POLICY PAPER

SMEunited position paper on security, defence and preparedness

Key messages:

- Crafts and SMEs must be prioritised in the EU's security and defence agenda as they are essential for defence innovation, economic stability, social cohesion as well as societal resilience. SMEs' security and resilience enhancing role in rural areas must be recognised. In this respect special attention should be paid to EU's border regions. SMEunited endorses the Commission's plans to support the livelihood of these regions and advocates that SMEs should be the main target group of such initiatives.
- SMEunited highlights the need to strengthen SMEs' resilience against internal security threats, specifically targeting cyber security and organised crime. Strengthening digital and cyber security investments through EU programs like the Digital Europe Program is crucial. Additionally, addressing the detrimental impact of organised crime on SMEs is essential to ensure fair competition and maintain the integrity of business sectors.
- SMEs are vital for the European defence industry, however, they face many difficulties in relation to access to funding, complex public procurement processes and fragmentation of the defence markets.
- Further efforts are needed to facilitate access for SMEs to public defence funding, such as the European Defence Fund. SMEunited advocates for the establishment of a dedicated SME Window within the European Defence Fund.
- SMEunited also calls for more opportunities for civilian SMEs to collaborate and engage in joint development projects with larger defence industry players, including those funded by the EU. In joint EU defence procurements, SME quotas could ensure better participation of SMEs.
- SMEunited calls for the inclusion of SME communities in developing Preparedness Union strategy and plans. Better coordination and communication between different stakeholders, such as authorities, civil society, and businesses, at the local, national, and EU levels is also needed. Furthermore, supporting SMEs in better understanding and addressing climate risk must be an essential element of the upcoming Preparedness Union strategy.

Introduction: SMEs as pillars for security, defence and preparedness in the EU

The European Union (EU) faces multiple and complex external and internal security challenges in a rapidly changing global environment. Instability, war and conflicts in neighbouring regions,

terrorism, cyberattacks, supply chain disruptions, organised crime, illegal migration, health crises, climate change and hybrid threats are some of the dangers that require urgent and coordinated responses. Hybrid threats, which combine conventional and unconventional methods such as cyberattacks, disinformation, and economic pressure, pose a significant risk to the EU's security and stability.

Security is no longer limited to conventional defence measures. It encompasses various policy domains, such as economy, trade, energy, health, and infrastructure, that are interconnected and interdependent. The EU needs to enhance its preparedness for challenges that often originate outside its borders but can quickly affect the EU and its Member States.

The EU has developed various strategies and policies to bolster its security and defence capabilities, both internally and externally, fostering cooperation with Member States, NATO, and other partners. The new EU institutional cycle puts a strengthened focus on security, defence and preparedness. The European Council's Strategic agenda 2024-2029 outlines "strong and secure Europe" as one key priority for the future, aiming to strengthen EU defence readiness as well as preparedness and crisis response capacities. The European Commission President's Political guidelines 2024-2029 indicate building a European Defence Union as well as Preparedness Union.

Small and medium-sized enterprises (SMEs) are the foundation of the economy, driving innovation and employment. They account for 88,7 million jobs in Europe and 53% of the EU's added value. Crafts and SMEs are also pivotal in the EU's security landscape, offering innovative solutions, products, and services that safeguard citizens, critical infrastructure, borders, and cyberspace. They also represent a significant segment of the EU defence industry and support the development of the Common Security and Defence Policy as well as EU's strategic autonomy. Furthermore, Crafts and SMEs are indispensable in fortifying security and societal resilience, especially in rural and sparsely populated areas. They promote economic security and stability, social cohesion, access to essential services, innovation, environmental sustainability, and community support, significantly contributing to the overall well-being and resilience of rural and urban communities. Hence, SMEs should be at the forefront of the EU's security and defence agenda as well as at the establishment of a European Preparedness Union.

1. Economic stability and social cohesion are important parts of the EU security landscape

Small and medium-sized enterprises (SMEs) are key drivers of innovation and employment in the EU, as well as vital contributors to economic stability and growth. By offering a wide range of products and services that meet the needs and demands of various sectors and markets,

SMEs enhance the competitiveness and diversity of the EU economy. Moreover, SMEs generate income and wealth for their owners, employees, and stakeholders, as well as tax revenues and social benefits for the public sector. Therefore, SMEs play a crucial role in sustaining and improving the living standards and well-being of the EU citizens, thus leading to economically stronger and more stable societies. SMEs also foster entrepreneurship, creativity, and adaptability, which are essential skills and attitudes for coping with different societal and security challenges.

