

# SMEs

## The Overlooked Engine of Europe's Single Defence Market

### Abstract

Europe is assembling the contours of a European single market for defence (ESMD), but small and medium-sized enterprises (SMEs) remain underused despite being critical engines of innovation, resilience, and competition. This paper examines the position of SMEs in the European defence sector and reviews existing EU initiatives aimed at bridging the gap between their limited capacity and their structural importance. A competitive ESMD must be built on two foundations: open design authority and fair market contestability. To achieve this, the paper calls for reforms that open modular system architectures to smaller players, ensure fair co-ownership of intellectual property, and restructure contracts to broaden participation. Complementary measures on finance, payment discipline, and licence portability would further lower entry barriers and enhance interoperability across Europe's defence base. Only by opening markets and promoting vigorous competition that leverages the continent's full innovative potential can the European defence market finally become globally competitive.



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## Introduction

Only a decade ago, European defence sat on the margins, with references to European ‘hard power’ and ‘strategic autonomy’ considered taboo in Brussels. Today, it has become routine to call for a truly European defence industry, where EU leaders begin to sketch the contours of a European Single Market for Defence (ESMD).<sup>1</sup> This shift is unsurprising: in the wake of Russia’s invasion of Ukraine, Europe’s reliance on foreign defence markets has been laid bare, while uncertainty in transatlantic relations has added pressure for Europe to assume greater responsibility for its security.

In response, a flurry of funding instruments, legislative proposals, and strategic frameworks have emerged from Brussels to strengthen Europe’s industrial defence base. Yet the market remains stubbornly fragmented, partly because the initiatives themselves are fragmented. As the European Liberal Forum’s Renewing Europe guide observes, ‘the existence of multiple, overlapping structures and

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initiatives within the EU and between the EU and NATO creates confusion and inefficiencies. This institutional fragmentation dilutes the overall effectiveness of EU defence initiatives’.<sup>2</sup> This administrative complexity translates directly into industrial inefficiency.

Europe’s procurement remains largely organised along national lines, each Member State maintaining its own suppliers, standards, and approval procedures. This makes joint projects slow, costly, and inefficient. Without a proper European defence union, national procurement habits inflate costs and deepen dependence on non-European systems. Fifteen months after Russia’s

<sup>1</sup> Politico (2023), ‘Von der Leyen Promised a More Competitive Europe. How’s That Going?’ 13 September, <https://www.politico.eu/article/von-der-leyen-promised-a-more-competitive-europe-hows-that-going/>.

<sup>2</sup> European Liberal Forum (2024), Renewing Europe: A How-To Guide for EU Policy Makers, <https://liberalforum.eu/wp-content/uploads/2024/09/Renewing-Europe-A-How-to-Guide-for-EU-Policy-Makers.pdf>.

full-scale invasion of Ukraine, almost 78 per cent of the Union's additional defence spending went to third-country suppliers.<sup>3</sup> Paradoxically, Europe's market remains protectionist in structure yet dependent in substance. No single Member State – or coalition of them – can deliver the full range of interoperable equipment that high-intensity warfare demands. Narrow supply chains, long production lead times, and patchy standards compel governments to plug urgent gaps with imports.

This fragmentation narrows the space for innovation and keeps Europe's industrial ecosystem overly dependent on a handful of incumbents. To move towards a more open and competitive model, Europe must draw on its full breadth of industrial capacity. Here, small and medium-sized enterprises (SMEs) are key. As sources of innovation and drivers of competition, SMEs are natural bridges for cross-border collaboration. However, SMEs remain sidelined by entrenched procurement practices and policy frameworks tilted towards large national champions. This paper therefore examines how Europe can translate its liberal principles of openness and contestability into market rules that empower SMEs and, in doing so, make its defence base more resilient and competitive.

## SMEs as the liberal anchor of the defence market


Policymakers' preference for large primes is not without logic: they offer economies of scale, long-term employment, and the capacity to coordinate complex supply chains. Yet those same advantages concentrate control and dampen innovation. When design authority and intellectual property sit in too few hands, competition and adaptability fade. The liberal challenge, therefore, is not to dismantle primes but to discipline their position within the market – ensuring that openness and competition complement, rather than threaten, Europe's strategic strength.

