

DEFENCE BUDGET 2003



Cover picture: The Finnish Defence Forces

Minister of Defence Jan-Erik Enestam:

Defence budget for 2003 in line with recommendations of Report on Security and Defence Policy

The report on security and defence policy submitted to the Eduskunta (Parliament) by the Council of State (Government) in June 2001 defined the broad outlines to be followed until the next report is completed in 2004. In it, our policy is condensed into three components: maintaining and developing a credible defence capability, continuing not to participate in military alliances in the prevailing circumstances as well as taking part in international cooperation to strengthen security and stability.

The international environment in which we operate has changed considerably since September 11th, 2001. However, these changes do not mean that the premises underlying the 2001 report have become outdated. With the challenges that the worldwide campaign against terrorism has brought, the expectations being focused on international cooperation have become even greater than they were in the past. Finland is also more closely involved in international crisis management, whether it is taking place within a UN or an EU framework or in cooperation with NATO.

Changing challenges, permanent basic solutions

Although our international obligations have increased, by far the most important task of our defence establishment is to maintain and develop our national defence. The best way to do this is to continue to depend on general conscription and territorial defence, which have served us well to date. Of course, functions can and must be made more efficient and restructured, but this does not call for change in our most important defence solutions.

Growing cooperation, both nationally between different authorities and internationally, is an a priori condition for maintaining and developing a comprehensive national defence. Success in combating terrorism and other new threats will be possible only through the contemporaneous actions of many authorities. The central role that the Ministry of Defence must play is that of dovetailing the functions that various instances perform in comprehensive national defence. Although Finland is not, for example, a primary target of terror strikes, we too must have adequate national capabilities to counter the threat of terrorism. That is also a prerequisite for our being able to play a role in a common front against it.

Responding to new security and defence challenges requires that national defence be kept in good shape. Finland is an exceptional country in that we have managed to maintain a credible defence on a relatively small budget. This has been possible above all because we still have a well-functioning system of territorial defence founded on general conscription and a large reserve, something that in many other European countries is being gradually phased out. Finland's example demonstrates that also in an army based on general conscription it is possible to respond effectively

to the military challenges that technological innovation is posing. And it is therefore that Finland has no intention of abandoning our system, which we have found to be good.

Main budget headings

I am personally rather pleased with our 2003 defence allocation, which amount to around 5.5% of the total national budget. The estimated personnel strength in this segment of administration in 2003 will be the equivalent of over 18,000 person years. In other words, the appropriation will enable the defence establishment to achieve its central result targets. Our appropriation totals €1,952 million and includes €519 million for procurements. The total earmarked for operational expenditure proper is slightly over €1,200 million. Something that gives me particular satisfaction is that the appropriation for peacekeeping functions has been pegged at a level commensurate with the strengths and task requirements that the operations of which we are aware at this time require, and that the sum made available for procurements within the development programme for international crisis management forces is in accordance with plans.

We shall continue to have to live in a world where the economic resources at the disposal of the defence establishment are limited. That is why I have drawn attention in a number of contexts to the fact that from now on all defence funds will have to be used more systematically and managed more effectively than hitherto. That is all the more important now that we are entering a world of new uncertainties, a world in which it is more difficult to predict from which direction threats and challenges will emanate.

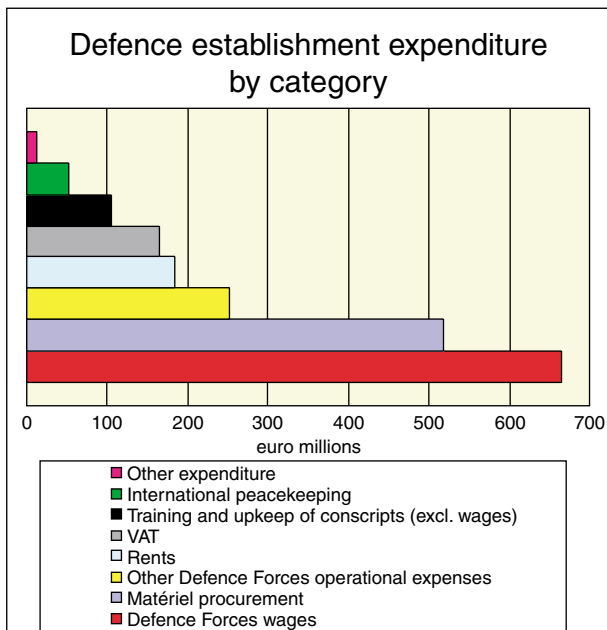


Picture: Foto-Jatta

Contents of the 2003 defence budget

Expenditure under the Ministry of Defence main heading in the 2003 budget

The appropriation for the Ministry of Defence's segment of administration totals €1,952.2 million in the budget for 2003. As can be seen from the table below, two categories of expenditure are markedly bigger than the others: Defence Forces wages and procurement of defence matériel. These two categories together account for about 61% of the total defence appropriation. Other large individual expenditure categories are the property costs included in rents, VAT as well as training and upkeep costs for conscripts.



