

Procurement

Evolution of the Agency's Procurement and Industrial Policies

FINPOL Results

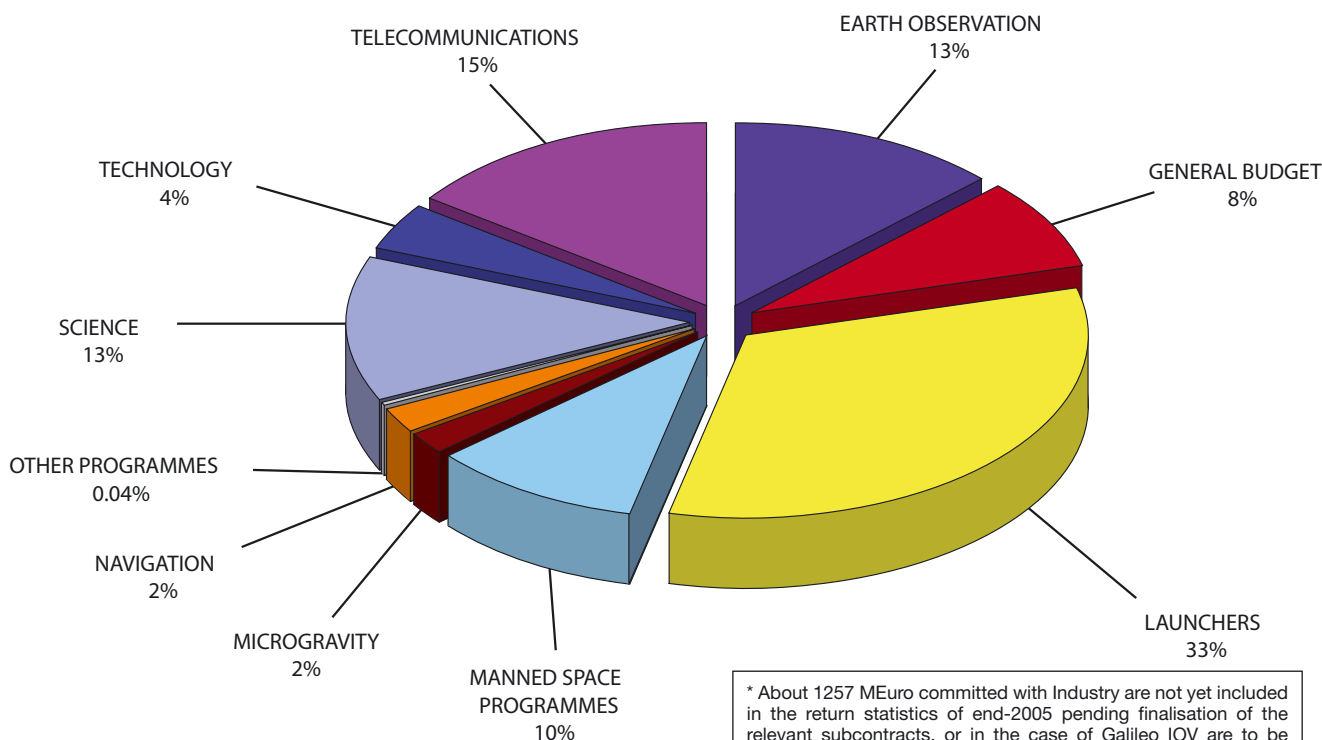
The industrial landscape within which the Agency is operating has profoundly changed in the last years, and the Director General's Agenda 2007 document provided the guidelines and objectives for the Agency's adaptation in the medium- and long-term. In this context, the ESA Council decided in December 2003 to set up a Working Group known as FINPOL. In June 2004, the Council unanimously approved Resolution ESA/C/CLXXI/Res.2 (Final), endorsing the major findings of FINPOL. At its June 2005 meeting it adopted three Resolutions (ESA/C/CLXXIX/Res. 4, 5 and 6) that changed the industrial- and procurement-policy rules applied for all ESA programmes. Resolutions 4 and 5 provide for greater flexibility in the application of its industrial-return rules by giving priority to overall return and establishing returns constraints at programmatic level. Subject thereto, Resolution 6 enables the Director General to proactively correct adverse trend return situations for a Member State throughout the formal five-year period.

Another important milestone in 2005 was the decision by Council on the lower limit of the return coefficient to be achieved for each Member State at the end of the period 2005-2009.

In addition to the new set of industrial and procurement policies implemented in the programmes proposed at the December Ministerial Council meeting in Berlin, two other important milestones were achieved with the adoption of Resolution ESA/C-M/CLXXXV/Res. 3 (Final), which put in place a European preferred launch-service procurement policy for ESA missions, and Resolution ESA/ C-M/CLXXXV/Res. 5 (Final), which requires the Director General to propose a plan of action to govern risk sharing between the Agency and Industry, and to provide fair access to all categories of firms in order to enrich the European space sector's capabilities and competitiveness.