At the heart of a healthy, functioning European defence market lies a liberal conviction: openness, competition, and pluriformity deliver stronger outcomes than protectionism or monopoly. SMEs are the clearest expression of this principle, providing an antidote to the monopolies that define national defence silos. Their agility and flatter structures make them natural innovators, quick to experiment with new technologies and bring them to market. Across the EU, over 2,500 defence-related SMEs operate in areas ranging from component manufacturing and software to cybersecurity, simulation, and advanced materials.<sup>4</sup> Many lead in dual-use and emerging technologies such as AI, robotics, sensors, and cyber defence – fields where agility is crucial.

<sup>3</sup> European Commission (2024), 'Joint Communication: Defence Investment Gaps and Way Forward', COM (2024) 10 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52024JC0010>.

<sup>4</sup> Euronews (2025), 'Brussels Seeks to Create Single Market for European Defence', 20 March, <https://www.euronews.com/my-europe/2025/03/20/brussels-seeks-to-create-single-market-for-european-defence>.

As F. A. Hayek argued in 'The Use of Knowledge in Society', knowledge is widely dispersed; no single actor can predict where the next breakthrough will come from.<sup>5</sup> A single national champion might pursue one research line, but a network of hundreds of SMEs will pursue hundreds of lines simultaneously, increasing the chances that one of them produces a decisive breakthrough. Europe's defence market, by contrast, still treats knowledge as proprietary and centralised, an inversion of that liberal logic.



A more competitive system – where SMEs can bid and partner alongside larger primes – broadens governments' options and strengthens their bargaining hand.

SMEs also embody liberal values by strengthening accountability and transparency. In monopolistic systems, governments become captive customers: they cannot credibly threaten to turn to alternative suppliers, and therefore they lose leverage in negotiations. A more competitive system – where SMEs can bid and partner alongside larger primes – broadens governments' options and strengthens their bargaining hand. This in turn enables clearer intellectual-property terms, fairer cost structures, and enforceable delivery conditions. Put differently, competition through SMEs disciplines both prices and practices, aligning procurement with the public interest.

A further liberal value embodied by SMEs is resilience. Concentrated markets are fragile. If production depends on just a handful of champions, a single political or geoeconomic disruption can ripple through the entire supply chain. By contrast, a diversified network of SMEs builds redundancy. If one firm fails, another can step in. This kind of distributed capacity is what makes markets antifragile. They can absorb shocks and continue functioning, even in times of crisis. In security terms, this resilience is a necessity. A robust defence ecosystem depends on both large integrators and smaller innovators, each amplifying the other's strengths: the primes provide scale and systems integration, while SMEs supply the agility and niche expertise that keep the system dynamic. As Renew MEP Lucia Yar has observed, SMEs are 'key drivers of defence innovation and resilience'.<sup>6</sup>

SMEs' cross-border collaborations also give practical meaning to European solidarity. A Czech sensor supplier teaming with a Portuguese software house knits together integration more tangibly than any communiqué could do.

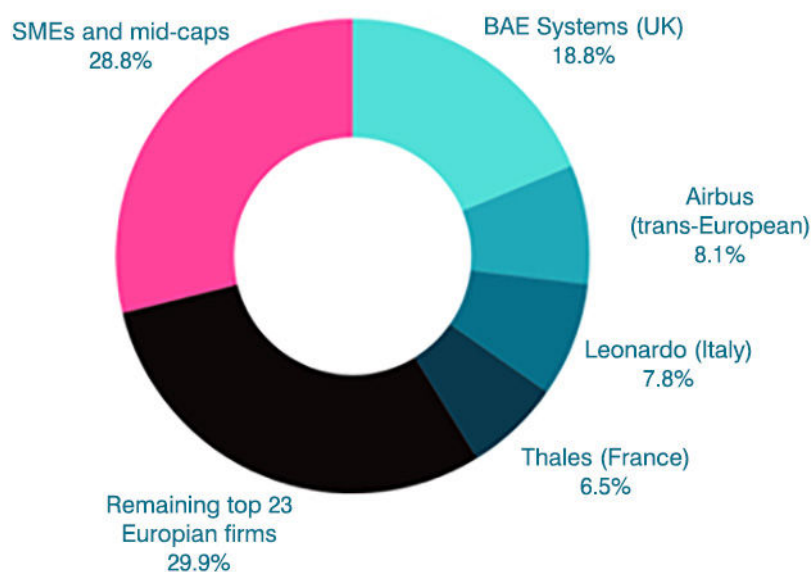
<sup>5</sup> F. A. Hayek (1945), 'The Use of Knowledge in Society', *American Economic Review*, 35(4), 519–530, <https://www.jstor.org/stable/1809376>.

