DEFENCE INDUSTRIAL POLICY IN NORWAY
Drivers and Influence

BY
KJETIL HATLEBAKK HOVE /
Senior Research Fellow, Norwegian Defence Research Establishment (FFI)

February 2018

The views expressed here are solely those of the author. They do not reflect the views of any organization.
The Norwegian defence industrial policy is outlined in a government white paper published in October 2015. The policy sets two priorities for acquisitions: national security interests and the needs of the Armed Forces. A competitive defence industry is needed both because of national security interests as well as a unique climate and topography. The policy is supported by a wide parliamentary consensus.

The defence industrial policy emphasizes that more open defence markets would be an advantage to the defence industry. As long as defence markets are not open, the government wants the same rules and regulations to apply for domestic industry as international competitors. Furthermore, the Norwegian government identifies the need for more international cooperation, both within the Nordic countries and within Europe. The government states that it aims to contribute towards the establishment of a common European defence and security market within the framework provided by EU directives. The American market is also considered important, but practically closed to foreign firms.

Due to its membership of the European Economic Area (EEA), Norway applies a similar type of regulation as the Article 346 of the Lisbon Treaty, through Article 123 of the 1994 EEA Agreement. The defence industrial policy takes into account the European Union Defence and Security Procurement Directive 2009/81/EC, which also applies to Norway as a member of the European Economic Area. According to the policy, how the directive is actually practiced in the EU will form a precedent for how it will be treated in Norway. Norway also signed a cooperation agreement with EDA in 2006.

The defence industrial policy requires a close partnership between national defence actors, particularly the triangular collaboration between the Armed Forces, the defence industry and the Norwegian Defence Research Establishment (FFI). By far the most of the total defence research and development investments are channelled through FFI, or is invested by the defence industry themselves. The triangular model is considered well suited for small countries because of short lines of communication and limited opportunity to duplicate expertise.

The Norwegian defence industry is highly integrated with foreign supply chains. More than half of all goods used goods used in production is imported.
DEFENCE INDUSTRIAL POLICY IN STRATEGIC DOCUMENTS

The most recent Norwegian defence industrial strategy was presented to the Norwegian parliament (the Storting) in a government white paper in October 2015 (Ministry of Defence, 2015). The white paper discusses national security interests, the international defence market, the Norwegian defence industry, and procurement rules and regulations, before presenting the defence industrial strategy. The new strategy takes into account the European Union Defence and Security Procurement Directive 2009/81/EC which also applies to Norway as a member of the European Economic Area. The leading political document for the Armed Forces, the long term plan, was presented in a parliamentary bill in June 2016. In the bill, the relevance of the 2015 government white paper was emphasized (Ministry of Defence, 2016b). In this paper, we will use the terms strategy and white paper interchangeably.

The strategy sets two priorities for national defence acquisitions: National security interests and the needs of the Armed Forces. As long as national security issues do not require otherwise, all procurements shall be based on principles of competition, non-discrimination and equal treatment of suppliers. The strategy also aims for more international armaments cooperation. Off-the-shelf products shall be procured when deemed to be cost effective (Ministry of Defence, 2015, p. 35). For Norwegian firms, the need for a stable and clear strategic framework for exports is emphasized. In those cases where security interests require developing new capabilities in Norway, the strategy emphasizes the importance of considering the potential for exports, to enable cost sharing.

The government underlines that a competitive defence industry is important for Norway, mainly due to factors like topography, climate, and geographic location. In Norway, these factors demand much of weapon systems and sensors, which sometimes make it necessary to acquire custom made equipment. Eight technological areas of competence are defined: (1) C4IS¹, (2) system integration, (3) autonomous systems, (4) missile technology, (5) underwater technology, (6) ammunition, sights, remote weapon stations and explosives, (7) material technology distinctly developed or processed for military purposes, and (8) life cycle support for military land, sea and air systems.

¹ Command, control, communications and computers information systems.
The white paper states that the government considers the Norwegian defence industry to be competitive within its areas of expertise. The government expects the industry to continue the work to maintain and improve its competitiveness. As a result, more open defence markets would be an advantage for the Norwegian defence industry, since it would allow for increased exports. Since the defence markets are not open, the government wishes to provide the same rules and regulations for the Norwegian defence industry as those faced by its competitors.