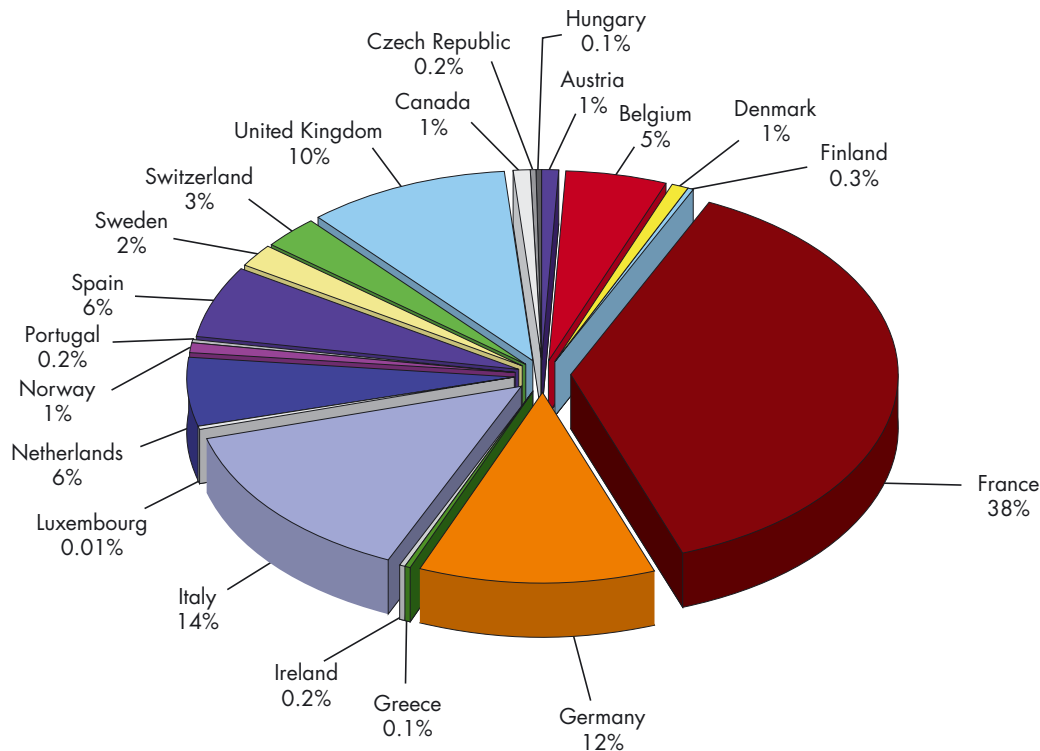
Procurement Rules and Procedures

A revised 'Code of Best Practices' was presented to the Agency's Industrial Policy Committee (IPC) for approval.



Commitments worth 1791 MEuro made to industry in 2005, by Programme*

* About 1257 MEuro committed with Industry are not yet included in the return statistics of end-2005 pending finalisation of the relevant subcontracts, or in the case of Galileo IOV are to be included in the return statistics on completion of the programme.



Commitments worth 1791 MEuro made to industry in 2005, by State*

The main changes with respect to the previous version are twofold: the inclusion of an 'Industrial Procurement Plan' (Make or Buy Plan), which will be established by Industry and evaluated by the Agency, and the incorporation of a number of recommendations made by the 'Industrial Ombudsman for ESA', which were reported in his annual report to the IPC.

Following a thorough review and a number of analyses and consultations in 2005, it was decided that effort should be put into the streamlining of small simple procurements (with values below 250 000 Euro), which represent an ever-increasing part of the Procurement Department's work. A small task force was established to try to reduce the duration of the procurement process and establish the conditions for such activities. The new procedure that has been devised for these small contracts will be implemented by March 2006.

Procurement Auditing

One of the Procurement Auditing Division's main roles is to ensure that the purchasing power of the Agency's

budget, which is to a large extent determined by the evolution in industrial rates, is maintained to the maximum extent possible. The Division has therefore initiated a new concept with the industrial partners by concluding multi-year agreements on labour, facility and overhead rates to be applied for ESA-wide procurements. The new concept, based on a combined audit/negotiation approach, conducted wherever possible in consultation with national audit authorities, has resulted in approximately 140 industrial rate agreements since its presentation to Council in March 2004. In view of the rapid changes taking place in the industrial landscape, it has also been decided to assign dedicated audit staff to multi-national companies starting in early 2006.

The other main procurement auditing activity is the continuation of the EGAS Ariane Programme audits, linked to the production of the Ariane-5 batch PA consisting of 30 launchers. The consolidated data from these audits are presented annually to the Ariane Programme Board, and were used in 2005 to establish the initial scale of contributions for the EGAS Ariane Programme.