<sup>6</sup> Renew Europe (2025), 'Strengthening Europe's Security: Renew Europe Champions Adoption of Defence Industry Programme', 24 April, <https://www.reneweuropegroup.eu/news/2025-04-24/strengthening-europes-security-renew-europe-champions-adoption-of-defence-industry-programme>.

## The current state of the SME defence ecosystem

Yet Europe's broader defence ecosystem remains highly imbalanced. Turnover in the European defence sector rose from €119 billion in 2020 to €158.8 billion in 2023, a 33% increase in just three years. But this surge has not been distributed evenly. According to the Stockholm International Peace Research Institute (SIPRI), €113 billion of that turnover was generated by only 27 European firms, a pattern reflected in Figure 1, where four primes – BAE Systems (18.8%), Airbus (8.1%), Leonardo (7.8%), and Thales (6.5%) – collectively capture more than 40% of total revenues.

**Figure 1.** European defence sector turnover, 2023: distribution of total €158.8 billion in arms revenues between the top 27 European firms and the rest of the European defence industry.



Source: SIPRI (2024),<sup>7</sup> author's calculations.

Across the wider European market, SMEs and mid-caps – medium-capitalisation companies that have outgrown the SME classification but are not yet considered large corporations – together represent around 29% of total defence turnover. Within the EU-27, however, SMEs capture only 11–17% of defence-equipment sales,<sup>8</sup> a share roughly half their weight in Europe's broader manufacturing

<sup>7</sup> Scarazzato, L., Tian, N., Lopes da Silva, D., Liang, X., & Djokic, K. (2024, December). The SIPRI top 100 arms-producing and military services companies, 2023. Stockholm International Peace Research Institute. <https://doi.org/10.55163/AXJA8131>

<sup>8</sup> European Commission (2017), Staff Working Document, SWD (2017) 228 final, <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A52017SC0228>.

economy.<sup>9</sup> The result is a market that preaches openness but practices concentration, where innovation thrives in principle, yet scale and ownership remain captured by a few incumbents.

Europe has recognised this imbalance, recognised SMEs' systemic value, and begun to respond. The past two years have seen a wave of initiatives, partially designed to lift SMEs closer to the centre of Europe's defence market. These measures can be seen across three overlapping layers.

- *Strategic direction.* The European Defence Industrial Strategy (EDIS, March 2024) set the vision for a more unified and resilient defence base.<sup>10</sup> Its legislative companion, the European Defence Industry Programme (EDIP), reached provisional agreement on 16 October 2025, establishing a €1.5 billion budget for 2025–2027, a 65 per cent EU or associated-state component rule, and a new security-of-supply regime with a European military sales mechanism.<sup>11</sup> Together, they mark a shift towards a 'Buy European' approach that explicitly embeds SMEs within continental supply chains and encourages their participation in multinational procurement chains.
- *Market incentives and rule simplification.* The Security Action for Europe (SAFE) Regulation (Reg 2025/1106) tackles financial barriers through up to €150 billion in EU-backed loans and VAT relief for joint procurement, while requiring Member States to integrate SMEs, mid-caps, and new entrants in their investment plans.<sup>12</sup> Complementing this financial pillar, the Defence Readiness Omnibus (June 2025) simplifies procurement thresholds, harmonises intra-EU transfer licences, and clarifies the treatment of defence under sustainable-finance rules.<sup>13</sup> These measures collectively lower the cost and complexity of SME participation in joint programmes.
- *Innovation and capital access.* The European Defence Fund (EDF)<sup>14</sup>, European Defence Innovation Scheme (EUDIS), and Hub for Defence Innovation (HEDI)<sup>15</sup> foster R&D and cross-border collaboration through dedicated SME windows

<sup>9</sup> Eurostat (2024), 'Businesses in the Manufacturing Sector', [https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Businesses\\_in\\_the\\_manufacturing\\_sector](https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Businesses_in_the_manufacturing_sector).

