

## **Toward a European space-specific procurement policy?**

### **Space markets**

Unlike its international competitors, European Space industry heavily relies on the commercial business - mainly civil communications but also services and remote sensing applications - where it makes a significant, although highly variable, share of its turnover. Actually, the European Space industry demonstrates its competitiveness by getting almost half of the global open market, having in mind that the latter represents just a fraction of the global market.

Member states and European institutions are generally aware that, however satisfying, this situation remains tense with the on-going aggressive return of the US industry in this area when US public funds for military programmes are getting scarce, or with the future emergence of newcomers like India or China which might become fierce competitors once major national objectives assigned to their Space industries have been fulfilled.

In this respect, public support must continue to accompany the evolution of the sector and maintain its competitiveness.

Institutional programmes are key drivers for the development of new technologies, would it be in the field of Earth sciences, astronomy, Space exploration or Security and Defence. No commercial market can sustain the level of investment required to keep up with the evolution of technical requirements in these areas, and only institutional programmes can bear the level of risk associated to the in-orbit qualification of the new technologies at stake.

The fact that industry needs a sustained institutional market is indisputable. The corollary is that institutions must assume the major role they play in the structuring of Space industry through adequate industrial policies.

## **From industrial policy to procurement policy**

After an initial phase when Space activities were fully endorsed by public bodies, the European Space industrial sector was deemed mature enough to allow for lesser involvement of governments, and there was a broad shift toward privatisation of the quasi totality of European Space industry.

Once governments deprived for their full control over industry, “industrial” policy quickly turned into “procurement” policy. In this new paradigm, the overarching rule has been to formalise a clear customer /provider relationship between public bodies and industry and to rely to the largest extent on open and transparent competition processes - within the limits of the Geographical Return obligations as far as ESA is concerned.

## **The limits of the ESA model?**

However, it must be highlighted that ESA budget has been at best stagnating over the last 10 to 15 years despite the constant efforts made by its successive Director Generals to give Agency a new impetus. On the contrary, some member States tend to keep flat their contributions to ESA while significantly increasing their national Space budgets.

The question can thus reasonably be raised whether this model has not reached its limits.

Another challenge is the current enlargement process of the Agency. From a political standpoint, it appears as a necessity to give access to the Agency to all of Union member States. On the other hand, none of them will come up with substantial additional resources. Beyond the inherent difficulties of managing an effective decision making process with a growing numbers of stakeholders, at industrial level, the integration of newcomers in a depleting budgetary context generates a lot of frustration.

## **A limited European domestic market**

As compared with the situation of other space faring nations, the major feature of the European institutional market is its limited size.

In this respect, the new space competence of the Union and the budgets it will potentially devote to the concrete implementation of the European Space Policy are opportunities to enlarge the European domestic market and reduce the drawback European Space industry suffers as compared to its international competitors.

## **The absence of growth**

Nevertheless, European space industry, thanks to the continued R&T support from member States and ESA, maintains a world class technological level. These capabilities position Europe at the forefront of Space and Earth sciences and empower the European industry on the commercial markets.

However, neither the commercial nor the European institutional markets have been able to provide any perspective of growth over the last decade.

Basically, in a context of absence of growth, the development of the European space industry fuelled by the continued R&T support of member States leads in several areas to a situation of structural overcapacity.

## **Work with oligopolies**

Antagonist forces are then at work:

- On one hand, institutions seek multiplicity of potential sources to stimulate competition for the benefit of their future procurements,
- On the other hand, in a limited and flat - if not depleting – market, where major long-term procurements are scarce, industry, in an attempt to keep the critical mass and ensure the continuity of the workload in its critical skills, tends to concentrate.

## **ESA and Union: Two different procurement approaches**

ESA procurement policy takes into account the origin of the funds in the awarding of contracts through the Geo Return rules.

It also integrates key objectives of industrial policy such as preserving the industrial base or targeting R&T developments in the perspective of potential needs of its future programmes.

On EC side, the general rule is to fully open competition for its procurements. This principle needs to be adapted to the Space specific context as it was done for Galileo.

It presupposes the existence of multiple potential providers to actually enable open competition and ignores formal Geographical Return rules or industrial policy objectives.

ESA procurement policy has proven to be successful in many respects and is not challenged for scientific and technological optional programmes based on the willingness of member States to join resources to achieve ambitious objectives. It shows its limits when it comes to the deployment of operational infrastructures- like Galileo and GMES - raising commercial, industrial, political and/or strategic stakes.

This is where EC timely and opportunely steps in.

Europe will most likely live with the coexistence of these two bodies. Therefore, their respective roles need to be clarified through clear regulations.

In this respect, it is particularly important for industry to have one single Space procurement body in Europe to ensure consistent and adapted industrial policy and procurement regulations. ESA is a professional and competent procurement body on which future European institutional Space management structures should thus be built.

Moreover, the intergovernmental structure of ESA, together with the capacity of member States to invest in Space should be preserved in the governance model to be developed to ensure additionality with the budgets which Union will devote to Space applications and research.

## **Need for a space specific procurement approach**

At least ESA and EC approaches should not be conflicting and, in many respects, EC rules should be adapted to better cope with the specificities of the space sector and serve overarching political goals.

Furthermore, independence of Europe in Space relies on the availability of a sustained supply chain. Security of supply should thus be a major concern in the future European Space policy regarding critical technologies.

Therefore, EC procurement process should be based on a dedicated industrial policy aiming at:

- Strengthening the competitiveness, efficiency, reliability of the European Space industry,
- Enhancing the European technological non-dependence in the Space sector,
- Building on existing European leading edge industrial and technological capabilities,
- Contributing to a balanced industrial development across Union member States.

Moreover, such procurement policies should build on the outcome of the on going R&T harmonisation process undertaken by ESA and member States and integrate measures in favour of a greater involvement of SMEs in the development of services, accounting for the additional difficulty for small companies to overcome the technological barrier in Space hardware development and qualification. However, such measures should not be limited to encourage newcomers, which in some areas just leads to overcapacity.

The European Space Industry definitely supports European-wide open and fair competition for the awarding of public contracts, whenever it is feasible and can be based on sound industrial capabilities. The European Space programmes should meet Union's expectations and Policies objectives while enhancing European industry international competitiveness, growth and sustainability (according to Europe2020 objectives).

Based on such principles, ESA and Union procurement policies, although different by nature, should at least be compatible and serve common purposes.

In the name of the European Space industry community, Eurospace is looking forward to getting involved and contributing to the upcoming reflections in these matters.

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