SMEs provide soft security by enhancing the social cohesion and welfare of the EU citizens through their employment opportunities, especially in times of crisis or uncertainty. During the past years, European SMEs have provided training opportunities, jobs and livelihood through the pandemic and to Ukrainian refugees, as well as to many other vulnerable groups, such as young people, migrants, and people with disabilities. SMEs support local communities by offering essential services, participating in local activities, and contributing to the social fabric and identity of their regions. By doing so, SMEs help to prevent social exclusion, radicalisation, and violence, and to promote democratic values, human rights, and civic engagement. Furthermore, SMEs in the social and creative sectors play a crucial role in supporting mental health and fostering resilience within communities. Their presence provides essential services and creative outlets that help individuals cope with stress, anxiety, and uncertainty, promoting emotional well-being and social cohesion.

Vitality of rural areas is security

SMEs boost rural and remote areas, where they are often the main economic and innovative actors. This can enhance security by spreading the population and infrastructure more evenly across the country, which can be an asset in times of crisis. SMEs in rural areas also support the development of green and circular economy, as well as the preservation of natural and cultural heritage.

SMEunited therefore urges policymakers to recognise and support Crafts and SMEs in rural areas. A variety of tools both at national and European level can be considered in this regard, for example measures related to taxation, building coordinated visions with retail and tourism sectors and integrating rural areas in the urban development plans of the territory. SMEunited therefore recommends that rural development policy be incorporated into the Common Provisions Regulation (CPR) and that the partnership principle set out in Article 8 (Content of the Partnership Agreement) of the CPR and the provisions of the Code of Conduct on Partnership be applied to rural development. This is essential to enable entrepreneurship as set out in the long-term vision for rural areas.

In times of crisis, the ability of rural SMEs to supply urban areas with necessary resources, and vice versa, ensures that supply chains remain robust and functional. Therefore, policies and initiatives should focus on strengthening the links between rural and urban SMEs, ensuring that they can collaborate effectively and support each other in maintaining supply chains and critical

services. It is also very important to close the mobility and connectivity gaps between rural and urban areas with public and private investments.

More attention and support are needed to ensure the vitality of the EU's eastern border, which is not only an economic but also a security issue. The war in Ukraine has had a negative impact on the SMEs and the communities in this region, affecting their trade, mobility, and stability. SMEunited endorses the Commission's plans to support these border regions with "The Catching-up Regions Initiative"[1]. SMEs should be one of the main target groups for such an initiative.

Furthermore, the importance of the Cohesion Funds and Next Generation EU-program's support to SME organisations and sectorial associations at local and regional level that undertake projects contributing to social cohesion of the local communities and improving the quality of life in these communities should be underlined. These projects can enhance the resilience and preparedness of the SMEs and their communities to face various risks and threats, such as natural disasters, cyberattacks, terrorism, or pandemics. They can also foster cross-border and cross-sectoral cooperation and innovation, as well as the exchange of best practices and lessons learned among the SMEs and their stakeholders.

Strengthening SME supply chains is crucial for resilience and security

As key players in resilient supply chains, SMEs ensure the security of supply of critical goods and services, such as food, energy, health, and communication. SMEs often operate in local and regional supply chains, which can be more resilient to global disruptions, contributing to security of supply in crisis situations. However, SMEs also face challenges in securing the supply of raw materials and components, aggravated by problems in shipping and logistics, resulting in rising purchase prices, delays in deliveries and disruptions in their supply chains. Moreover, SMEs often have less bargaining power compared to larger companies, which can make them more vulnerable to external shocks, price fluctuations and supply shortages. SMEunited calls for more awareness raising activities and digital tools[2] for SMEs to diversify and strengthen their supply chains, such as the Supply Chain Resilience Platform.

2. Internal security for SMEs

[1] "The Catching-up Regions Initiative" was mentioned in the written answers to Parliamentary questions of Executive vice-president designate for Cohesion and reforms (p. 6).
[2] Digitalisation helps in tracking and managing supply chains as well as anticipating and managing disruptions. *Navigating supply chain disruptions: New insights into the resilience and transformation of EU firms*, European Investment Bank, 2024.

Cybersecurity and data protection for SMEs

SMEs face a high risk of cyberattacks and need to enhance their cybersecurity as they rely more and more on digital technologies. They often do not have adequate cybersecurity practices, investments, skills, or information to deal with the threats. Sometimes, they outsource their cybersecurity to third parties. Although artificial intelligence can help SMEs address the rising number and growing sophistication of cyber-attacks, AI can also make cyber-attacks more damaging and difficult to defeat, placing both the physical and virtual infrastructure of SMEs at risk.[3]

These developments call for strengthening the resilience of critical infrastructure and action to improve the level of cyber security and data protection among SMEs. There is a constant need for EU programs to support digital and cyber security investments such as the Digital Europe Program. Also, the Next Generation EU and the REACT-EU funds should be used to solving cybersecurity and other technologically relevant challenges for SMEs.

