmanned systems;
- foreign and Ukrainian investors — venture capital funds and investment groups;
- law firms and consultancy firms;
- the state-owned specialised exporter 'SpetsTechnoExport';
- the Ministry of Defence of Ukraine;
- relevant industry associations and the expert community.

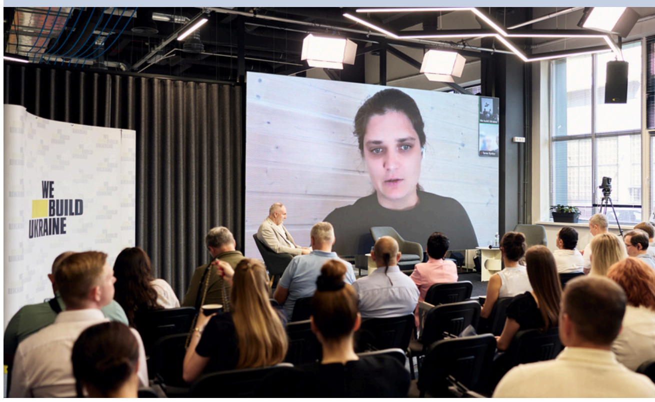
WHY UKRAINIAN COMPANIES NEED INTERNATIONAL PARTNERSHIPS

A significant proportion of Ukrainian defence industry enterprises rely on domestic government contracts. This model has enabled a rapid ramp-up in production during the war. At the same time, it creates a dependence on a single major customer and on budgetary funding.

Once the intensity of hostilities has subsided, the volume of domestic procurement may decline. Without access to external markets, some companies risk losing orders, their teams and the ability to continue research and development.

An international partnership can provide a Ukrainian company with:

- additional capital;
- production facilities and the ability to scale up;
- access to components and suppliers;
- international certification;
- access to foreign public procurement markets;
- a local presence and sales channels.



The Ukrainian side can offer:

- technology and engineering teams;
- combat experience and knowledge of tactical applications;
- a rapid cycle of product testing and refinement;
- an understanding of the military's current needs;
- access to the Ukrainian defence ecosystem.

The participants in the discussion emphasised that a successful joint venture (JV) must combine the strengths of both parties. It should not amount to the sale of a Ukrainian company or the complete transfer of technology abroad. The preferred model envisages that research and development, combat trials and critical intellectual property remain linked to Ukraine. The foreign partner, for its part, provides capital, production scale, certification, access to government contracts and global sales.

At the same time, a joint venture is not a one-size-fits-all solution. Depending on the parties' objectives, licensing or contract manufacturing, joint development, direct investment in a Ukrainian company, or contractual cooperation without establishing a new legal entity may be more appropriate.

A BRIEF ROADMAP FOR ESTABLISHING A JOINT VENTURE

1. Define the aim of the partnership

The company needs to understand exactly what it requires: capital, production capacity, certification, localisation, joint development, access to procurement or global sales.

2. Choose a model of cooperation

It is necessary to compare the establishment of a joint venture with other models. A separate company is only advisable if it better meets the parties' objectives than a licence, manufacturing or investment agreement.

3. Prepare the Ukrainian company

Before the negotiations begin, it is worth checking:

- who owns the rights to the technology;
- whether the transfer of property rights from the founders, employees and contractors has been formalised;
- whether the company is prepared for export control procedures;
- whether the ownership structure and financial statements are transparent;
- whether the corporate documents are in order.

4. Due diligence on the partner and the jurisdiction

It is necessary to assess the partner's owners and sources of funding, its reputation, and its access to the market and public sector clients. Separately, the rules on intellectual property protection, as well as investment and export restrictions in the country where the future joint venture will be based, should be examined.

5. Agree on the term sheet

A term sheet is a foundational document setting out key commercial and corporate agreements. It should specify the parties' contributions and shareholdings, governance, financing, technology rights, sales territories, exit arrangements and dispute resolution.

6. Obtain approvals and prepare a complete set of agreements

The parties must complete export, investment, banking and corporate procedures. Following the term sheet, the founding documents, the shareholders' agreement, the licence agreement, the foreign trade contract and other documents necessary for the JV's operation are prepared.

KEY CHALLENGES ON THE ROAD TO A JOINT VENTURE

1. A vague understanding of the partnership model

The term 'JV' is often used very broadly. It can refer to a separate company with two founders, joint development, licensed production, venture capital investment or the acquisition of a stake in a business. As a result, partners may have differing expectations. The Ukrainian party may be seeking funding and market access, whilst the foreign partner may expect exclusive rights to the technology, the team or sales. The model of cooperation should be defined at the start of negotiations, and even before signing the term sheet, the parties must have a shared understanding of the project's objectives, contributions, expected outcome and the scope of technology use.

2. Export controls

Defence technologies are subject to state export controls. Authorisation for the transfer of technology is the final stage of a multi-step procedure, not merely a formality.