<sup>10</sup> European Parliament Research Service (2024), 'The European Defence Industrial Strategy (EDIS)', EPRS Briefing 762402, March, [https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762402/EPRS\\_BRI\(2024\)762402\\_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2024/762402/EPRS_BRI(2024)762402_EN.pdf).

<sup>11</sup> European Commission, DG DEFIS (2025), 'Proposal for a Regulation Establishing the European Defence Industry Programme (EDIP)', [https://defence-industry-space.ec.europa.eu/document/download/6cd3b158-d11a-4ac4-8298-91491e5fa424\\_en?filename=EDIP%20Proposal%20for%20a%20Regulation.pdf](https://defence-industry-space.ec.europa.eu/document/download/6cd3b158-d11a-4ac4-8298-91491e5fa424_en?filename=EDIP%20Proposal%20for%20a%20Regulation.pdf).

<sup>12</sup> Council of the European Union (2025), SAFE Regulation (Regulation 2025/1106), Official Journal of the European Union, [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L\\_202501106](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202501106).

<sup>13</sup> European Commission, DG DEFIS (2025), Defence Readiness Omnibus Regulation, [https://defence-industry-space.ec.europa.eu/document/download/b2bcc9a0-5259-4543-9e1c-3af1dde8fbec\\_en?filename=Defence-Simplification-Omnibus.pdf](https://defence-industry-space.ec.europa.eu/document/download/b2bcc9a0-5259-4543-9e1c-3af1dde8fbec_en?filename=Defence-Simplification-Omnibus.pdf).

<sup>14</sup> European Commission (2025), European Defence Fund official webpage, [https://defence-industry-space.ec.europa.eu/eu-defence-industry/european-defence-fund-edf-official-webpage-european-commission\\_en](https://defence-industry-space.ec.europa.eu/eu-defence-industry/european-defence-fund-edf-official-webpage-european-commission_en).

<sup>15</sup> European Defence Agency (2025), Hub for Defence Innovation (HEDI), <https://eda.europa.eu/what-we-do/research-technology/hedi>.

and matchmaking networks. The European Investment Bank and the European Investment Fund have begun expanding loan and equity instruments for dual-use and scale-up projects, gradually connecting innovation with finance.


Recognition, however, is not reform. These measures expand funding but have yet to enforce the liberal logic of openness and contestability that makes markets truly competitive.

## SME bottlenecks

In light of these reforms, Europe's new policy architecture may appear to be a well-oiled machine. However, the lived reality for SMEs tells another story. The main reason is the persistence of a nation-champion-first strategy. While programmes such as EDIP boost continental defence spending, they risk merely reinforcing national silos and bolstering primes such as Rheinmetall, Thales, and Leonardo.

While these companies are necessary for capacity, privileging them alone entrenches fragmentation, restricts competition, and sidelines the broader industrial ecosystem all while deepening reliance on third-country suppliers.<sup>16</sup> These primes are reinforced by national procurement preferences, exclusive framework contracts, and dominant access to EU R&D funds. These advantages sustain production but consolidate control in too few hands.

The gap between strategy and reality is felt most sharply across three fronts: market structure, finance, and regulation. These obstacles cut to the heart of how Europe's defence market functions. Intellectual property and design authority remain monopolised, finance is distorted by stigma and Environmental, Social, and Governance (ESG) ambiguity, and compliance burdens fall hardest on those least able to absorb them. Together, these choke points suppress the very qualities of innovation, openness, and contestability that make SMEs vital to a strong, liberal, and competitive European defence market.



The gap between strategy and reality is felt most sharply across three fronts: market structure, finance, and regulation.

<sup>16</sup> G. Wolff & S. Tagliapietra (2024), 'Governance and Funding of European Rearmament', Bruegel Policy Brief, <https://www.bruegel.org/policy-brief/governance-and-funding-european-rearmament>.

