

# NORWAY

## Overview

Norway's defense budget plan emphasizes modernization of existing equipment and acquisition of new modern defense technology. The Norwegian goal is to have more than one third of future defense budgets earmarked for material purchases which would result in a real increase in defense acquisitions.

Norway is currently in the process of updating/replacing a significant part of its major defense systems including naval vessels, fighter aircraft, helicopters, transport aircraft, armored vehicles and missile systems. A total of USD 10 billion is planned for investment in modern defense equipment over the next decade. Some of these projects have been awarded, and U.S. suppliers already have secured important contracts.

Historically, American companies have had great success in supplying Norway's military forces with equipment and services, and Norway should remain a good market for American companies selling defense-related equipment and services so long as these companies offer something unique and can provide direct offset opportunities to Norwegian defense industries.

## Defense Industry Environment

American companies have had great success in supplying Norway's military forces with equipment and services. This has been done via foreign military sales (FMS), direct commercial purchases, and NATO programs. However, as the nature of the military threat to Norway has changed, Norway's and NATO's programs and plans have changed to meet the new challenges of a vastly different global situation. GON officials feel that Norway's special location and conditions will require continuous investments in modern defense equipment and exercises. Consequently, there will be a number of local projects and NATO infrastructure programs for foreign companies. Also, a large portion of the Norwegian military's equipment is aging leading towards acquisition of more high technology equipment to meet modern combat requirements. American companies will now face more competition from European companies as Norway's relations with Europe strengthen. Norway is a member of the Independent European Programme Group (IEPG), and also has bilateral Memoranda of Understanding (MOU) with nine countries (including the United States) regarding military acquisitions and cooperation. However, Norway should remain a good market for American companies that sell defense related equipment and services.

Norway is a net importer of defense material and the number of local firms engaged in large scale production of high-tech defense equipment is very limited. Only a handful of companies are regarded as important defense equipment suppliers while many firms have specialized in smaller niches of this market. Some 50 domestic companies specializing in defense (as well as civilian) products have formed an association named Norske Forsvarsleveranser

(NFL), or Norwegian Defense Industry Group, headquartered in Oslo at the following address:

Confederation of Norwegian Business and Industry (CNBI)  
Defense Industry Group (NFL)  
Middelthunsgate 27  
0386 Oslo, Norway  
Att: Mr. Bernhard J. Eggesbo, Director  
Tel: (47) 22 96 50 00  
FAX: (47) 22 96 53 71

This is an important organization with links to the entire Norwegian business community, as well as the military sectors.

Although Norway's defense budget (NOK 23.960 billion in 1994 and NOK 22,620 in 1995) is shrinking slightly, with a stated goal of zero real growth, there is an aim towards continued modernization and acquisition of modern defense technology. Plans for extensive military acquisitions during the next decade include defense material valued at USD 10 billion. The Navy program calls for building/replacing of six fully equipped frigates. The Air Force is well into a replacement plan for old F-16's with a preliminary purchase of 20-40 new fighter aircraft as well as an upgrade of the fleet of utility helicopters. The Army has announced plans to acquire 20 attack helicopters, replacement of old C-130's and build an army training facility, among other things. While all of these purchases may not be from the United States, a 70% success rate would not be unrealistic.

### **Norway's Major Defense Projects for 1996-2000**

Utility Helicopters	\$240 Million
F-16 Upgrade	\$257 Million
Attack Helicopters	\$1.5 Billion
AMRAAM	\$370 Million
KFA-96 Next Generation Fighter	\$2.5 Billion
C-130 Cargo Aircraft	\$370 Million

#### *KFA-96 Next Generation Fighter*

Norway is in the process of replacing its aging fleet of F-5's and F-16's. The number of aircraft replacements will be between 24 and 48, and the estimated value for this project is USD 2.5 billion. The name of the overall flight project is Kampflyanalysen - 96 (KFA-96-future fighter aircraft) and the name of the contracting authority is:

Royal Norwegian Air Force Material Command  
Procurement Division  
P.O. Box 10  
2007 Kjeller, Norway  
Tel: (47) 63 80 80 00

Fax: (47) 63 80 88 99

### *F-16 Upgrade*

The F-16 upgrade is being performed by Lockheed Martin and is almost complete. The next item for the F-16 family is to replace the F-16's that Norway has lost and the 15 aging F-5's. There are four competitors to replace the F-16 and F-5 aircraft: two U.S. companies: McDonald Douglas with the F-18 and Lockheed Martin with the F-16. There are two foreign competitors: Rafael (France); Eurofighter (European consortium). The remaining F-16's will be replaced either with the same four companies or with the joint strike fighter.