Facts and Figures

Procurement Activities

497 Invitations to Tender (ITTs) were sent to Industry in 2005:

- 238 in open competition
- 8 in restricted competition
- 251 in direct negotiation.

ESA also placed:

- 778 contracts
- 124 riders
- 353 work orders
- 2327 Contract Change Notices (CCNs)

with total released funding of 3048 MEuro.

Among the most significant contracts prepared or placed were those for:

- Swarm Space Segment Phases-B, C/D and E: 86 MEuro
- AlphaBus Phase-C/D: 202 MEuro
- System Architecture for Soyuz Launcher at CSG: 390 MEuro
- Galileo Development and In-Orbit Validation Phases-C/D and E: 794 MEuro.

The ESA Adjudication Committee (AC) and Industrial Policy Committee (IPC) were involved as follows:

- 172 procurement proposals were submitted to the AC, of which 110 were presented to the IPC
- 57 contract proposals were submitted to the AC, of which 13 were submitted to the IPC.

The value of the contracts and procurement proposals submitted to the AC was 2282 MEuro. Of these, 110 MEuro were finalised at AC level, and the remainder, worth 2172 MEuro, were passed on to the IPC for a final decision.

Industrial Activity and Evolution of Industrial Return

Industrial activity was maintained at a sound level, with contracts worth some 1791 MEuro placed with European

and Canadian space industry during the year. The accompanying pie charts show the distribution of activities per Programme and per State. Application Programmes (Telecommunications, Navigation and Earth Observation) accounted for about 30% of the total contract value, 33% was related to Launchers, 11% to the Human Spaceflight, Microgravity and Exploration Programme, and 13% to the Scientific Programme, with the remaining 12% split between the General Budget and Technology.

The return situation regarding the geographical distribution of contracts for the period 2000-2004 was presented to the IPC in March.

Support to Third-Party Activities

In addition to handling ESA's own procurement requirements, support was also provided to third parties, involving limited use of the Agency's expertise, facilities, services or products. These third parties were often legal entities in the ESA Member States, and the costs incurred by the Agency were fully charged to those customers (not to be confused with activities performed under Cooperation Agreements, with or without exchange of funds).

ESOC continued to make spare capacity available to external customers, in terms of operations, facilities and expertise. The overall level of this activity remained similar to that of previous years, with roughly 1 enquiry per week received, leading to 15 proposals being generated in the course of the year and 8 contracts being received. The total value of orders received for ESOC support in 2005 amounted to 2.2 MEuro.

Major activities included the Launch and Early Orbit Phase (LEOP) service for the MSG-2 satellite (successfully concluded at the end of the year), preparation of the LEOP service for MetOp-1 and development of the GRAS ground-support network for Eumetsat, the provision of telemetry, telecommand and ranging services and in-orbit testing from Redu (B) for Eutelsat, and the provision of precise GPS orbit/clock data to Fugro (N).

Other third-party activities included support to the Syracuse-3A LEOP from ESA's Perth ground station for

CNES (F), support to JAXA (Japan) from ESA's Kiruna ground station for the OICETS LEOP, preparation of support to the Kompsat-2 LEOP from Maspalomas and Malindi as a service to KSAT (N), preparation of support to DLR (D) for the TerraSar-X LEOP, implementation of a prototype Galileo geodetic service for the Galileo Joint Undertaking, and various hosting services to New Skies (NL) and Vitrociset (B) from Redu.

Through ESTEC, the Agency also provided a considerable volume of assistance in the areas of general technical support, individual consultancies and testing. The Centre handled 86 enquiries, of which 11 were carried forward from previous years and 75 were newly received in 2005. This resulted in the receipt of 59 contracts with a total value of 0.79 MEuro, including 9 for the Battery Test Centre and 38 for the Laboratories. The major clients were EADS (D), SAFT (F) and CNES (F) for test activities, and Eumetsat for project-review support.

Under ESA's contract with ETS (European Test Service) to run the management, marketing, sales, operations and maintenance of the ESTEC Test Facilities, the contractor performed 16 tests for external customers. In addition, 6 of

the 13 tenancy agreements for office accommodation and services in the European Space Incubator were signed in 2005.

At the Galileo Joint Undertaking's request, technical support was provided for GNSS signal evaluation, and two further contracts were also signed: one for activities related to the strategic steps towards GNSS signal and service provision in the MEDA region as well as other training and awareness activities, and another for studies concerning the development and evolution of the EGNOS system.

Participation in EC Research Contracts

ESA was involved in several research contracts awarded to groups of companies and research institutes by the European Commission, especially in the context of the 6th Framework Programme, often being invited to coordinate such groups of co-contractors. The costs for these research and management activities undertaken by ESA and its partners are fully or partially reimbursed by the EC. In 2005, 3 contracts were awarded to groups that included ESA, 8 contracts placed in 2004 or earlier were being executed, and 8 new proposals were submitted to the Commission.