## Structural marginalisation in the value chain

A fundamental problem is who controls the blueprint of a defence product. In defence procurement, legal and technical control over a system's IP, specifications, and certification is known as design authority. Whoever holds it decides who can update, export, or license the product. Today, this power sits almost exclusively with prime contractors.<sup>17</sup>

This concentration locks SMEs into structural dependence. A small firm may design an innovative drone propulsion unit, but it often cannot refine or export it without the prime's approval, since certification and export licences remain in the prime's hands. Lacking access to design files, SMEs are unable to integrate new modules or upgrades on their own, a situation that undermines their autonomy and adaptability.

New initiatives such as EDIP and the SAFE aim to open the market and strengthen Europe's industrial readiness, but they risk entrenching existing hierarchies. They stop short of dismantling the structural paradigm in which primes retain design authority and SMEs remain subcontractors. Funding still flows mainly through large consortiums led by major contractors, and certification remains tied to national authorities. So long as design authority is monopolised, SMEs remain commodified suppliers rather than co-authors of capability. Concentrated IP suppresses contestability: the system rewards entrenchment, not innovation.

Europe's lack of common technical standards reinforces this dependence. Fragmented architectures and incompatible software interfaces make it difficult for SMEs to plug their innovations into broader systems. The absence of open, modular standards prevents firms from scaling components across markets and adapting them to multiple platforms. This not only limits SMEs' autonomy but also weakens European interoperability. This is an irony for a continent striving for integrated forces.

## Finance bottlenecks and stigma

European start-ups emphasise how capital-intensive defence is. As Xavier Pinchart, founder of Belgian defence SME Hiraiwa, explains, developing deployable systems demands months of cash flow before a prototype can even be field-tested: 'Developing battlefield-ready systems requires significant upfront investment ... unlike in other sectors, you can't just launch a minimum viable product.'<sup>18</sup> Yet even as the EU reclassifies defence as a strategic sector, many investors still treat it as a reputational risk. Banks, ESG raters, and utilities routinely avoid defence-

<sup>17</sup> K. Hartley (2024), 'Design Authority and Contracting in Defence Procurement', Defence and Peace Economics, <https://doi.org/10.1080/10242694.2024.2396416>.

<sup>18</sup> AeroSpace and Defence Industries Association of Europe (ASD) (2025), 'Xavier Pinchart on Navigating the Defence Sector as an SME', <https://www.asd-europe.org/news-media/news-events/get-inspired/xavier-pinchart-on-navigating-the-defence-sector-as-an-sme/>.

linked SMEs, creating a funding drought that even the newest frameworks have yet to correct. European financial institutions have cautiously opened credit lines for dual-use technologies, but lethal systems remain off-limits and equity volumes far too small to matter.<sup>19</sup> Despite political support for dual-use innovation, few instruments bridge the regulatory gap between civil and defence markets, leaving firms stranded in between.

Meanwhile, hidden imbalances further worsen liquidity. Primes often delay payments to subcontractors for four to six months, forcing SMEs to borrow simply to cover wages and materials. Instead of being rewarded for innovation, smaller firms are penalised by a financial ecosystem stacked against them. The result is a distorted market where scale is dictated not by ingenuity or fairness, but by incumbents' control of cash flow. This is a situation no liberal market should tolerate.

## Regulatory and administrative overload

If capital is hard to raise, compliance is even harder to survive. For most SMEs, the bureaucratic load remains punishing. Procurement procedures are slow and resource-intensive, with fragmented EU rules forcing small firms to spend scarce time and money just to bid. Member States then pile on their own requirements, multiplying paperwork and blocking cross-border participation on the grounds of national interest or strategic autonomy.<sup>20</sup> Even SME success brings duplication: security clearances and licences must be redone in each country they operate in.

Oversized obligations on cybersecurity, sustainability reporting, and supply-chain due diligence apply equally to Airbus and to a 20-person start-up, pushing smaller firms past breaking point. As one entrepreneur put it, 'you are accumulating all the worst-case scenarios for a typical investor'.<sup>21</sup> His company, which developed a grenade-sized drone-detection system with European Defence Fund support, described EDF grants as 'not good at all' because the reporting requirements consume the very time and resources start-ups need to survive. Add months-long permitting delays, shifting chemical restrictions, and payment cycles that leave SMEs waiting half a year for invoices to clear, and Europe's innovators are trapped in red tape instead of focused on defence readiness. From a liberal perspective, this creates an uneven playing field: large firms can absorb compliance costs across departments; small firms cannot.