The first round selection from six potential suppliers produced a short list of these four companies. Second round selection will produce a short list of two competitors, and who will be included in the third round of negotiations in January 1997. Negotiations will consider technical aspects, costs and performance, and not least, industrial cooperation (offset proposals). The expected award date will be shortly thereafter.

### *Attack and Utility Helicopters*

Also, the Norwegian defense authorities have decided to include a request for 20 new army attack helicopters in the long term defense budget, commencing in 1999. Estimated value for this project is USD 1 billion and the expected award date will be in 1999 or 2000. The plan has not yet been discussed in the defense committee, but there appears to be a general parliament consensus for this giant defense investment project appears to be positive. The contracting authority will be the Royal Norwegian Air Force Material Command.

In addition, there are plans to install helicopters on board the six new Navy frigates being built, and to replace the old Lynx helicopters currently used by the Norwegian coast guard. These 40 utility helicopters will be operated and owned by the Norwegian Air Force.

### *Advanced Medium Range Air to Air Missile - AMRAAM*

Norway has a contract for the delivery of 824 missiles. The total cost of this project is USD 370 million. This makes Norway the largest foreign customer in the world. The missiles are produced by a unique teaming arrangement of Kongsberg (a Norwegian company), Raytheon and Hughes.

### *C-130 Cargo Aircraft*

This is currently the hottest program in Norway. Norway is expected to purchase 6 new C-130Js. At present, Lockheed Martin appears to be the contractor that will supply the planes. The value of the program is USD 370 million.

Although a considerable share (50 percent in terms of value) of defense material is imported from foreign suppliers, Norwegian companies normally secure the majority of the

defense material contracts; some through direct awards, and others by joint ventures or "regular" offset arrangements. Approximately 50 companies are considered "qualified" suppliers of specialized military equipment. Several contracts have recently been won by local manufacturers specializing in major product sectors such as tactical communication and command/control systems, and smaller specialized naval vessels.

During the last decade, Norway's MOD issued 64 contracts valued at \$3 billion, to 35 foreign suppliers. The total compensation/offset share obtained from these contracts was reported at \$1.8 billion. Much of this offset, although "high-tech," is not necessarily military equipment or services and is often destined for third markets. From 1950 to 1996, Norway has bought U.S. defense equipment valued at USD 3.6 billion.

Although U.S. defense equipment suppliers have a substantial share of the Norwegian military market, Norway's membership in the European Economic Area (EEA) and associated membership in the Western European Union (WEU) may lead to a demand for more purchases from suppliers established within the EU. Major European suppliers of defense equipment to Norway's military forces include Sweden, Germany, the U.K., and France.

The Norwegian Government and the Norwegian defense material industry have targeted critical areas in which they believe Norwegian defense industry is competitive and where they will stress international development and cooperation. These areas are listed below.

- Hardware/Software for communication, command, control and information systems
- Radio, Satellite and Line Communication
- Electro-Optical systems
- Fire Control Systems
- Missile Technology
- Ammunition/Explosives (including destruction of waste ammunition)
- Undersea technology
- High-speed vessel technology
- Space research

These sectors also are of particular interest in most offset/compensation plans and suppliers able to focus on technology within these fields will be favored.

## **Defense Procurement Process**

All military equipment acquisitions in Norway are under the auspices of the Norwegian MOD. The relevant agency within the MOD is listed below.

Royal Norwegian Ministry of Defense  
Att: FD IV-6  
Myntgaten 1

P.O.Box 8126  
Dep 0032 Oslo, Norway  
Tel: (47) 22 40 20 00  
Fax: (47) 22 40 23 23

Weapons acquisitions are handled by the procurement offices within each of the military services under the auspices of the Norwegian Ministry of Defense. The military services evaluate proposals/systems based on technical performance and cost, while the Ministry of Defense evaluates the offset proposals. Most procurement plans are advertised in the monthly publication, "Norwegian Defense Contracts," issued by the Norwegian Defense Command. Information is provided for both prime and subcontractor levels. This publication can be obtained from the following agency.

Norwegian Defense Contracts  
HQ Defense Command Norway  
WEAG Focal Point  
Oslo Mil/Loeren  
N-0018 Oslo, Norway

In addition to the procurement plans advertised in the monthly publication, "Norwegian Defense Contracts," issued by the Norwegian Army Materiel Command, Budget and Accounts Office, the MOD publishes an industrial protocol covering cooperation/joint ventures, general purchase provisions, and offset agreement samples. In 1993, the MOD also issued a publication (in English), "How to sell to the Norwegian Armed Forces". Copies of this document can be obtained from the following agency.