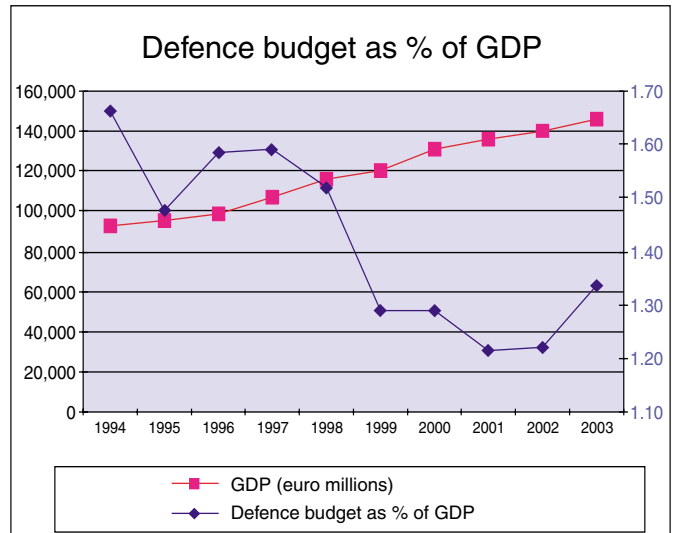
The appropriation under the Ministry of Defence main heading in the 2003 budget represents about 5.5% of the budget total. There have been no major changes in this level in recent years.

VAT costs amounting to €165 million, which were earlier included under the Ministry of Finance main heading, have been transferred to the Ministry of Defence in the 2003 budget. The budget also includes €45 million for costs arising from a restructuring of the defence establishment's arrangements concerning land and other real-estate assets.

The defence budget as a share of GDP

The Finnish defence budget's share of GDP, about 1.3% in 2003, is low in comparison with the figures for the other EU member states and the non-EU NATO members.

Defence spending as a share of GDP has fluctuated within the range 1.65–1.2% in the period 1994–2003



Development of Finland's security environment and defence capability

The changes that the ending of the Cold War brought about in the European security situation were profound and permanent. The threat of a major military conflict in Europe is slight. To an every increasing degree, the actions of states are being guided by a shared value base and similar political, social and economic interests. Although the growing openness that characterises international relations is improving the predictability of conflicts, regional crises have strongly influenced the development of security in Europe. In particular, the crises in the Balkans and Chechnya demonstrate this.

The development that has taken place in the sphere of security policy has set in train a structural transformation in both national defence systems and international cooperation. The operations of the EU and NATO are being developed in a way designed to enable them to react to international crises as swiftly and flexibly as possible. The countries seeking membership of the EU and NATO are striving to implement restructuring and reforms to bring themselves to the level that membership of these bodies requires, and this demands inputs of considerable resources into the defence sector as well.

With military factors and especially military confrontation receding into the background, non-military problems that reflect themselves across frontiers have increased also in the Baltic Sea region. International terrorism and the spread of weapons of mass destruction as well as new asymmetric threats are a part of the international security situation. International crime, environmental problems and risks associated with nuclear safety remain significant challenges and underscore the interdependence of the countries in the region.

There is nowadays lively cooperation between the states in the Baltic Sea region. Cooperation between the Nordic countries likewise has long traditions. An eight-country co-

operation framework has been created between the Nordic countries and the Baltic States. Cooperation between these countries in a variety of sectors takes place also within broader frameworks, especially the Council of Baltic Sea States.

The role of NATO has been gaining strength in the Baltic Sea region in recent years. Poland acceded to the alliance in 1999 and the Baltic States were invited to join at the NATO summit in Prague in November 2002. These countries' membership of NATO will have a stabilising effect on the Baltic Sea region.

