

## **Facing Tighter Budgets, Nordic Nations Consider Greater Cooperation**

NEWTOWN, Conn. [March 1, 2007] — Faced with tightening defense budgets, the Scandinavian “Nordic” nations of Europe are examining future collaborative options in order to maximize their resources and improve efficiencies. While no immediate joint armed force branches – such as a combined air and naval surveillance group – are expected to manifest themselves in the near term, talks between neighboring Scandinavian governments have broached the topic of examining possible areas of stronger cooperative defense.

The main engine driving various ideas behind greater Nordic cooperation is tighter purse strings. According to Forecast International’s “Sweden Market Overview” report for 2007, the defense budget approved in Stockholm showed a slight increase from SEK43.4 billion in 2006 to SEK44.2 billion (around \$6 billion) for 2007. However, this slight increase is illusory, as overall planned expenditure is divided into two segments. One segment covers contingency measures against accidents and severe emergencies, while the other is purely devoted to defense spending. Furthermore, a sharp decline in budgetary expenditure allocations will begin in 2008, when some SEK1.82 to 2 billion will be trimmed from defense spending.

In the meantime, the financial allotments for the Norwegian Armed Forces (NAF) – in the midst of a defense transformation toward a more compact, flexible, mobile and modern armed force – are caught in a vise. The government of Norwegian Prime Minister Jens Stoltenberg has kept defense spending at roughly the same as it inherited from the former government of Kjell Bondevik in the fall of 2006.

Oslo will spend NOK31 billion (\$4.64 billion) on defense in 2007 after providing the armed forces with NOK30.6 billion (\$4.58 billion) in 2006. But the primary focus of the 2007 defense budget will be on NAF units that are deployable for rapid reaction and overseas missions. At the same time, the budget seeks to strengthen protection of the strategic “Northern Area” of the country with its fisheries and oil capacity. The drain from these priorities will leave the NAF charged with having to stretch every cent of its finances as it undergoes its transformation.

The third Nordic nation considering its options via its neighbors is Finland. Finnish defense spending in 2006 was around \$2.8 billion. Helsinki’s 2007 defense budget will not be set until after the national elections, scheduled for the middle of March. Though the Finnish Ministry of Defense will push for a budget increase, any boost is expected to be marginal at best. Forecast International is predicting the Finnish budget will actually decline in euro currency terms (from EUR2.25 billion in 2006 to EUR2.22 billion for 2007), which – barring currency fluctuations – will keep it roughly at the 2006 level in U.S. dollar terms.

With the prospect of tight future budgets, mounting international peacekeeping responsibilities, and force transformation, it is logical that the Scandinavian governments would seek coordinated options to better ensure territorial protection.

“One of the primary obstacles facing the Nordic countries in terms of greater defense cooperation is that each country is part of a different alliance,” says Forecast International European Defense Analyst Dan Darling. “For instance, Norway is part of NATO, but not a member of the European Union, while both Sweden and Finland are in the EU but not NATO.”

Being outside one of these two entities does not necessarily prevent a certain country from participating within the other to some extent, Darling notes. Both Finland and Sweden have been offered an opportunity to join the NATO Response Force in a participatory role, though it is still up in the air whether either will accept. As for Norway, despite being a non-EU member it is part of the EU Nordic Battle Group along with Sweden, Finland and Estonia. Still, the separate memberships may often result in different priorities and outlook. Other – more obvious – obstacles, Darling adds, are simple sovereignty concerns and the preference among each nation that its forces remain separate.

“In terms of strategic needs and threats, it makes sense for these countries to coordinate on a certain level, whether it be patrolling their northern coastal waters, seaborne search-and-rescue, joint air transport for deployment to international peacekeeping operations, or simply pooled defense procurements resulting in common platforms,” says Darling. “Otherwise, each nation’s armed force runs the risk of being overstretched financially and operationally.”

*Forecast International, Inc. is a leading provider of Market Intelligence and Analysis in the areas of aerospace, defense, power systems and military electronics. Based in Newtown, Conn., USA, Forecast International specializes in long-range industry forecasts and market assessments used by strategic planners, marketing professionals, military organizations, and governments worldwide. To arrange an interview with Forecast International’s editors, please contact Ray Peterson, Vice President, Research & Editorial Services (203-426-0800, [ray.peterson@forecast1.com](mailto:ray.peterson@forecast1.com)).*