The Ministry of Defense  
Press and Information Department  
Myntgata 1  
0151 Oslo, Norway  
Tel: (47) 22 40 23 11

Regarding bid procedures, Norwegian defense authorities require extensive information about the bidding company and its capabilities as well as its products. Procurement activities may require testing a product at their local facilities or visiting the test sites of the suppliers.

Most NATO tender notifications are channeled through the various embassies. The American Embassy (US&FCS and the Office of Defense Cooperation) forwards these notifications back to the U.S. Department of Commerce in Washington for dissemination via electronic bulletin boards, the National Trade Data Bank, and other methods for American companies to access the major opportunities in the Norwegian market.

Other defense procurements are advertised in the Norsk Lysningsblad (Norway's Gazette); however, in most cases, the solicitations are mailed directly to suppliers known to the purchasing office. At least three bidders are included for each procurement. The Ministry of Defense does

not regularly schedule conferences to announce upcoming military procurements, but it does hold informative seminars in special cases.

As in other countries, local representation by foreign firms has proven very useful, if not essential. Most foreign firms successful in selling to Norway have local representation or sales offices, or have marketed themselves directly to the military authorities and the procurement officials through product presentations and regular personal contact.

### *Offsets*

Official Norwegian policy is that offset/compensation is required on contracts above NOK 50 million (including options). The requirement is to obtain a hundred percent compensation, but the actual amount of offset has varied with the project. The offset may be either direct or indirect. While previous offset programs mainly were concentrated on direct purchases of industrial commodities from Norwegian industry, the emphasis of the Norwegian Government is now focused on more long term arrangements involving technology transfer and/or providing technological competence to the local defense industry.

The amount and types of offset are determined through negotiations. In-country experience or close contacts are usually a strong advantage, but the defense industry group within the CNBI can be of assistance in developing an offset package.

Specifications are normally included in the solicitation package. If additional specifications are required, they may be obtained from the appropriate contracting agency or the following specification repository:

Defense Combined Materiel Agency  
IEPG Focal Point  
Oslo Mil/Loeren  
0018 Oslo, Norway  
Tel: (47) 32 89 65 47  
Fax: (47) 22 22 54 81

### *Contract Process*

The sealed-bid procedure is the normal procurement method. Military purchases often are made from selected suppliers. Prior to final negotiations, the purchasing office issues a draft contract. At this time, the offset conditions are negotiated by the MOD and agreed upon in an "industrial protocol" prior to contract signature.

Fixed-price, cost-plus, and incentive contracts are used. Fixed-price contracts are used most frequently. The type of contract is normally not negotiable. Norway's general contract provisions are included in Forms 5051 and 5053 (general provisions). They include shipping instructions, technical documentation, work schedule, delivery schedule, payment procedures, and so on. In addition, each contract will have special provisions such as warranties, codification,

option rights, obligation to supply spare parts, etc.

Pre-award surveys to assess technical and financial competency are required for procurements of an extensive or complex nature. These are normally handled by the purchasing offices. Pre-award surveys are restricted to the items that are of interest to the buyer in connection with the contemplated procurement. The procurement authority appoints the necessary technical personnel to carry out the supplier analysis and ensures that appropriate agencies participate to the extent necessary.

In the case of large contracts, importance is attributed to appraisals of the supplier's capacity for direction and control and especially the supplier's ability to meet scheduled delivery requirements. All information and data obtained are confidential and will be used only for the purposes for which they were collected.

Norway recognizes U.S. security classification procedures. U.S. firms wishing to participate in Norwegian procurements containing classified information should pursue this through U.S. Government sources. Norway has an industrial security regulation comparable to U.S. DOD's 5220.22-R.

Contract administration procedures and the organizations responsible for this service are identified in the general provision form 5053. Unless otherwise specified in the contract, the principles of Allied Quality Assurance Publication No. 4, NATO Quality Inspection System requirements for industry, or equivalent national government publications shall apply. The contracting office has the right, at its own expense, to inspect and observe development and production. Quality assurance services are performed by the Defense Combined Material Agency, but the actual responsibility for quality assurance rests with each materiel command.