Furthermore, the government wishes to maintain the current collaboration between the defence sector and the defence industry, grounded in national security needs, preparedness and security of supply. As for research and development, a close relationship between the defence industry and the Norwegian Defence Research Establishment (FFI) is emphasized. This is discussed further below.

Norway is a part of the common market through the European Economic Area (EEA) membership. Article 123 of the EEA Agreement (1994) is similar to Article 346 of The Lisbon Treaty (2007). It allows Norway to take necessary measures to protect their security interests. However, the government considers Article 123 to have a somewhat broader field of application than Article 346 (Ministry of Defence, 2015, p. 29). This is based on an interpretation by the Ministry of Foreign Affairs.3

According to domestic law, all public procurements are regulated by the Public Procurement Act (2016) and accompanying regulations (Regulation on Defence and Security Procurements, 2013; Regulation on Public Procurements, 2016; Regulation on Supply Sector Purchases, 2016). These regulations aim to promote efficient use of public resources. In those cases Article 123 does not apply, defence procurements are made according to the Public Procurement Act.

---

2 By the defence sector, we mean the Ministry of Defence and its subordinate agencies (approximate number of full-time equivalents in parenthesis) the Norwegian Armed Forces (16 000), the National Security Authority (200), the Norwegian Defence Research Establishment (700), the Norwegian Defence Estates Agency (1 300) and the Norwegian Defence Materiel Agency (1 300).

3 This is based on at least three points: a) that Article 123 refers to “other products”, which Article 346 does not, b) that Article 123 refers to “products indispensable to defence purposes”, while Article 346 refers to “protection of the essential interests”, and c) that Article 346 refers to a list of products drawn up in 1958, whereas Article 123 refers to the more general “other products” (Neumann, 2013). Taken together, the Ministry of Foreign Affairs considers Article 123 to reach wider than Article 346.
THE STAKEHOLDERS AND THEIR INFLUENCE IN THE DEFENSE INDUSTRY

For a long time, there has been a wide political consensus in support of the need for a domestic defence industrial capability. No parties objected to the passing of the strategic white paper, where only two objections surfaced. The Centre Party, who currently controls 19 of the 169 seats in the parliament, advocates a Norway-first approach to procurements, where Article 123 is employed as the standard option. The Liberal Party and the Socialist Left Party, with a total of 19 seats, argue for tighter export restrictions (The Standing Committee on Foreign Affairs and Defence, 2016). The path of the defence strategy therefore does not change much depending on which parties form the government. The two major parties, the Labour party and the Conservative party, have long sought consensus in defence policy.

The technocratic structure is relatively straightforward. As a general rule, the Ministry of Defence deals with defence affairs. However, when it comes to the ownership of commercial companies, shares are controlled by the Ministry of Trade, Industry and Fisheries. All regulations concerning exports of strategic goods, services and technology are governed by the Ministry of Foreign Affairs, through the Export Control Act (1987). Since 1935, it has been illegal to export weapons and munitions to countries engaged in war or civil war, unless the League of Nations deemed the war legal (Enlarged Committee on Foreign Affairs and Constitutional Affairs, 1935). Regulations were strengthened in 1959 (Stortinget, 1959) and several times after that (Wicken, 1992, cited in Fevolden & Tvetbråten, 2016).

The major Norwegian defence companies have gathered to form an association – The Norwegian Defence and Security Industries Association (Forsvars- og sikkerhetsindustriens forening – FSi). They comprise about 120 members, accounting for approximately 5 000 full-time equivalents in defence-related activities (FSi, 2017a). The FSi also maintain a membership directory of all their members (FSi, 2017c). The turnover of the entire defence industry in 2016 was approximately NOK 13 billion (EUR 1.4 bn/USD 1.6 bn) (Pedersen, 2017). Exports constituted approximately NOK 5.5 billion (EUR 580 m/USD 680 m) of the 13 billion. In 2015, the Norwegian defence industry consisted of 3 large companies (more than 250 full-time equivalents), 11 medium sized
companies (50–249 full-time equivalents), 34 small companies (10–49 full-time equivalents) and 64 micro companies (less than 10 full-time equivalents) (Pedersen, 2016).