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<sup>19</sup> European Commission (2025), 'White Paper for European Defence – Readiness 2030', 19 March, [https://commission.europa.eu/document/download/e6d5db69-e0ab-4bec-9dc0-3867b4373019\\_en](https://commission.europa.eu/document/download/e6d5db69-e0ab-4bec-9dc0-3867b4373019_en).

<sup>20</sup> European Defence Agency (2021), Vademecum on Member States' Defence Procurement Practices (v 2.2), 1 September, <https://eda.europa.eu/docs/default-source/procurement-library/vademecum-on-member-states-defence-procurement-practices-v-2-2---1-september-2021.pdf>.

<sup>21</sup> Euronews (2025), 'European Defence SMEs Must Ramp Up – But the Struggle to Access Money Is Real', 31 March, <https://www.euronews.com/my-europe/2025/03/31/european-defence-smes-must-ramp-up-but-the-struggle-to-access-money-is-real-heres-why>.

## Policy recommendations

Europe already has the right policy instruments, but they are too often applied in abstract terms, removed from the reality of a small supplier trying to break into a disjointed market. As *Renewing Europe* notes, the EU's defence framework 'remains fragmented, with overlapping mandates that lead to duplication and resource conflicts'.<sup>22</sup> Therefore, the task now is to move from overlapping initiatives to enforceable reforms that are concrete, measurable, and fair.

### Design authority and open competition

As outlined above, prime contractors currently hold near-total control over design authority in Europe's defence market. To promote contestability – the liberal principle that markets function best when incumbents can be challenged – and to improve fairness across the market, several policies are needed.

- **Progressively embed modular system architectures.** Industrial structures replicate the institutional silos that hold back EU integration. Modularity and open standards are therefore the technical translation of integration. Consequently, EU programmes such as the EDF, SAFE, and the forthcoming EDIP should include modularity requirements in domains where innovation moves fastest (software, cyber, sensors, and advanced materials). Modular, open-interface designs (e.g., open avionics standards, modular command software) allow smaller firms to develop or replace individual components without relying on a single prime for integration. This approach, modelled on the US MOSA and SBIR frameworks and reflected in the UK's modular weapons programmes, broadens participation and accelerates innovation across the supply chain.<sup>23</sup> As Pinchart notes, there is much to learn from the US contracting model: 'Governments should create ecosystems where they can identify promising technologies and place small development orders quickly.'<sup>24</sup> Crucially, modularity also reinforces interoperability. Common licensing regimes and shared technical standards would enable European firms to design components that communicate across national systems, rather than being locked into bespoke architectures. For SMEs, this means a predictable rule-set and a wider market for their technologies; for Europe's armed forces, it means forces that can operate together without friction.

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<sup>22</sup> European Liberal Forum (2024), *Renewing Europe*.

<sup>23</sup> V. Insinna (2024), 'Open Development Standards Are Key to Keeping the US Military On Top', *Defense News*, 9 December. <https://www.defensenews.com/opinion/2024/12/09/open-development-standards-are-key-to-keeping-the-us-military-on-top/>.

<sup>24</sup> ASD (2025), 'Xavier Pinchart on Navigating the Defence Sector as an SME'.

- **Share intellectual property fairly.** Technical openness must be matched by legal fairness. When SMEs co-develop a subsystem, such as a sensor or propulsion unit, they should retain co-ownership or fair licensing rights. Contracts should also include step-in clauses that allow a smaller partner or an alternative supplier to continue work if a prime fails to deliver. This keeps projects on schedule, protects public investment, and prevents knowledge from being locked behind a single contractor. The EU must explicitly address who holds design authority, IP rights, certification control, and export-licensing power. Without such reform, current efforts risk reinforcing the incumbent-dominated model they were meant to challenge, rewarding entrenchment over innovation.
- **Restructure contracts for contestability.** Large procurement projects should be divided into parts that smaller firms can credibly bid for (software modules, testing services, or materials components) rather than bundled into mega-contracts that only large primes can win.
- **Guarantee payment discipline.** EU-funded contracts should enforce 30-day payment deadlines throughout the subcontracting chain, with penalties for delays and public monitoring of compliance. Late payments often push small suppliers into debt or insolvency, meaning payment discipline is one of the simplest ways to make competition fairer.