Notices are not sent routinely to unsuccessful bidders. In special cases, contractors may request that the procuring agency review its contracting process. An additional Administrative Appeal Authority outside the procuring agency is the MOD. If negotiations between the parties fail and they do not mutually agree to arbitration, the case may be brought before the civil courts.

The Norwegian Ministry of Defense issues annually a list of defense products with duty-free entry provisions. This list is addressed to and received by Norwegian customs authorities and includes, among other items, aircraft and aircraft parts, military products and services connected to the weapons production program between the United States and Norway, NATO programs concerning equipment lease, exchange, or borrowing, and medical supplies and equipment.

## **Diversification and Commercial Opportunities**

## *Privatization*

Norway has a group of almost 100 small (by American standards) companies specializing in defense equipment and dual use items. There are two major companies of which Kongsberg (previously Norsk Forsvarsteknologi/ NFT) is the most well known. All of these companies, some of which are subsidiaries of European companies (e.g. ABB, Siemens, etc), work very closely with the GON, which is adamant about maintaining a viable defense industrial base. Kongsberg recently purchased other Norwegian defense and electronics firms to become stronger in international civilian markets. The GON retains managerial control of Kongsberg by holding a majority of its stock. At the same time the GON is seeking to rebuild Kongsberg into a bigger and more diversified company reminiscent of the "Kongsberg Vaapenfabrik" that was broken up in the late 1980s as a result of the "Kongsberg-Toshiba" export licensing case. There has also been a strong effort on the part of the MOD to support its small defense industry by requiring 100 percent offset for any Norwegian military contracts in excess of 50 million NOK. Moreover, it is not an easy process for an American company to acquire a controlling interest in any Norwegian company or to manage that company with wide latitude, given the nature of the Norwegian economy and labor practices.

## *High Technology Sectors*

The Norwegian Government seems to be using its substantial oil and gas wealth (e.g. in 1993 Norway was the third largest oil exporter in the world, behind Saudi Arabia and Kuwait) to further develop a "high-tech" industrial base in Norway. Full employment is one of the major policies of the ruling "labor" government in Norway, but with Norwegian wage rates much higher than in the United States, the GON is seeking to develop industries that are not as "wage-rate sensitive." Consequently, "high-tech" dual use fields and technologies would seem to make sense for Norway. Since the GON has negotiated an "accession agreement" with the European union, there seems to be significant momentum to look more closely at European military equipment and cooperation. The following is a list of non-defense agencies which may be helpful to U.S. firms in commercial areas

Royal Norwegian Ministry of Foreign Affairs  
(Utenriksdepartementet)  
and the Ministry of Commerce & Shipping  
(Handelsdepartementet)  
7 Juni Plass 1  
P.O. Box 8114 Dep  
0032 OSLO, Norway  
Tel: (47) 22 34 36 00  
Fax: (47) 22 34 95 80

Royal Norwegian Ministry of Industry and Energy  
(Naeringsdepartementet)  
Ploensgate 8  
P.O. Box 8148 Dep



0033 Oslo, Norway  
Tel: (47) 22 34 90 90  
Fax: (47) 22 34 95 25

The Royal Ministry of Transportation and  
Communications  
Mollergaten 1/3  
P.O. Box 8010 Dep  
0030 Oslo, Norway  
Tel: (47) 22 34 90 90  
Fax: (47) 22 34 95 70

The Ministry of Environmental Affairs  
(Miljøverndepartementet)  
Myntgata 2  
P.O. Box 8013 Dep  
0030 Oslo, Norway  
Tel: (47) 22 34 90 90  
Fax: (47) 22 34 95 60

The Norwegian State Pollution Control  
(Statens Forurensingstilsyn (SFT))  
Stromsveien 96  
P.O. Box 8100 Dep  
0032 Oslo, Norway  
Tel: (47) 22 57 34 00  
Fax: (47) 22 67 67 06

Statens Naerings- & Distriktutviklingsfond  
(SND)  
(Regional Development Fund)  
Akersgaten 13  
P.O. Box 448 Sentrum  
0104 Oslo, Norway  
Tel: (47) 22 00 25 00  
Fax: (47) 22 42 96 11

## **Doing Business in Norway**

Although more than 150 U.S. companies have sales subsidiaries in Norway, the most common way of doing business is through agent/distributors. More than 2,700 U.S. companies are represented by Norwegian agent/distributors with a unique but very practical and necessary sales network. Three quarters of Norway's 4.25 million people reside in Southern Norway, and most of the major importers and distributors are headquartered in the Oslo region. Some of these companies have sub-agents or sales offices established in other major Norwegian cities. The rest

of the country is made up of widely dispersed, small population centers which are costly to serve due to long distances and high freight expenses. As there are few countrywide, multistore chains and most retailers and distributors are small by American standards. Sub-agents and secondary distribution is the standard and workable method of handling Norway's scattered Northern markets.