On the basis of their shared perception of interests, geographical proximity, EU membership and non-participation in military alliances, Finland and Sweden have intensified their cooperation in the field of security. This cooperation will deepen in the near future. The strategic importance of the Danish Straits has already declined. The centre of gravity in military activities in the Baltic Sea has shifted eastwards, closer to the sea areas fringing the Baltic States, Finland and Russia.

The future of nuclear disarmament between the USA and Russia will affect the status of Finland and her immediate geographical environment. The US-led worldwide campaign against terror since the events of 11 September 2001 has brought the USA and Russia closer to each other. Russia is also in a close relationship of cooperation with NATO. The orientation of Russia's foreign and security policy as well as political stability and economic development in the country are significant factors affecting the future of the entire Baltic Sea region.

The general positive development notwithstanding, planning of security and defence policies must also include provisions for unfavourable eventualities. Although the development of the role that Russia plays in the Baltic Sea region is difficult to predict, it is probable that she will continue her efforts to implement social and economic reforms, in spite of difficulties. If successful, a development of this kind would support efforts to promote stable conditions in northern Europe and the Baltic Sea region.

The goal of Finnish defence is, in all circumstances, to guarantee the country's independence, safeguard its citizens' livelihoods, prevent our territory from being exploited by outside powers and ensure that our political leadership has the wherewithal and freedom to act. The central principles enshrined in Finland's defence solution are a credible national defence capability and non-participation in military alliances in the circumstances now prevailing as well as a territorial defence system and general conscription. Provision is made for military defence throughout the national territory. International cooperation in the EU's and NATO's defence planning as well as in NATO-led operations supports the development of Finland's national defence. Combating international terrorism, preventing the spread of weapons of mass destruction and countering other asymmetric threats must be taken into consideration as part of the demands associated with developing our defence.

Finland's defence capability is founded on a high level of training of personnel and forces as well as on the existence in the country of sufficient quantities of matériel of a quality commensurate with modern requirements. A strong willingness to defend their country on the part of citizens and the defence establishment's ability to react in the manner that the situation requires are the cornerstones of a credible defence system.

Development of Finland's international crisis management capability and preparedness as well as peacekeeping functions

Finland's participation in peacekeeping operations is a central component of our foreign and security policy. It is based on developing our national capabilities by availing ourselves of the experience that we gain through participation in peacekeeping and crisis management operations conducted by international organisations.

Finland is supporting efforts to make the UN's peacekeeping operations more effective by participating in operations launched by the world organisation. With respect to maintaining and developing our national capacity for crisis management, the main concentration is on participation in crisis management operations undertaken by the EU and NATO.

In 2002 Finland had a total of over 1,000 personnel on various peacekeeping operations. Of these, 925 were on NATO-led operations in the Balkans, 43 on UN operations and 50 with the ISAF operation in Afghanistan.

Compared with the 2002 level, the following changes in participation are taking place in 2003:

– In conjunction with cutbacks and organisational changes implemented by NATO in the KFOR operation in Kosovo, Finland is taking over command of Multinational Brigade (Centre) (MNB (C)) from the UK and will serve as the coordinating power for six months from May 2003 onwards. At the same time, preparations are being made to reduce the strength of the battalion and the personnel thereby made available will be assigned to deal with increasing headquarters and support tasks. Finland will be the first partnership country ever to be entrusted with command of a brigade in a NATO operation.

– Finland's role in the United Nations UNMEE operation on the border between Ethiopia and Eritrea will be expanded by adding a headquarters company with a strength of just under 200 and headquarters officers to the military observers already there for a twelve-month period beginning in June 2003. Finland is taking over the task from Ireland, which has had a headquarters company taking part in the operation since spring 2002.

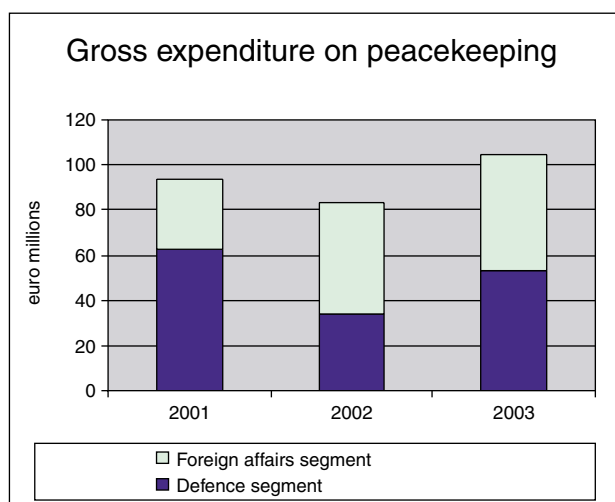
– In the SFOR operation in Bosnia-Herzegovina, Finland has been responsible for civil-military cooperation (CIMIC) subordinate to a US-led division headquarters and has been supporting the return of displaced persons in the region. Advancing implementation of the Dayton accords is making it possible for the tasks now being performed by the Finnish

contingent to be transferred to local authorities, other institutions and NGOs. Finland's disengagement from the operation will take place gradually and the last personnel will have returned home by the end of August 2003.

