EWG29: SMEs in the European Union defence industry
Eurodefense / EDTA Working Group

A well-known statistical fact in the economy is that most innovations nowadays originate from Start-ups and SMEs. These – usually young – companies are smart, flexible and eager to invent, develop and nurture their 'baby' technologies. The lack of bureaucracy stimulates and allows SMEs to invent new technologies quick and flexibly, contrary to larger companies, that tend to be more risk adverse, requiring more rigid processes regarding innovation. Hence, significant parts of the European Union's (EU) business support and subsidies are targeted at SMEs.

The policies of the European Commission related to the defence sector are based on this economic reality and is reflected in most, if not all, of the EU policies[1]. It is however also known, that participation of SMEs in the defence industry lags behind compared to other sectors of the economy. In particular cross-border participation of SMEs is almost non-existent. This has resulted in special requirements in recent EU policies, where large companies are required to subcontract 10% of the received subsidy to SMEs in at least three member states.

The *assumption* of innovative power of SMEs is valid for most sectors of the economy, but **not for the defence sector**. In our European defence sector, most of the R&D and innovation is funded entirely by the Member States. These governments have to follow complex tendering procedures, which are often too cumbersome too for small companies. In addition, the procuring governments are reluctant to contract SMEs as they fear the loss of their money and knowledge when the SME does not deliver. Also, major companies and R&D establishments often can allocate dedicated resources to submit high quality bids for innovation contracts and subsidies. This situation is exacerbated by the fact that innovation in defence technology often is costly and often requires (technical) security procedures hard to adhere to by non-bureaucratic SMEs. Furthermore, outside the realm of defence, the markets are more homogeneous and transparent, not or less subject to political and strategic considerations typical for the defence area. Member State governments often take defence related procurement decisions contrary to general economic principles, currently a fact-of-life that SMEs are less able to cope with.
Consequently, in the defence sector the large R&D establishments and larger companies win the majority of the national tenders and EU subsidies. This is likely to happen in the upcoming PADR, IDIDP and EDF calls as well.

This situation begs an evaluation whether the current EU policies to involve SMEs and start-ups in defence procurements are effective. A second question is whether increased participation of SMEs would be more effective for innovation in Defence and how this could be accomplished.

[1] A.o. the Communication on the Future of the Defence Industry in 2014 and the more recent EU Global Strategy, EU Defence Industrial Development Plan IDIDP and the European Defence Fund EDF.

The EDTA/Eurodéfense working group intends to briefly address the following themes:

1. Evaluate and enhance the analysis above;
2. Analyse whether SMEs should have a stronger involvement in Europe's defence sector. Additionally, evaluate whether this applies for all technologies in the sector or if some sub-sectors should be treated differently;
3. If less involvement is recommended, how EU policies should be amended,
4. If more involvement is recommended, how this could be achieved.

The result should be a report of maximum 10 pages, with recommendations for the European Parliament, Commission, Council, and their agencies. It could also be presented to national authorities for their consideration.