With proper market promotion and support, a good local business partner and/or an astute local office, U.S. companies have unusually good prospects in this small, but affluent market. Moreover, with the EEA, U.S. companies may find some licensing, joint-venture agreements and establishing Norwegian subsidiaries to be excellent vehicles for tapping upscale markets beyond Norway (e.g. Scandinavia).

Another factor making it easy for Americans to do business in Norway is that most, if not virtually all, Norwegians speak excellent English.

There are few restrictions in establishing a subsidiary or a branch operation in Norway. A subsidiary may be wholly owned and a branch may conduct full business transactions. A company must have NOK 50,000 as minimum capital, and at least 50 percent of the Board of Directors must be Norwegian nationals or they must have lived in Norway for the past two years. Both companies and branches are subject to income and capital tax. Norway has a highly educated labor force and labor costs are among the highest in the world. In general, labor costs (including social benefits) as a percentage of total production, are far higher in Norway than in its foreign competitors.

With the exception of stringent import regulations on agricultural commodities and, to some extent, a monopoly on telecommunications equipment, there are very few trade restrictions in Norway. The country is heavily dependent on foreign trade, and its trade policy is generally aimed at expanding its trade and shipping services.

However, since Norway is now a member of the European Economic Area (EEA), the nation is gradually adapting to the EU's technical standards and regulations. Norway, as an EFTA/EEA member, currently enjoys an industrial free trade agreement with all EU member countries. Norway is using the harmonized system (HS) for commodity classification and the import duties are relatively low on products imported from third country suppliers. There are few technical standards enforced and U.S. suppliers have not faced significant trade barriers. However, some obstacles have been experienced in regards to some specialized electrical equipment.

European CENELEC and BASEFA safety standards on electrical equipment for use in hazardous areas are favored in North Sea Oil and Gas Production Facilities and offshore exploration rigs. Also, quality assurance is paramount for all equipment destined for the Norwegian offshore market. Norway has to a large degree adopted the ISO 9000 standards for quality assurance (QA) and quality control (QC). Electrical equipment sold and used by the public (consumer electronics and household electrical appliances) must have an approval from NEMKO or similar control establishments within the EU. For further information, contact:

Norwegian Electrical Control Board  
(Norges Elektriske Materiellkontroll-Nemko)  
Gaustadalleen 30  
0371 Oslo, Norway

## **U.S. Government Points of Contact**

Listed below are helpful U.S. and Norwegian Government contacts for U.S. firms that are interested in the Norwegian market.

Senior Commercial Officer  
USFCS Oslo  
American Embassy  
Drammensveien 18  
0244 Oslo, Norway  
Tel: (47) 22-44-85-50/x 2235  
Fax: (47) 22-44-98-92

### **Norwegian Government:**

Logistics Attache  
Royal Norwegian Embassy  
2720 34th Street, NW  
Washington, DC 20008  
Tel: (202) 331-8222

Defense Combined Materiel Agency  
IEPG Focal Point  
Oslo Mil/Loeren  
0018 Oslo, Norway  
  
Tel: (47) 22 89 65 47  
Fax: (47) 22 22 54 81

Royal Norwegian Air Force Material  
Command  
Procurement Division

P.O. Box 10  
2007 Kjeller, Norway

Chief  
Office of Defense Cooperation  
American Embassy  
Drammensveien 18  
0244 Oslo, Norway  
Tel: (47) 22-44-85-50  
Fax: (47) 22-55-88-30  
Tel: (47) 63 80 80 00  
Fax: (47) 6 80 88 99

Norwegian Army Material Command  
Purchase and Economics Branch  
Lorenveien 38  
0585 Oslo  
Tel: (47) 22 89 60 00  
Fax: (47) 22 49 57 72

Royal Norwegian Navy Material Command  
Contracting Branch  
P.O. Box 3  
N-5078 Haakonsværn, Norway  
Tel: (47) 55 50 20 00  
Fax: (47) 55 50 25 74

Norwegian Defense Communications and  
Data Services Administration  
Contracting and Procurement Branch  
Langkaia 1  
0150 Oslo  
Tel: (47) 22 40 24 00  
Fax: (47) 22 40 25 30