Companies may need:

- registration as a subject of international transfers;
- identification of a specific technology or product;
- internal export control system;
- the contract, end-use guarantees and other documents;
- permits or approvals from public authorities.

Technology transfer need not take place solely through the physical removal of equipment or documentation. Risks also arise when a foreign partner is granted access to technical materials, source code, data or know-how.

Export controls are a bilateral matter. Obtaining a licence in Ukraine does not guarantee that the partner country will authorise the import or use of the relevant technology. Therefore, failure to obtain permits should be specified in contracts as a circumstance that may delay or suspend the agreement without automatically giving rise to liability on the part of either party.

A specialised exporter can act as a support service for assisting with licensing procedures, document management, logistics and deliveries. This is particularly useful if a company has not yet finalised its own preparations or if the project involves products from several manufacturers. However, a specialised exporter does not replace the company's own preparedness for export controls.

3. Intellectual property and the chain of rights

Intellectual property (hereinafter 'IP') is one of the key assets of a defence company. A common problem is that the rights to the technology are not held by the company itself. Some developments may have been created by the founders before the business was registered, or by employees or contractors without a properly documented transfer of property rights. Subsequently, people may leave the company, be called up for military service, or contact with them may be lost. As a result, the company is unable to provide documentary evidence of its rights to the technology.

For an investor, the chain of title to IP is important – a documented chain of transfer of IP rights from specific authors and developers to the company. Before entering into JV negotiations, it is advisable to review contracts with employees and contractors, work acceptance certificates, and the terms relating to works created in the course of employment and the transfer of property rights.

Special rules regarding developments created with the involvement of military personnel must be taken into account separately. In certain circumstances, the rights may belong not to an individual or a company, but to the state. Furthermore, an invention may be classified, which significantly restricts its use within a joint venture.

Know-how – practical knowledge and technical solutions that are not always worth patenting – is also important for defence technologies. It is protected through trade secrets, non-disclosure agreements (NDAs), access restrictions and appropriate contractual terms.

In addition, the JV documents must distinguish between IP created prior to the start of the partnership and IP created or improved as part of the joint venture. The parties must define the rights relating to modifications, source code, documentation and new products. The basic model for the Ukrainian party should be licensing, rather than the complete transfer of exclusive rights.

4. FDI and KYC

FDI screening is a government review of foreign direct investment from a national security perspective. Such reviews are common in many countries and are particularly important for defence and other critical technologies.

As part of the FDI screening process, the following may be checked:

- the origin of the investment;
- UBO (the ultimate beneficial owner);
- persons who effectively control the investor;
- links with foreign states;
- the impact of the transaction on critical technologies and national security.

According to those attending the event, a complex due diligence process can take between two and six months. Without its completion, it may not be possible to finalise the deal.

At the same time, banks, funds and financing programmes carry out KYC (Know Your Customer) checks – identifying and verifying the client. They analyse the ownership structure, sources of funds, sanctions risks, reputation and operational history. A rejection may be due not only to compliance issues, but also, for example, to the company's short operational history.

These procedures must be taken into account in the transaction timetable. It is important to verify not only the Ukrainian company but also the foreign partner.

5. Foreign exchange restrictions and share capital

A practical obstacle is the transfer of funds from Ukraine to contribute to the share capital of a foreign joint venture. Current foreign exchange regulations do not provide a comprehensive and predictable framework for such transactions. As a result, difficulties may arise even with regard to the small sums required to register a company.

An example was given where the Ukrainian party was required to contribute EUR 12,500 to the share capital of a joint venture in Germany, but was unable to make the payment due to the National Bank of Ukraine's (NBU) current foreign exchange restrictions. In light of this, the parties are exploring alternative options:

- contribution of IP to the share capital;
- the use of funds belonging to a natural person (shareholder or owner) abroad;
- funding from a foreign partner.

Each option requires proper legal formalities. Contributing IP to the share capital also raises issues relating to valuation, confirmation of rights and export controls.

6. Corporate agreements and dispute resolution

A joint venture in the defence technology sector may quickly find itself handling substantial funds and critical intellectual property. Therefore, verbal or general agreements are not sufficient, and the parties agree on a term sheet right from the outset.

Next, a complete set of documents is prepared, which specifies:

- shares and contributions;
- the composition of the governing bodies;
- the procedure for taking key decisions;
- further funding;
- IP usage rules;
- markets and sales channels;
- procedure for exiting from the project;
- consequences of breach;
- dispute resolution.

Documents may be governed by the laws of several countries. Corporate documents are usually governed by the law of the country in which the joint venture is registered. For individual contracts and the resolution of disputes, the parties may choose a different, neutral law. Each party should engage its own legal adviser. A single adviser cannot equally represent the interests of both partners. The dispute resolution mechanism, in particular neutral arbitration, must be agreed upon before work commences.

