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COVID-19 AND THE DUTCH DEFENCE TECHNOLOGICAL AND INDUSTRIAL BASE: Impact and Policy Responses

By

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*The views expressed here are solely those of the author.
They do not reflect the views of any organisation.*

Comment

ABSTRACT

The Dutch Defence Technological and Industrial Base is considered a vital economic sector and thus profits from the short-term government measures to compensate business firms for the negative consequences of the COVID-19 crisis. On the other hand, the predominantly dual-use character of the Dutch DTIB makes the sector vulnerable as civilian customers postpone or cancel orders. With regard to the longer-term impact, it is too early to tell. The impact of the coronavirus on the DTIB depends on decisions yet to be made on the future defence budget, which will become clear in the autumn when the 2021 government budget is presented to Parliament and, shortly after, the longer-term Defence Vision 2035 is to be released.

Keywords: *The Netherlands, DTIB, Covid-19, Lockdown, Military spending, Supply chain*

The Dutch Defence Technological and Industrial Base is characterised as a high-tech sector, excelling e.g. in radar and sensor technology, command & control systems, network infrastructure and cyber security. Export accounts for two-third of the annual turnover of approximately €5 billion, and the sector employs about 110,000 people. The Dutch DTIB generates almost 40% of its turnover from R&D. A very limited number of companies produce solely for military customers. The dual-use character of the Dutch DTIB makes the sector vulnerable to the impact of the COVID-19 crisis in the short term as civilian customers have postponed or cancelled orders because of the lockdown measures.¹ On the other hand, defence programmes have not been affected so far. Concerning purely military production, medium to longer-term defence budget cuts are the main threat.

The Dutch Defence Industry Strategy (2018) provides the following context and description of the national DTIB: “(...) the Netherlands must be in a position to ensure its security in line with the first main task of the armed forces: the defence of national and allied territory. This cannot be achieved without a stable base of knowledge institutes and companies that ensure that the Netherlands is to play a significant role in collaboration with other countries or as a supplier to large foreign companies. Above all, this base is essential to enabling our military personnel to perform their important work as effectively as possible.”² One could argue, based on this quote, that the national DTIB is regarded as a strategic sector, although it is not labelled as such. Instead, the Dutch government labels Defence a *vital process*.³ And since April 2020, the Dutch defence industry has become part of this vital process.⁴

By mid-March 2020, the Dutch government took restrictive measures, including closing shops, factories and other businesses in order to prevent the further spreading of the coronavirus. It had an immediate chain reaction in supply chains, which also impacted the

¹ See: www.nidv.nl

² *Memo Defence Industry Strategy*, 2019, p. 2.

³ <https://www.nctv.nl/onderwerpen/vitale-infrastructuur/overzicht-vitale-processen>

⁴ Information provided by the Nederlandse Industrie voor Defensie en Veiligheid – NIDV (the Netherlands Industries for Defence and Security)

Dutch DTIB consisting predominantly of Small and Medium-sized Enterprises (SMEs). Many orders were postponed and production lines closed, in particular in the customs services related and in the technological industry, primarily affecting aerospace, maritime and IT companies.⁵

Measures taken by the Dutch government to support entrepreneurs also apply to the DTIB companies, such as tax payment extension and financial help for employers to help pay their employees' wages (to 90%). The ministries of Defence and Economic Affairs have taken specific decisions to support the DTIB. Examples are: extension of tendering procedures deadlines; extension of payment duties of companies involved in the F-35 fighter aircraft production; flexible interpretation of non-delivery clauses in contracts and other measures. The Dutch Security and Defence Industry Association is assisting the companies with dedicated advice, such as applying for the 'essential sector' list (which allows for lockdown exemptions), promoting the DTIB as a driver for economic recovery and stimulating companies to participate in projects funded by the European Defence Fund. Several DTIB companies have adjusted their production processes in support of the health sector, e.g. in the development of respirators.⁶

These measures assist the DTIB to bridge the lockdown period to the future phase of economic recovery, but the question is how big the gap will be. The longer it takes to return to normality, the bigger the negative impact on the economy will be. Since the DTIB in the Netherlands is to a large extent dependent on export, world-wide economic recovery is very important for its own future. A prolonged period of economic recession, resulting in reduced government spending on defence across Europe, will seriously impact the Dutch DTIB. Comparable to the period 2010-2015, acquisition programmes could be delayed, numbers of new platforms reduced, or in the worst case, they could be cancelled. For the post-coronavirus Dutch DTIB, it is important to (a) ensure longer-term national defence investment⁷, and (b) promote European-level investment through the European Defence Fund, multinational armament programmes and cross-border supply chain access to larger defence companies.

⁵ See: www.nidv.nl

⁶ Ibid.

⁷ The Dutch Parliament has received a draft law for a Defence Materiel Investment Fund, which aims at securing funding for longer-term armament programmes.

The Dutch Bureau for Economic Policy Analysis has developed four scenarios. The optimistic scenario number one, based on temporary lockdown restrictions lasting three months and with the first steps of recovery taken in 2020, will result in a near-term economic downturn of 1.2% of the GDP. The most pessimistic scenario number four, based on a 12-month duration of lockdown measures, leads to a 1.5-year recession and -7.3% GDP.⁸ To a large extent, the Dutch economy depends on export or transfer of goods via national territory to other European countries. Thus, the economic recovery of the Netherlands will depend considerably on the situation in other European countries and abroad.

As far as the impact on the government budget is concerned, the longer the recession will endure, the more it will become unavoidable to cut government spending and, insofar politically acceptable, to increase taxes. In such a situation, it is very unlikely that defence will be exempted. Economic downturn in the past has in most cases resulted in less defence expenditure and, as a consequence, a decrease of the turnover and number of defence companies. Compared to the financial crisis years 2008-2010, today the security threats and challenges are more prominent on the political agenda. This could lead to a more reluctant attitude in political circles to reduce defence expenditure. On the other hand, as polls regularly show, the Dutch citizens consider defence a much lower priority compared to health, education, and social welfare. A sustained campaign at the European level to protect defence budgets from far-reaching cuts would certainly help prevent this from happening in the Netherlands.⁹ At the moment, the consequences of the COVID-19 crisis for the Dutch defence budget are not clear. All one could say is that the likelihood of budget cuts is increasing. Details will come to the fore when the government budget for the year 2021 will be presented to Parliament by mid-September, followed by the release of the Defence Vision 2035 – revealing the longer-term impact of the COVID-19 crisis for the Dutch armed forces and, indirectly, for the national DTIB. ■

⁸ Four scenarios, www.cpb.nl/en/corona-crisis-scenarios

⁹ For more on this issue see: Dick Zandee, Els Duchateau, Adaja Stoetman, *Defence and COVID-19 – Why Budget Cuts Should Be off the Table*, Clingendael Alert, April 2020.

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ARES GROUP

The Armament Industry European Research Group (Ares Group) was created in 2016 by The French Institute for International and Strategic Affairs (Iris), who coordinates the Group. The aim of the Ares Group, a high-level network of security and defence specialists across Europe, is to provide a forum to the European armament community, bringing together top defence industrial policy specialists, to encourage fresh strategic thinking in the field, develop innovative policy proposals and conduct studies for public and private actors.

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