

DEFENCE INDUSTRY POLICY 2013-2022

Introduction

Pursuant to Subsection 60 (1) of the Government of the Republic Act, the Ministry of Defence is responsible for developing the defence industry. Subsections 10 (10) and (11) of the statute of the Ministry of Defence state that the Ministry of Defence shall direct the development of the defence industry and organize, in the event of war, the preparation for action in wartime of companies placed at the disposal of the ministry. It shall also direct national defence-related studies and research in the field of equipment and the defence industry.

The operational programme of the Government of the Republic 2011-2015 sets forth support for the Estonian defence industry, and research and development activities with defence purposes.

The development of the defence industry is closely related to defence-related research and development, as a result of which the fields must be coordinated with each other. In harmony with the development of the defence industry, the strategy for defence-related research and development is updated, the implementation plans for defence-related research and development are prepared and the procedure for development grants and assistance is implemented on a continuous basis. As a result, this document is related to the “Strategy for defence-related research and development” established in 2008, and its implementation plan – currently pending completion – as well as to the document that sets forth the principles and procedure for supporting defence industry research and development.

Based on the above functions, this defence industry policy has been developed, which in its essence is an agreement between the state and defence industry with regard to principles on the basis of which the field is to be developed.

The Defence Industry Council shall perform supervision over the implementation of the objectives of this document. To ensure the conformity of defence industry policy with the development of the defence industry, the Defence Industry Council regularly updates the contents of the document. The updated version of the defence industry policy will be completed in autumn 2013.

Definition of defence industry

The defence industry encompasses legal persons registered in Estonia that are engaged in research and development or manufacturing for defence and security purposes, or in provision of related services. The defence industry is distinguished from other economic sectors by the specific nature of the close cooperation between state and companies, which places higher requirements on both (such as limited range of users for products, exceptional export regime, exceptional sales environment, higher industrial espionage risk and heightened security requirements).

The defence industry includes, among other things:

- manufacturing of equipment used for defence and security purposes,
- maintenance and repair of equipment used for defence and security purposes,
- provision of goods or services of a critical nature during a time of crisis and wartime.

Principles

The vision of the defence industry policy is to enhance, by way of developing the defence industry, the state's capacity to defend itself and to increase the national wealth.

In order to ensure that the state enjoys the best-quality solutions in light of the existing resources, the defence industry policy shall be implemented transparently, in conditions of honest and fair competition and in compliance with good practices. Cooperation between the various parties is the sine qua non of successful implementation of the defence industry policy.

The defence industry is part of Estonia's broad-based national defence, covering the manufacturing of goods with dual uses. As due to national security interests, it is expedient for the state to participate in the defence industry, the state shall consider this option; important considerations for the state in this regard are focused allocation of resource, pragmatic approach, creation of a supportive environment and avoidance of protectionism.

The Ministry of Defence budget shall cover defence industry activities related to military national defence; and to diversify risks, funding shall take place on the principle of co-financing. In addition to defence industry fields directly related to military national defence and fields where states do not share the entirety of their national information (intelligence, sensor applications, cyber defence etc) the Ministry of Defence may, if possible, support other innovative, high-tech, high-value-added, international-calibre competitive and high-export-potential activities. Research and development and defence industry projects unrelated to military national defence shall not be covered from the defence budget.

The Ministry of the Interior budget shall cover defence industry activities related to internal security; and to diversify risks, funding shall take place on the principle of co-financing. The Ministry of the Interior shall if possible support other innovative, high-tech, high-value-added, international-calibre, competitive and high-export-potential activities.

The Ministry of Defence and Ministry of the Interior reserve the right to restrict the selection of defence industry partners if it is necessary to ensure a national security interest.

From the standpoint of the sustainability of the defence industry, Estonia's own environment is not a sufficient guarantee of success for companies; among other things limiting a company to operating domestically will not allow it to attain reasonable commercial production volumes. For this reason, the international context must serve as the basis, as this ensures better quality and brings new technologies to Estonia. Among other benefits, investments into Estonia by international defence industry companies, especially those of NATO and EU states, increase the credibility of the deterrent factor and, thus, Estonian security.

Export of defence industry products shall proceed taking into account the principles of international and Estonian export control.

Objectives

The objective of defence industry policy is the inception and retention in Estonia of a defence industry that is internationally competitive, oriented at export and which generates value added, serving as a reliable partner in peacetime, during crises and in wartime.

To accomplish this objective, the first priority is to set forth a more precise overview of the situation of the Estonian defence industry, through which the state will be able to more effectively support the development of the defence industry, including developing state defence industry projects.

The criterion for the following defence industry policy measures is the defence industry as a percentage of GDP; the objective of defence industry policy is to increase the share of defence industry in GDP faster than state investment into defence industry.