7. Access to capital and the company's readiness
Investors do not just evaluate the technology.
The following factors are important to them:

- a strong and stable team;
- confirmed demand for the product;
- potential outside the Ukrainian market;
- a development plan for the next 12–18 months;
- the possibility of a further round of funding;
- transparent ownership structure;
- proper financial and management reporting.

A large number of Ukrainian companies have grown rapidly as engineering teams. However, their financial, corporate and legal systems have not always developed at the same pace. This reduces their investment readiness and delays the negotiation process.

Access to capital remains one of the key constraints. Ukrainian manufacturers have fewer opportunities to secure working capital and investment financing than their competitors in European countries.

8. Preserving teams and the engineering school
An international partnership may pose a risk of relocating not only production but also teams, research and key expertise abroad. The joint venture should be structured in such a way that the following remain in Ukraine:

- engineering teams;
- research and development;
- access to data;
- combat trials;
- training new specialists;
- the ability to develop technology independently.

Partnerships should bring capital and expertise into Ukraine, rather than merely draining Ukrainian assets. It would be advisable to develop cooperation with Ukrainian and foreign universities, research institutions and engineers.

PROPOSALS AND RECOMMENDATIONS

FOR UKRAINIAN COMPANIES

Partnership Strategy

- Set out the specific aim of the cooperation before negotiations begin.
- Do not view a joint venture as an end in itself.
- Compare joint ventures with licensing, contract manufacturing, direct investment and other models.
- Retain critical intellectual property, R&D, data and engineering expertise in Ukraine.

Company preparation
- Carry out a legal due diligence check on the IP and chain of title.
- Arrange for the transfer of property rights from the founders, employees and contractors.
- Organise corporate documents, the ownership structure and financial statements.
- Draw up a clear development plan covering 12–18 months.
- Check in advance the investment and foreign exchange restrictions in the target jurisdiction.

Export controls
- Begin preparations for the international transfer of technology prior to the signing of the main agreements.
- Do not pass on technical materials until their status has been determined and the necessary authorisations have been obtained.
- Check the export and import requirements of Ukraine and the partner country.
- Include clauses in the term sheet and contracts relating to the non-granting or delay in the granting of permits.
- If necessary, engage a specialised exporter.

IP and corporate agreements
- Where possible, grant a licence to the partner rather than transferring exclusive rights in full.
- Distinguish between original and collaboratively created IP.
- Determine rights relating to modifications, code, documentation and new products.
- Protect know-how through NDAs, trade secret protection and access restrictions.
- Keep a written record of contributions, management, funding, exit and the resolution of disputes.
- Engage an independent legal adviser for each party.

FOR THE GOVERNMENT

Export control procedures
- Draw up a clear roadmap for setting up a joint venture, joint production and technology transfer.
- Provide practical guidance on the transfer of technical documentation, software, data and know-how.
- Draw up standard terms and conditions for licence agreements and joint development projects.
- Establish a mechanism for preliminary consultations on complex international projects.

Foreign exchange regulation

It would be advisable for the NBU, in conjunction with the Ministry of Defence, to develop a clear mechanism for Ukrainian companies to contribute funds to the capital of foreign joint ventures. The procedure should ensure that transactions are verified, but should not require an individual decision at the highest level for every small contribution.

Investment support
- Develop programmes to help businesses prepare to attract investment.
- Disseminate information about international funding programmes.
- Support the participation of Ukrainian companies in international procurement and supply chains.
- Strengthen coordination between the Ministry of Defence, the State Service of Export Control of Ukraine (SSEC), the National Bank of Ukraine and other bodies.

Human capital
- Foster partnerships between businesses and Ukrainian universities.
- Involve foreign universities and research institutions in projects in Ukraine.
- Create incentives to retain R&D teams and train new engineers.

CONCLUSION

The Ukrainian defence industry has a significant advantage over its competitors, based on the speed of development, collaboration with the military, combat experience, data and the ability to continuously improve its products. However, this advantage is not permanent. Other countries are actively investing substantial funds in their own defence technologies. It is therefore important for Ukraine to move from one-off export deliveries to a sustainable presence within global production and technology chains. A joint venture (JV) could be one of the tools for such a transition. However, success is determined not by the mere registration of a new legal entity, but by the parties' readiness to secure funding, launch serial production, complete the permitting procedures and continuously adapt the product to changing circumstances.

The main challenges are complex in nature. They include limited access to capital, insufficient legal and corporate readiness on the part of some companies, the complexity of export controls, foreign exchange restrictions and the risk of losing control over intellectual property.

A successful model must strike a balance:

- the Ukrainian side retains critical intellectual property, research, data and its engineering school;
- the international partner provides capital, production capacity, certification and access to markets;
- the joint venture operates on a global scale;
- the outcome of this partnership strengthens Ukraine's defence capabilities.

A joint venture should not become a mechanism for transferring technology and teams out of Ukraine. Its aim is to transform Ukraine's combat and engineering expertise into a long-term economic, technological and security advantage.

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