Finally, SMEunited draws attention to the Network and Information security 2 Directive (NIS2) that brings new obligations for SMEs to enhance their cybersecurity. While the directive has important objectives, SMEunited expresses concern over the lack of timely support tools, such as user-friendly checklists and templates, which would help SMEs in complying with the new requirements.

Tackling organised crime is critical for SMEs

SMEunited calls for attention to the impact of organised crime to crafts and SMEs. Criminal activities linked to organised crime distort fair competition and damage the reputation and reliability of the business sectors in which many SMEs and self-employed operate. These criminal activities erode the foundations of our society, undermine trust in our structures, and can lead to social and economic disruption. This can be detrimental to local SMEs. Therefore, in the context of preparedness, it is essential to tackle this phenomenon, which requires coordinated efforts at all levels. It is crucial to protect SMEs and self-employed in the affected sectors from the negative consequences of organised crime, ensuring they have a fair opportunity to operate in a safe environment. Moreover, they can only contribute to preparedness in a strong and secure environment. Moreover, it is important to ensure that efforts to tackle organised crime do not create unnecessary administrative or reporting burdens to honest entrepreneurs and SMEs.

[3] OECD (2021), "Artificial intelligence: Changing landscape for SMEs", in *The Digital Transformation of SMEs*, OECD Publishing, Paris, https://doi.org/10.1787/01a4ae9d-en.

3. SMEs need better access to defence markets

Challenges and opportunities for SMEs in the European defence markets

SMEs are vital for the European defence industry - more than 2500 SMEs produce and provide various goods and services, ranging from weapons and precision mechanics to technical textiles and logistics.[4] However, SMEs face many challenges in this sector, such as limited access to funding, raw materials, skilled labour, and timely payments. Moreover, the fragmentation of the European internal market for defence equipment makes it difficult for SMEs to participate in procurement processes, which are often tailored for the capacities of large industrial companies. SMEs require more support and opportunities to compete and innovate in the defence sector.

Furthermore, modern defence technology often relies on civil innovation, especially from SMEs. Therefore, civilian SMEs should have more opportunities to collaborate and engage in joint development projects with larger defence industry players, including those funded by the EU. The cooperation between the civil and defence industries is crucial for enhancing the competitiveness and innovation of the defence sector.

SMEunited calls for further efforts to facilitate access for SMEs to public defence funding, such as the European Defence Fund. Although SMEs might be eligible to apply, the complexity of the administrative processes to obtain such funding might de facto disincentivise SMEs to partake. SMEunited believes that SMEs would benefit from the establishment of a dedicated SME Window within the European Defence Fund. Moreover, any increase in EU's defence expenditure should benefit a wide range of stakeholders, including SMEs, that contribute to strengthening the defence sector and security in Europe.

The diversity of national requirements and specifications hinder the cross-border trade and cooperation of SMEs in the defence market. SMEs would benefit from more harmonisation and simplification of the rules and procedures that apply to the development, production and export of defence products and services, as well as capacity building programs for SMEs supported at national and European level.

Furthermore, SME participation in the defence sector is challenged by the public perception of the defence industry. Defence is a sensitive topic that often faces public criticism and scrutiny, especially when it is associated with militarisation and arms trade. This can discourage SMEs from participating in defence fairs and events, which are important platforms for showcasing their products and services, networking with potential customers and partners, and learning about the latest trends and opportunities in the sector. The EU should support the creation and

[4] https://defence-industry-space.ec.europa.eu/eu-defence-industry/defence-smes_en

development of defence clusters and networks that foster the cooperation and innovation among SMEs and other actors in the defence and security sector in Europe. More awareness raising and enhanced access to information, fairs and funding opportunities could improve the participation of SMEs.

Defence procurement and harmonisation

One of the main barriers that SMEs encounter in the defence sector is the procurement process. The existing EU guidelines and recommendations have not been effective enough to facilitate SMEs' access to the defence market, which is still dominated by large national players. SMEunited calls for a more ambitious and coherent EU policy on defence procurement, which ensures a level playing field and fair competition for SMEs across the Member States. Speeding up the defence procurement process is essential for enabling more SMEs to participate. Once a tender is awarded, it is important that SMEs receive their orders promptly to ensure business predictability.

