

Strengthening European SMEs in the defence sector 12/13 January 2010, Stockholm

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Difficult environment for SMEs

- Currently no European Defence Market
- Difficult for newcomers to get access to well established existing supply chains
- Lack of awareness about contract opportunities
- Lack of sufficient communication
- Financial crisis



Commission activities for a competitive and strong European Defence Market

Defence Package adopted on 5 December 2007

Aim: to strengthen the European defence industry

- ”Framework” communication
- Directive on Defence Procurement
- Directive on intra-EU transfers of defence goods



Directive on defence procurement

- new rules adapted to the specificities of defence, also applicable to sensitive contracts in the field of non-military security
- Article 21: sub-contracting
- published on 20 August 2009 in the EU Official Journal
- MS have 2 years for national implementation
- EU Commission will pro-actively support the implementation process



Directive on intra-community transfers of defence goods

- Facilitating intra-community transfers of goods
- Global and general licensing, individual licences shall be exemption.
- Published on 12 June 2009 in EU Official Journal
- MS have 2 years for the implementation plus 1 year for the full application



Advantages for SMEs of the two new directives

- On ICT: no longer time consuming and bureaucratic procedures to apply for an individual licence
- On Procurement: more advertised contract opportunities, new supply chains, new sub-contracting rules



A strategy for a stronger and more competitive European defence industry

1. Sets out the Commission's overall industrial policy for the sector

2. Highlights future workstrands

- Pooling research and demand
- Control of assets
- Security of Information
- European Defence Standardisation Handbook
- Relations with non-EU partners
- Opportunities for SMEs



Current Commission activities for SMEs in the defence sector- study

- Ø Study on the competitiveness of European SMEs in the defence sector
- Ø 10 months study
- Ø Divided into two parts (mapping and statistics- recommendations for policies and measures)
- Ø results delivered on 30 September 2009



Methodology of the contractor

- Six case studies, one on each country:
 - France, Italy, the Netherlands, Poland, Romania and the UK
- Examined:
 - The national economy
 - The nature of the defence industries within the country
 - Defence-related SMEs in the country
- Conducted using desk-based research



Methodology of the contractor

- Seven interviews with TAs from:
 - France
 - Italy
 - Poland
 - UK
- Three Prime interviews covering all the following areas:
 - Electronics
 - Land
 - Air



Problems/Challenges for the contractor

- Difficult to get reliable data
- Low answering rate; “ questionnaire fatigue“
- Focus on 6 MS- not a full picture of SMEs in Europe
- EDA CoC and EC Defence Package „too early“ for assessment



Factors affecting the competitiveness of defence-related SMEs

- Lack of accessible information and potential clients: SMEs less aware of future capability requirements and upcoming business opportunities
- Regulatory failure: offset policies and export regulations that favour domestic SMEs, excessive administrative burdens, costs associated with IPR protection and user rights create inefficiencies in the defence market



Conclusions of the contractor

Barriers to entry: Defence supply chains dominated by well-established relationships insiders are rather secure

Access to foreign markets: tendency to think national rather than to think EU or to think global, offset policy, lack of awareness about opportunities in foreign markets and by export regulations



Conclusions of the contractor

Access to finance: Not raised as a major problem

- Upfront costs and the size of contracts:
 - appear to be more important challenges for relatively intensive R&D companies
 - the size of contracts is only a concern for the independent SMEs.
- No evidence that accessing finance any worse for SMEs operating in defence than SMEs in other sectors



Strengths of defence related SMEs:

- Flexibility and speed
- Inventiveness
- Specialised knowledge (i.e. manufacturing processes such as precision machining or electronics)
- Established position within supply chain; enjoying positions of trust and valued by their customers



Weaknesses:

- Not in position to develop, manufacture and provide through-life support for complete defence system
- Cannot export sub-assemblies independently of the primes
- Delay between investment in R&D and achieving return can create cash flow problems
- Insufficient capital may limit their scope to establish positions in export markets



Opportunities:

- Might be able to develop an international position by exploiting their specialised knowledge and skills
- Create opportunities to collaborate with SMEs from other countries
- Might enable them to exploit more of the economies of scale available in defence equipment industry



Threats:

- In a more integrated EU defence market their primes may lose market share or be acquired
- They could lose their place in supply chains as EU market opens up, or because of offset agreements



Recommendations of the contractor

At EU level

EDA and ASD: coordinating activities of the national and sectoral trade associations to ensure

- dissemination of best practice
- more effectively use of these channels to disperse information across the whole of the EU



Recommendations of the contractor

At national level

Defence authorities: improve information dissemination regarding future capability requirements to SMEs

- through promotion of, and active engagement with, trade associations
- through direct interaction with SMEs.



Recommendations of the contractor

For trade associations

- Monitoring and providing a picture of numbers and nature of SMEs operating in the defence sector
- Improving information dissemination regarding public procurement opportunities for SMEs



Recommendations of the contractor

For trade associations

- Facilitating interactions between companies to help identify subcontractors opportunities with Primes
- Offering support and advice on procurement processes and administrative and legal issues



Proposals from Berlin conference

- Sufficient financing instruments in times of financial crisis
- Special contract for SMEs that reduce their financial risks
- Better involvement in research projects
- Regular roundtables between governments and industry
- Establishment of Defence SME webportal



Thank you!

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