– For the present, Finland's participation in the International Security Assistance Force (ISAF) in Afghanistan will continue at the same level as in 2002. The Finnish contingent is responsible for functions relating to civil-military cooperation (CIMIC).

We are helping to improve Europe's capacity for crisis management by participating actively in preparations to develop the EU's and NATO's crisis management concepts and military crisis management capability. Through the NATO Partnership for Peace (PfP) and with the aid of its Planning and Review Process (PARP), the forces, personnel and matériel needed for international military crisis management functions as well as their interoperability are being developed. The matériel development programme for Finland's international readiness forces is being continued at a pace that will enable the first forces to achieve operational preparedness in 2003.

Funding for peacekeeping activities currently comes from the appropriations for two ministries, Defence and Foreign Affairs. Gross expenditure breaks down as follows:



Implementation of defence report

The Ministry of Defence is directing and coordinating implementation of the structural change associated with the 2001 report on security and defence policy. The aim is to minimise the adverse effects on Defence Forces personnel and localities of closures or relocations of garrisons or comparable units.

Matériel policy and development of defence matériel

The defence establishment will spend €519 million, which is about 27% of the total defence budget, on matériel procurement in 2003. This is a good level by international standards and will enable development of Defence Forces

equipment to take place in accordance with the targets set. As set forth in the 2001 defence report, procurements to equip the readiness formations within the Army remain the area of concentration, but development of the equipment available to the Navy and Air Force will also continue in accordance with the guidelines set.

Special attention will be paid to the cost-effectiveness of procurements as well as to international cooperation. An effort will be made to examine procurements and supply primarily in association with Nordic and EU countries, whilst also evaluating and attempting to avail of opportunities to make joint procurements on a basis of bilateral or multilateral international cooperation. The emphasis with respect to matériel will be on systems which have already been developed, for which the requisite references are at hand and which can be assessed as meeting sufficiently high standards of effectiveness and dependability. We are trying to bolster the Finnish defence industry's orderbooks and development programmes as well as to promote its export efforts. As a general rule, major system procurements from abroad are conditional on industrial cooperation, principally with Finnish manufacturers of defence equipment.

Matériel procurements				
€ million				
Procurement authorisation	Earlier	2003	Later	Total
Equipping readiness formations	530.2	120.4	383.4	1 034.0
Surveillance, control and command systems	166.0	101.8	180.4	448.2
Support facilities for air defence	77.7	27.8	87.9	193.4
Modernisation of the Navy	111.8	84.1	138.0	333.9
Helicopter maintenance and support systems	10.4	18.3	151.4	180.1
Development of Helsinki region defence	24.3	37.8	156.5	218.6
Technological R&D in the Defence Forces	16.8	25.2	109.3	151.3
Supplementary equipment for readiness formations		39.4	549.3	588.7
Development of capacity to maintain war economy			168.0	168.0
Procurement authorisations in total		454.7	1 924.2	3 316.2
Other matériel procurements		53.7		
Indexation and exchange-rate expenses		10.6		
TOTAL		519.0		

The defence establishment's personnel policy and human resources

The Government bears responsibility for ensuring, as part of its budgetary policy, that the prerequisites for an effective State personnel policy are in place. Its August 2001 decision-in-principle on the direction of personnel policy reaffirms the common value base and operational culture in addition to setting development goals for operational units within the defence establishment.

In accordance with the Government's decision-in-principle on personnel policy, the aim is to improve the Defence Forces' competitiveness as an employer by adopting new remuneration systems which take the requirements of the task and the individual's personal performance into account. The intention in the Defence Forces is to introduce the new systems as extensively as possible in 2003, however in such a way that partial personnel-group-specific introduction is also possible.