Of the three large Norwegian companies, Kongsberg Gruppen ASA is the largest, with 2,400 of its more than 7,000 employees in its defence related business. Kongsberg is listed on the Oslo Stock Exchange and the State owns 50.001 per cent of the shares. The second largest company is Nammo AS, who has 2,200 employees. The Norwegian Government and the Finnish company Patria own 50 per cent of Nammo each. The third largest company is Aerospace Industrial Maintenance (AIM) Norway SF, a public enterprise wholly owned by the Ministry of Defence. AIM employs approximately 460 people. Some of the smaller firms, such as Thales Norway and Vinghøg (owned by Rheinmetall), manufacture important end products themselves. Close to half of what the Armed Forces procure domestically originates from these smaller firms. Many other firms are important suppliers for Kongsberg and Nammo, who combined spend approximately one third of their turnover buying from these suppliers (Pedersen, 2016).

The defence industrial strategy places great emphasis on the triangular collaboration between The Armed Forces, the defence industry and the Norwegian Defence Research Establishment (FFI). FFI and the defence industry cooperate on product development, the industry and the Armed Forces work together on setting requirements, support in operations and commercial deliveries, while the Armed Forces and FFI cooperate on technical and operative evaluation and developing operational concepts. This collaboration has been in place since the 1950s, when the anti-submarine missile Terne was developed. Among later developments were the autonomous underwater vehicle HUGIN and the Naval Strike Missile (FFI, 2015). The triangular model is similar to that used in many other countries. It is considered well suited for small countries, such as Norway, where the lines of communication are short and where the opportunity to duplicate expertise is limited. By far the most of the total research and development investments (NOK 2 bn/EUR 210 m) are channelled through FFI (NOK 800 m/EUR 85 m) or invested by the defence industry themselves (NOK 1.2 bn/EUR 125 m).

Defence industrial policies in other countries also affect the Norwegian defence industrial policy. As the by far largest defence market in the world, the American market

---

4 Patria is owned by the Finnish state (50.1 per cent) and by Kongsberg Defence Systems (49.9 per cent).
is particularly important. According to the strategy, the American market is practically closed to foreign firms. To succeed, partnerships with American firms are essential. However, even acquiring an American firm limits which decisions the new parent company are allowed to make, so the room for manoeuvrability is small. While the American market remains relatively closed, Norway is pleased that the EU is gradually progressing towards a greater degree of cooperation, both through the Common Security and Defence Policy (CSDP) and the establishment of the European Defence Agency (EDA). Norway signed a cooperation agreement with EDA in 2006, the first non-EU country to do so. The agreement allows for the exchange of information, it allows Norway to present its views on EDA activities, and it allows for Norwegian participation in EDA projects and programmes (The Norwegian Government, 2013).

Finally, a plethora of large and small lobby groups continually lobby for their case. For example, The Norwegian Confederation of Trade Unions (LO) and the Norwegian Shipbuilders Sales and Marketing Organization long argued for building the new coast guard vessels in Norway (Madsen, 2016; Strønen, 2016). In the 2017 State budget, it was announced that article 123 was to be activated and the ships were to be built in Norway (Ministry of Defence, 2016a). National security was cited as the main reason behind this decision.

THE CONSEQUENCES OF THE DEFENCE INDUSTRIAL STRATEGY

The white paper does not contain a direct link with jobs. It is only mentioned briefly, as a piece of fact, that the defence industry contributes to employment. On their web pages, the FSi (2017b) mention that they contribute towards employment outside of the large cities. While it is not mentioned specifically in the strategy, employment in the regions outside of the largest cities is generally of interest to politicians.\(^5\)

The strategy ties the existence of a national defence industry closely to national security needs. In times of war or emergency, the fear is that foreign suppliers will give priority to their national needs before supplying foreign customers (Ministry of Defence, 2015, p. 10). Therefore, in critical areas, it is necessary to secure a sufficient supply to maintain national security. In those cases, Article 123 of the EEA Agreement can be activated.

---

\(^5\) For example, in 2017, a move to relocate 650 state-level jobs out of Oslo (Ministry of Local Government and Modernisation, 2017a, 2017b) generated considerable attention.
Furthermore, the strategy says at Norway must “safeguard our ability to conduct own assessments of technology and equipment, independently of other nations” (Ministry of Defence, 2015, p. 32, author’s translation).