In the increased use of joint defence procurement in the EU, it is important to ensure that the consortia for these procurements include companies of all sizes, including SMEs. There is a real risk that joint EU defence procurements may favour larger companies that have the resources to respond to substantial tenders. One potential solution to this issue could be the introduction of SME earmarking, ensuring a fair distribution of opportunities and fostering a more diverse and competitive defence industry.

4. SMEs in the EU preparedness strategy

The political guidelines 2024-2029 of Commission President von der Leyen called for the establishment of a Preparedness Union, enhancing EU's civil and military preparedness. A specific report on this topic, authored by the former President of the Republic of Finland, Mr Niinistö provides recommendations to develop a common European approach to preparedness.

The preparedness concept is a comprehensive approach to security, where the whole of society, including authorities, businesses, NGOs, and citizens, collaborate to safeguard society's vital functions against various threats. It emphasises the importance of sharing and analysing security information, preparing joint plans, and training together to ensure readiness for different kinds of incidents. It's a framework for collaborative action, ensuring that all levels of society are involved in maintaining security and resilience.

As Member States are at different stages of developing preparedness approaches, it is important that the European approach will take this diversity into account, allowing mutual learning, without hampering the systems that already exist and work well.

The role of crafts and SMEs in preparedness

SMEunited welcomes the efforts to improve the whole of society preparedness in Europe and recognises the crucial role of crafts and SMEs in this context. Therefore, we urge the inclusion of the business community in developing Preparedness Union strategy and its actions.

SMEunited reminds that small companies are flexible and willing to support communities and society and also need adequate resources and support to do so. To enhance the effectiveness and efficiency of preparedness, SMEunited calls for better coordination and communication between different stakeholders, such as authorities, civil society, and businesses, at the local, national, and EU levels. Moreover, SMEunited stresses the need for clear and consistent roles and responsibilities for stakeholders in crisis preparedness, as well as adequate training and guidance for SMEs to cope with various scenarios. It is important to highlight that SMEs should not be burdened with additional reporting requirements while contributing to preparedness activities. Additionally, SMEunited advocates for more investment for innovation in preparedness-related technologies and solutions, such as digital platforms, early warning systems, and resilience tools.

Preparedness for natural disasters and other emergencies

The first European Climate Risk Assessment (EUCRA) shows that climate risks pose a threat to Europe's energy and food security, infrastructure, water resources, and financial stability, among others. Many of these risks have already reached critical levels and can become catastrophic without urgent and decisive action. Those risks will significantly affect economic productivity (e.g. in the construction or tourism sector), private investment (after rebuilding damages), and public budgets. Between 1980 and 2022, weather- and climate-related extremes caused economic losses of assets estimated at EUR 650 billion in the EU Member States, of which around 170 billion in the last five years only. Moreover, climate risks affect SMEs' access to finance, their cost of capital, and their ability to repay debts. Therefore, supporting SMEs in better understanding and addressing climate risk must be an essential element of an EU preparedness strategy.

Preparedness from a large perspective means not only being ready for security threats, but also for natural disasters and other emergencies, such as pandemics, floods, storms, heatwaves, or wildfires. For example, improved water management and efficiency will contribute to increased security and resilience, especially in regions affected by water scarcity and droughts. To achieve this, it is important that strategic measures are implemented and budgeted for long-term periods, to offer stability and predictability to investors and SMEs. SMEunited also calls for more support and incentives for SMEs to adopt water-saving technologies and practices, as well as to participate in circular water economy initiatives.

Addressing climate risks must be a joined effort of all stakeholders. Building upon the findings and lessons learned from the European Commission's Climate Resilience Dialogue, a new

European platform could broaden the discussions about climate risks on a politically visible level, including a wide range of stakeholders from SME associations, social partners, civil society. The European Climate Resilience Stakeholder Platform and European Circular Economy Stakeholder Platform (ECESP) can provide a successful blueprint.

There are good practices in the Member States in this regard, such as the Belgian CERAC, the Climate Risk Assessment Centre, an independent centre focused on the analysis of climate and environmental risks in the medium and long term, with particular attention to national security and resilience. CERAC produces independent risk analyses that provide insights into Belgium's exposure and vulnerability to climate and environmental risks. The centre collaborates with various stakeholders and links its analysis to policy measures. Based on these analysis, CERAC provides information and recommendations to policymakers to support them in developing policies that take these risks into account. Their reports and recommendations are also available to regional and local authorities, citizens, and other stakeholders. For SMEs and self-employed, these can play a crucial role in their preparation and adaptation strategies.