Besides the guidelines set forth in the Government's report on security policy, those in its report on personnel policy are likewise taken into consideration in the development of the Defence Forces' human resources. The goal is to ensure that the Defence Forces are able to obtain their requirements of competent and motivated personnel in sufficient quantities and of sufficient quality to meet the needs of both crisis periods and peacetime.

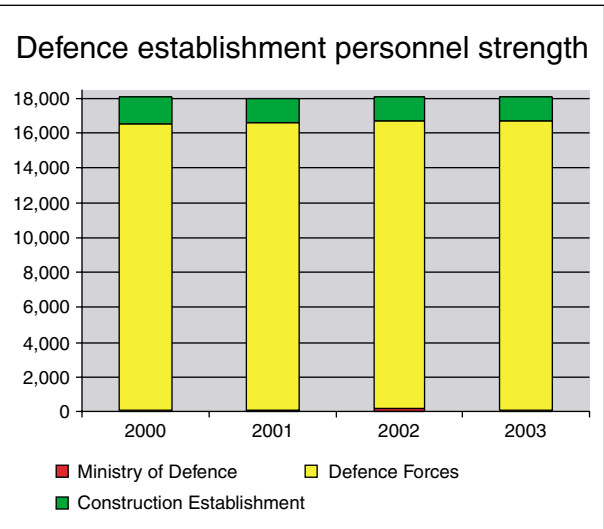
The Defence Forces' personnel strategy was updated in 2001 to bring it into line with the Government's report. The revised strategy sets forth the most important development measures to be carried through in the personnel sphere over the next few years. The personnel structure of the Defence Forces will be developed to suit the requirements of crisis periods and peacetime, in addition to which human resources will be balanced to bring them more closely into line with the demands of defence tasks and the areas of competence in which improvements are needed.

It is not possible under present circumstances to raise the level of personnel resources at the disposal of the Defence Forces. Structural change in the personnel system will be continued through natural wastage as well as by diverting into core functions the human resources that partnership projects make available.

The training system for the higher command echelons in the Defence Forces has been revised to ensure that the age structure of military personnel continues to correspond to tasks and to create a reserve of well-trained young officers. In the new system it is possible to obtain a lower third-level qualification which confers eligibility to hold a fixed-term commission as a junior officer, and also a higher qualification which makes its holder eligible for a permanent commission as a junior officer. In addition, completion of a basic course of approximately one year's duration confers eligibility to hold a fixed-term commission as a reserve officer. The first persons to receive training under the new system will graduate in 2003.

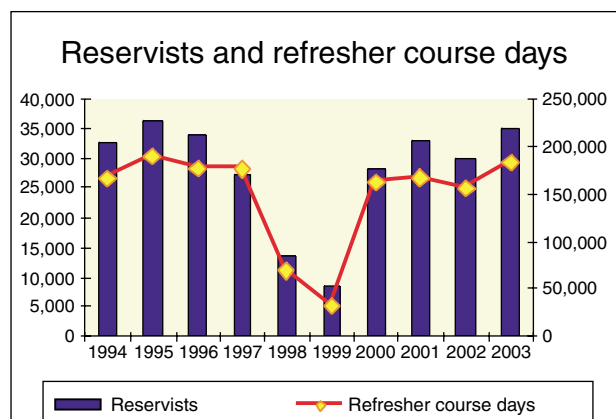
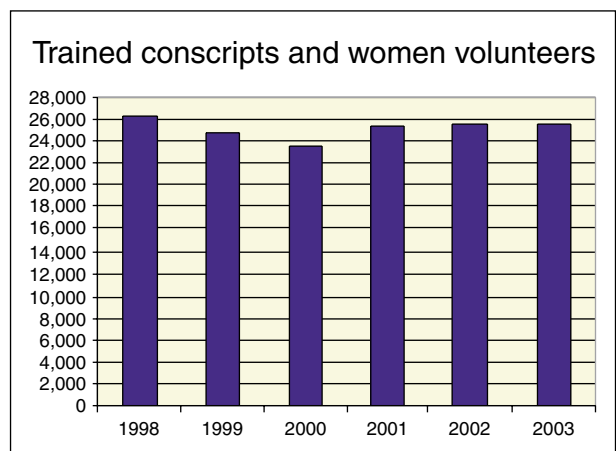
Personnel strength in the defence establishment

The number of salaried personnel within the defence establishment's segment of administration is about 18,000. The only other segment of administration with a greater personnel strength is the Ministry of Education. The following table shows a breakdown of the defence establishment's personnel:



	2000	2001	2002	2003
Ministry of Defence	128	122	130	122
Defence Forces	16,395	16,465	16,550	16,570
Construct. Establishment	1,517	1,392	1,402	1,370
Total	18,040	18,060	18,082	18,062

In addition to salaried employees, the personnel strength within the Ministry of Defence's segment of administration also includes conscripts doing their national service and reservists on refresher courses. The numbers of conscripts and reservists are as follows:



Revised arrangements for real-estate asset management and their implementation

In accordance with the State's overall strategy on property holdings, restructuring of the defence establishment's arrangements concerning land and other real-estate holdings will continue from the beginning of 2003 by transferring its stock of built real-estate to Senate Properties (the company responsible for managing the State's property assets). Some areas of land are also being transferred to the Road Administration and the Civil Aviation Administration.

These arrangements will:

- enhance the usefulness of the land and building assets at the disposal of the national defence system and improve opportunities to develop them,
- ensure that the defence establishment can rely on high-quality real-estate services,
- develop proprietary, construction and maintenance functions in relation to real-estate and buildings,
- add impetus to investment by putting in place the prerequisites for availing of extrabudgetary funding,
- safeguard the position of personnel, and
- increase the Ministry of Defence's appropriation requirement to enable the full cost that the new rents system will mean to be covered.

In accordance with the revised arrangements, the defence establishment will lease the land, buildings and structures it needs from Metsähallitus (the National Board of Forests), Senate Properties, Kruunuasunnot, the Civil Aviation Authority and the Road Authority.

The appropriation framework for the Ministry of Defence's segment of administration has been increased, with effect from the beginning of 2003, by €45 million, which in the agreed manner corresponds to the additional funding requirement that the new operational model demands. The increase includes €3 million to be used during the year to pay the rents arising from the necessary new premises and renovation work.

The new property system is based on capital rent, which the defence establishment pays to the owners of land and buildings under the terms of lease agreements, and on maintenance fees, which are paid to the Construction Establishment, likewise on the basis of agreements.

Development of the Construction Establishment is part of our overhaul of arrangements concerning property assets and their management. The goal is to build this body up into an organisation responsible for procuring expertise and services in relation to the defence establishment's property-related functions. Its own capacity to produce services will be developed to enable it to meet the property- and preparedness-related needs likely to arise in periods of crisis.

The defence establishment's partnership programme

The idea behind the defence establishment's partnership programme is to ensure that the limited resources at the dis-

posal of the Defence Forces are adequate to enable core functions to be performed. A prerequisite for maintaining a sufficiently high standard of service is that new organisational alternatives relating to support functions be examined and adopted. Experience and information that will be used for the further development of the partnership programme are being obtained through pilot projects.

Pilot projects with a bearing on the following areas of development have been selected: health care systems, repair workshops, information management, food supply, clothing, transport services and economic management. The pilot projects provide a means of seeking models in which, through rationalisation of our own functions and cooperation with an outside partner, we can develop existing functions. In the preliminary study stage we examine the practicality of launching a pilot project and determine the form in which it would be best implemented. At the same time, the personnel management measures required to support the project are planned and implemented.

With respect to personnel, the Defence Forces' goal in the partnership programme is to focus human resources primarily on core functions. Personnel are being reassigned in accordance with the demands of these functions. In situations where a partner is given responsibility for a product or service earlier produced by the Defence Forces itself, matters with a bearing on the status of personnel are determined at as early a stage as possible in the partnership negotiations.

Research

The purpose of research is to produce arguments in support of the Ministry's strategically important development solutions and decisionmaking. This will be especially important in the work of drafting the 2004 defence report. The means employed to meet information requirements include the commissioning of studies, evaluations and assessments in relation to the matter, taking into account the interests of both national security and comprehensive national defence.

The studies to be financed relate centrally to two broader totalities:

- Changes in Finland's security environment and asymmetric threats, as well as the effects that development of European security structures will have on the solutions arrived at in the sphere of Finnish security policy.
- New asymmetric threats, including a transformation of the character of terrorism and information warfare, are creating pressures to assess, also with the aid of research, means of managing these threats, preventing them and minimising their consequences.

To meet its own needs in this area, the Ministry of Defence is providing its subordinate bodies with funding for research into matters that are deemed to have strategic significance. Research being done within the defence establishment will be coordinated primarily with the aid of the Research Council, which will be created in 2003.



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