In the white paper, the government states that it aims to contribute towards the establishment of a common European defence and security market within the framework provided by the EU directives. However, it is cautious in its approach on whether or not the 2009/81/EC Directive will provide a more open defence market, saying that how it is actually practiced will form a precedent for how it will be treated in Norway.

To improve market access for the defence industry, the following measures are outlined:

- Make use of general tools to promote exports. Such tools can be to provide consulting and network access, as well as political meetings.
- A firm and stable set of rules on export controls, by maintaining the set of measures currently in place.
- Government support for marketing, such as participation in defence materiel exhibitions.
- Industrial cooperation has been important to obtain market access for the Norwegian defence industry. As long as foreign defence markets remain closed, the government wishes to use industrial cooperation to improve market access. Also, as long as procurements are made under Article 123, industrial cooperation will normally be required.
- The government wants to consider introducing a system for government-to-government sales. Many competing countries already have such systems in place, and introducing such a system would create equal opportunities for the Norwegian defence industry. Government-to-government sales are, for example, popular in some emerging economies, because it reduces risk for buyers and it reduces the risk of corruption.

The strategy emphasizes that international cooperation will be more important in the future. However, the experiences so far are not all positive. A large number of participating nations have often led to complicated and costly processes. Jointly financed projects connected to NATO are considered to have been more successful. The close relationship with the Nordic countries is also emphasized. In March 2015, an agreement
on defence industrial cooperation between Denmark, Finland, Norway, and Sweden was agreed, providing a framework for shared development, procurement, operations, maintenance and upgrades of weapon systems (Ministry of Defence, 2015, p. 16).

The white paper does not contain any analysis of the level of integration with foreign suppliers. We do know that since 2011, the Norwegian defence industry has imported approximately 55 per cent of goods used in production (see Figure 1). This provides an illustration of how the defence industry is integrated with foreign supply chains. The studies upon which the figure is based (Pedersen, 2015, 2016, 2017, Tvetbråten, 2011, 2012, 2013, 2014; Tvetbråten & Fevolden, 2011) do not distinguish between European and American suppliers. Currently, no research has been conducted to investigate to which extent the Norwegian defence industry depend upon international supply chains.

Figure 1 - Total defence related cost of goods from foreign and Norwegian suppliers.

FUTURE PROSPECTS IN BRIEF

In brief, it seems that Norwegian defence industrial policy will continue along the same path as it has done for decades. There is a broad political consensus about the role and need for the industry. Given the current security climate, it is unlikely that national

---

security interest should imply a reduced importance of domestic production of certain defence goods in the foreseeable future.

The approach towards the 2009/81/EC directive will depend upon how it is implemented in other countries. If protectionism is reduced in large European markets, the strategy says that Norway will adapt, as the Norwegian government has clearly stated that they would welcome more open defence markets and more international cooperation.
REFERENCES


Enlarged Committee on Foreign Affairs and Constitutional Affairs. (1935). Innst S nr 80: Innstilling fra den forsterkede utenriks- og konstitusjonskomite om forbud mot utførsel av våben og ammunisjon og annet krigsmateriell til Bolivia og Paraguay samt om eksport av våben og ammunisjon fra de militære fabrikker i sin alminnelighet [Recommendation from the Enlarged Committee on Foreign Affairs and Constitutional Affairs on prohibiting the exports of arms and munitions to Bolivia and Paraguay, and on exports of weapons and munitions from the military factories in general]. Retrieved from https://www.stortinget.no/no/Saker-og-publikasjoner/Stillinger/Lesevisning/?p=1935&paid=6&wid=a&psid=DIVL1395&pgid=a_0193&sr=1


#25

Policy Paper

DEFENCE INDUSTRIAL POLICY IN NORWAY

Drivers and Influence

BY

KJETIL HATLEBAKK HOVE / Senior Research Fellow, Norwegian Defence Research Establishment (FFI)

February 2018

The views expressed here are solely those of the authors. They do not reflect the views of any organization.

ARES GROUP

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

CONTACT [Pilots]:

Jean-Pierre Maulny, Olivier de France, Sylvie Matelly, Sophie Lefeez

ares@iris-france.org
+33 (0)1 53 27 60 60

www.iris-france.org/ares

#AresGroup