## Finance that works for SMEs

- **Scale up equity instruments.** The EIF Defence Equity Facility should substantially grow from its current €175 million budget,<sup>25</sup> co-investing with national banks so that innovative firms can move from prototype to production without being forced to sell early to larger players.
- **Create a defence supply credit guarantee.** Through InvestEU, the EU should establish a defence supply credit guarantee enabling national promotional banks to share risk and provide affordable working capital to firms facing long payment cycles. Modelled on existing SME guarantee schemes in civilian sectors, it would let smaller contractors bridge delayed payments without resorting to costly borrowing or state aid. By unlocking private credit rather than subsidies, the mechanism would correct a clear market failure through market discipline rather than dependency – a liberal correction to a structural flaw.
- **Expand the European Investment Bank's role.** As Renewing Europe argues, strengthening the EIB's capacity to invest in Europe's security and defence base is central to building strategic autonomy. While the bank has already expanded its eligibility criteria and launched credit lines for SME defence supply chains, it should now be authorised expressly to invest in dual-use

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<sup>25</sup> European Investment Fund (2025), InvestEU Defence Equity Facility, <https://www.eif.org/InvestEU/defence-equity-facility/index.htm>.

and SME-oriented projects as a core pillar of the EU's financing architecture. This reflects the liberal premise that innovation should move freely between civilian and defence domains wherever it serves openness and resilience.

- **Clarify and enforce ESG rules in practice.** The 2025 Defence Readiness Omnibus confirmed that only internationally banned weapons are excluded from 'green' investment frameworks; legitimate defence innovation must in turn qualify for sustainable finance. The Commission and EU lenders should now enforce and communicate this clearly to financial institutions, ESG raters, and investors, so that legitimate defence firms, particularly SMEs, can access sustainable finance on equal terms.

## Cutting red tape, increasing mobility

Europe's rules are meant to protect transparency and security, but for smaller firms they often act as a wall rather than a gateway. Simplifying them would bring the single market's ideal of free movement into the defence sphere.

- **Portable licences.** The Omnibus extended general transfer licences to EU-funded projects and certified suppliers. The next step is mutual recognition so that a licence approved in one country is valid everywhere. A small manufacturer in Portugal should not need to reapply for permission to ship parts to France or Poland.
- **Mutual recognition of clearances.** Security vetting should follow the same logic. A company trusted with classified data in one Member State should be trusted in another, just as a certified customs operator is recognised across borders. Mutual recognition would reduce delays and allow smaller firms to join multinational projects more easily.
- **Right-size compliance.** Requirements under cybersecurity and sustainability rules (NIS2, CSRD, CSDDD) should scale with company size, focusing on essential safeguards such as incident reporting and grievance mechanisms rather than exhaustive documentation. Regulation should strengthen standards without suffocating innovation.

## Conclusion

The policy instruments of 2024–2025 have begun to lay the foundations of a European single market for defence that is capable of creating European defence readiness. Whether this is remembered as a moment of genuine integration or one of failed ambition will depend on how SMEs are treated, promoted, and integrated within Europe's defence industrial base.

The health of SMEs is the liberal proof of whether Europe's defence market is

open, contestable, and resilient. Liberal reform requires ensuring that the rules of the game reward ideas over incumbency, dispersing knowledge, strengthening accountability, and building antifragility. A Europe that empowers SMEs turns integration into discovery; a Europe that clings to national champions risks turning integration into cartelisation.

A European defence market that works for SMEs will be one that works for Europe: fair, open, and competitive, capable of meeting the continent's security needs without sacrificing its liberal values. Only such a market can make Europe secure on its own terms.

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**Benjamin Robitaille** is a Research Fellow at the European Liberal Forum, where he focuses on European security and defence policy. With a background in Politics and International Studies and a Master's in Crisis and Security Management from Leiden University, he is driven by a strong interest in how Europe can strengthen its security and shape its role in an increasingly complex world.

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