

SMEs and Security of Supply

DRAFT

Food for Thought Paper

Defense and Security remain very specific areas of government interest. Governments are concerned about a wide range of threats: international terrorist networks, proliferation of nuclear and biological weapons, regional conflicts and disorder, human-rights violations, and failing states. To be able to answer all global challenges and have a capacity to deploy troops for a variety of missions, governments seek to ensure the capabilities they consider appropriate for their armed forces. At the same time the governments seek capabilities in provision of security to citizens of the member states. In that area the national interests overlap from pure defence to the security area.

Current world has undergone turbulent times of its evolution. For the armed forces, as the customer of the armaments procurement and consequently of the defence industry, it has become impossible to predict their required capabilities for a longer term. At the same time continuing serious cuts in defence budgets do not support a stable outlook for armament projects. The parallel transformation of the defence industry and of the armed forces has heightened uncertainties over the future of the defence industrial base. Amongst other things, the lower predictability of required capabilities has diminished industry's ability to finance its research and development and at the same time maintain its standing capabilities.

Security of supply in defence means the capacity to ensure preparedness of the armed forces to answer security threats and the availability of maintenance and repair capability, spare parts, materiel and other support to keep critical systems functioning in all conditions, using both domestic and foreign resources. The SMEs and their clusters, in Centres of Excellence, are an important element of the European Defence Technological and Industrial Base and support building the capability driven, competent and competitive European DTIB: which is needed to secure the supply for today and for the future.

Growing international collaboration encourage nations to acquire defence goods from each other, promote interoperability, and provide assurance of timely delivery during peacetime, emergency, and armed conflicts. There are some examples of bilateral Security of Supply arrangements or government-industry “codes of conduct” that have been signed and implemented in recent years. Within those arrangements, participating industry agree to make every reasonable effort to provide priority support.

At the same time, the EDA pMS agreed in October 2006 the Framework Arrangement for Security of Supply between Subscribing Member States (sMS) in Circumstance of Operational Urgency. The main idea is to ensure that the sMS requests for defence goods or services in times of emergency, crisis or armed conflicts are met as expeditiously as possible. SMEs are an increasingly important part of the supply chain and Member States want to facilitate the role of SMEs. This means SMEs as suppliers of defence goods and services need to meet the Security of Supply requirements of Member States.

Consolidation of major defence industry took place in early 1990s. Governments mostly supported those mergers and acquisitions along the national borders. Lately, the cross/Atlantic consolidation took place. Nowadays, “the Big five” world defence manufacturers represent more than 40% of sales, the top twenty almost 80%.

A number of questions emerge. For example, given that SMEs and clusters of SMEs are working in a framework dominated by large prime contractors, at different tiers of the supply chain how can their role in contributing to security of supply be enhanced by governments? We recognise SMEs provide advantages in terms of innovation, enterprise and responsiveness but these qualities also give them the flexibility to more easily move markets. So how can these qualities be accommodated in the security of supply equation? What measures can Governments take to facilitate the SMEs contribution to Security of Supply?

These and following questions and considerations should trigger a panel discussion during the conference aimed to identify measures to facilitate SME involvement through improving their ability to provide security of supply.

What can be done to help SMEs ensure SoS over the long term?

Are there specific steps that can be taken in support of the SMEs to simplify procedures on issues such as export, intra-community transfer, security, security of information?

What is the role of governments and what is the role of the major prime contractors?

Should the focus be on general principles to apply, project specific or some balance between the two?

How can the governments find ways to ensure SoS by maintaining maximum competition inside the defence industrial sector with the orientation on the supply chain?

Is the third country ownership of SMEs an issue of concern?

Is further transformation (contraction) of the European defence industry likely to increase/reduce SME opportunities?

Is there a possibility for the EU institutions and bodies to set up and maintain the level-playing field in the defence sector?

What role should the EDA play in regards to SMEs and Security of Supply?

What are the possible support tools and measures that can be adopted within the EU to help the SMEs play a more competitive role in supply chains of the third countries to ensure their Security of Supply?

Under which conditions can SMEs in the defence sector obtain financial support?