Measures

To support the implementation of defence industry policy, carrying out the objectives and supervision, the Minister of Defence shall convoke a Defence Industry Council. The Defence Industry Council shall operate as an advisory body to the Ministry of Defence in defence industry matters, and take the form of an assembly of members with defence industry-related, economic and military competence (Annex 1).

The following measures shall be applied to implement defence industry policy:

- 1) establishment of the Defence Industry Council by early 2013;
- 2) national project measure – based on national security interests and the capability of the defence industry, a so-called national project shall be created if necessary in a certain priority field;
- 3) general legislative measure – the defence industry shall be integrated with basic national defence documents and action plans;
- 4) assistance measures – state grants for marketing, development and research;
- 5) social measure – organization of events, seminars, conferences and simulations held jointly by the state and defence industry;
- 6) annual implementation plan – specific activities shall be described for implementing this defence industry policy and updated every spring in harmony with the budgetary process.

Division of labour

There are four equal parties in defence industry policy: the Ministry of Defence, the Ministry of the Interior, the Defence Forces and the defence industry. With regard to the defence industry, an important partner for the state in achieving the objectives of the defence industry policy shall be the Estonian Defence Industry Association.

The division of labour between the parties is as follows.

1. Ministry of Defence:

- a. is in charge of general steering of the field of defence industry;
- b. develops and establishes a defence industry policy;
- c. coordinates cooperation with other ministries and government institutions;
- d. harmonizes and coordinates with the Ministry of Economic Affairs and Communications and the Ministry of Foreign Affairs, state national export policy with regard to the defence industry;
- e. approves critical fields of industry where due to the need to ensure Estonian Defence Forces capability or vital services it is necessary to preserve or develop know-how and a defence industry platform in Estonia;
- f. directs and supports defence-related research and development and creates opportunities for international cooperation in this field;
- g. engages in cooperation with the Research Council and Enterprise Estonia in coordinating defence-related research;
- h. distributes information in national defence development areas;
- i. distributes information on defence-related equipment procurements;
- j. distributes international defence industry-related information;
- k. distributes information on business opportunities and procurements stemming from NATO, the EU, regional or multilateral defence cooperation;
- l. supports the Estonian defence industry in establishing international business contacts both abroad and in Estonia;
- m. supports marketing of Estonian defence industry at international events;
- n. applies offset countertrade in the case of major procurements.

2. The Ministry of the Interior:

- a. takes part in approving critical fields of industry where due to the need to ensure capability in institutions in the jurisdiction of the Ministry of the Interior (police and Border Guard, Rescue Board, Alarm Centre, Security Police Board, Ministry of the Interior Information Technology and Development Centre) or vital services it is necessary to preserve or develop know-how and a defence industry platform in Estonia;
- b. takes part in developing defence-related research and development;
- c. distributes information on internal security development areas and ensures exchange of information on procurements for equipment in the field of internal security;
- d. distributes information on development areas in its field of activity, if necessary also information on technical achievements of other countries obtained in the framework of export transactions;
- e. provides feedback on product development, equipment and services;
- f. offers specialized security-related expertise;
- g. tests defence industry products as necessary and possible;
- h. supports introduction of Estonian defence industry products at international cooperative meetings or joint operations.

3. Defence Forces:

- a. defines the Defence Forces' needs for equipment and services;
- b. identifies critical fields of industry where due to the need to ensure Estonian Defence Forces capability or vital services it is necessary to preserve or develop know-how and a defence industry platform in Estonia;
- c. takes part in research and development;
- d. distributes information about military development areas;
- e. distributes information on Logistics Centre procurements;
- f. provides feedback on product development, equipment and services;
- g. offers specialized military-related expertise;
- h. tests defence industry products pursuant to opportunities;
- i. tests Defence Forces equipment in cooperation with the defence industry.

4. The defence industry:

- a. takes part in implementing defence industry policy;
- b. is active in finding export opportunities;
- c. contributes to research and development and where possible gives out scholarships in technical fields;
- d. is a trustworthy partner for the state;
- e. is visible to the state and ensures the existence of information;
- f. distributes information on development areas in its field of activity, if necessary also information on technical achievements of other countries obtained in the framework of export transactions;
- g. provides feedback on procurements for defence-related equipment;
- h. distributes international defence industry-related information;
- i. provides the state with goods or service that are of critical importance in a wartime context;
- j. provides the state specialized expertise and, if necessary, a network of contacts;
- k. takes part in activities pertaining to NATO and EU defence industry;
- l. tests Defence Forces equipment pursuant to opportunities.
- m. creates by 2014, a register that maps out the defence industry at least insofar as its basic indicators and ensures its numerical measurability (for instance: field, production volume, export volume, turnover). To this end, a relevant register shall be set up in the Estonian Defence Industry Association.