

The background is a complex collage. At the top, a bright beam of light cuts through a dark space filled with stars and a nebula. Below this, several satellites are depicted in various orientations, some with large solar panel arrays. In the bottom left, a rocket is shown in the process of launching, with a plume of white smoke and fire. On the right side, there is a stylized icon of a blue handshake with a Euro symbol (€) above it, set against a circular blue background. The overall color palette is dominated by blues, purples, and yellows.

Developing Trends in Public Procurement and Auditing

A Unique Symposium for Space
and Defence Procurement

Eric Morel de Westgaver, Pieter van Beekhuizen & Stefano M. Fiorilli

ESA Procurement Department, Directorate of Resources Management, ESTEC, Noordwijk, The Netherlands

Space projects are marked by their high technologies and their lengthy development and operations. The procurement process is a critical element that must adapt to a changing industrial landscape and new methods and tools, such as electronic procurement. ESA will host an international symposium in May to bring all the major players together.

Introduction

What is the connection between a launcher and a submarine, an aircraft carrier and a manned spacecraft, or an antitank missile and an Earth observation satellite? At first sight, there seems to be none, their purposes being completely different.

They do have, however, one thing in common. The processes governing their procurement are totally different from those for off-the-shelf goods, owing to two key aspects of their nature: the high technology involved and the long duration of the programmes.

These aspects, often coupled with monopoly or duopoly contractors, and influenced by international and/or domestic industrial policy considerations, significantly determine the

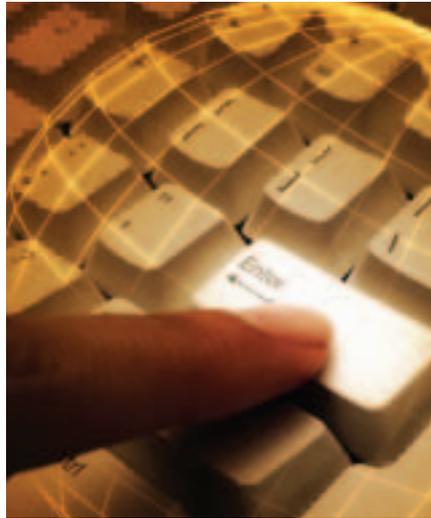
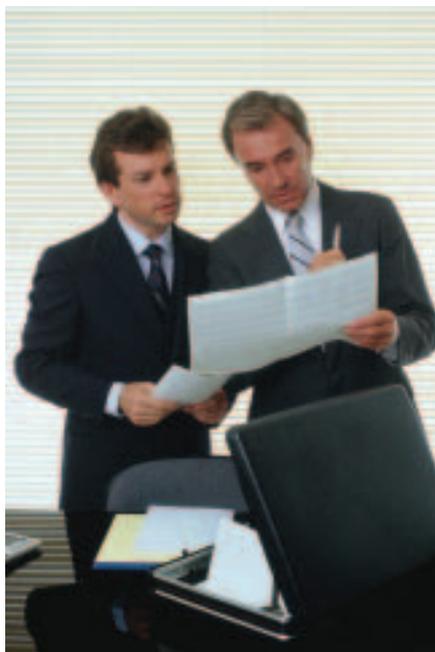
procurement path and the price/ cost-auditing methods to be used. In the space and defence domain, these issues are part of the day-to-day decision-making processes for both the public procurement authorities and the supplying industries.

Procurement is often the mandatory channel for a public organisation, whether national or international, to fulfil the mission assigned to it. Procurement tends to be at the centre of an organisation's daily activities, and the efficiency of the process reflects on the overall working of the organisation.

The natural requirement to ensure the most economical use of resources takes on a particular dimension for public procurement, where these resources usually stem exclusively from the taxpayers.

It is therefore important to build processes and practices that satisfy the programme they are serving, while at the same time remaining flexible enough to incorporate new trends throughout the procurement cycle, such as invitations to tender and requests for proposals, evaluation of offers, cost auditing, contract conditions, price type, industrial policy, risk-sharing and risk-management.

A major element of the reform



programmes under way within ESA is to improve procurement, both in terms of internal processes and policies for the contractual relationships with industry.

ESA covers the whole spectrum of procurements: minor-value purchase orders, off-the-shelf procurements, maintenance services, manpower service contracts, technical assistance activities, software procurements (with or without open source codes), research and development contracts, co-funded contracts with industry, major development contracts for ESA satellites, in-orbit infrastructures and launcher development contracts.

All of these are handled by the ESA Procurement Department.

Auditing is directly linked to the process, before, during and after the procurement. It plays a major supporting role by auditing the labour, facility and overhead rates used by industry for its proposals to and contracts with the Agency. Detailed audits are conducted under cost-reimbursement and co-funded contracts.

While the industrial landscape has drastically changed in recent years, with continual mergers and take-overs, the procurement procedures, processes and tools used by the Agency have basically remained the same. Within Agenda 2011, the Director General and his Directors have targeted the evolution of ESA's procurement process and industrial policy for urgent action.

Within the Procurement Department, a dedicated structure will be set up to handle the actions and the associated plan leading to the required improvements.

The ESA Procurement Evolution

The evolution of the procurement process is outlined below:

Small procurements

The vast majority of ESA contracts are for less than €250 000, but their administration by both the Procurement Department and the initiating Directorate demands a disproportionate amount of time for all concerned. The main reason is that these contracts are based on the same procedures as used for large development contracts.

A range of measures has simplified the process, leading to shorter procurement cycles, which also benefits industry. All the changes accommodate the standard checks and balances of the public procurement process. Lessons-learned will be studied after the new procedures have been introduced.

E-procurement tools

The main objective for ESA in electronic procurement is to meet the target set by the European Union: to carry out at least 50% of the procurements that have values above the EU's specific threshold for each activity.

To achieve this, the first priority is to focus on the labour-intensive small procurements, following published standards on inter-operability and functional requirements.

Evolution of procurement regulations

The Agency's fundamental texts regulating procurement were drafted at the end of 1970s; only Part II of the General Clauses and Conditions for ESA contracts has been fundamentally revised recently. It is obvious that Europe's space industry has evolved significantly during the same period. It will therefore be reviewed in detail in order to reflect better the regulatory and industrial environment.

International Symposium Developing Trends in Public Procurement and Auditing

Do not miss this event!

A unique opportunity for all managers and staff in the space and defence industry and actively involved in (international) public procurement and/or public procurement auditing processes to get together and exchange experiences and views



Main topics:

- Contractual options in high-technology/long-duration procurements
- Procurement authorities and industry
- Procurement techniques, approaches and tools in high-technology/long-term development programmes
- Audit process
- Audit interface aspects

ESA/ESTEC
14–16 May 2007
Noordwijk, The Netherlands

www.congrex.nl/07a01 – open for registration 1 February 2007

Restructuring of industry

The restructuring of European industry into monopolies or duopolies entities has implications for ESA's procurement process. This restructuring affects not only the satellite manufacturing industries but also the satellite operators.

Important questions on strategic industrial capabilities, capacities and skills need to be reviewed carefully, taking due account of the local situations and investments in each of the ESA member states.

Industrial contractual issues

With the maturing of industry capabilities and competences and the increased complexity of ESA programmes, the time is opportune for a deep review of contractual issues governing the relationship between ESA and industry.

For end-to-end procurements, it is essential that the ESA programme requirements are properly understood by industry during a project's Phase-A and -B. It is equally important to ensure that adequate financial envelopes are available for these initial phases, in order to avoid costly development risks during the later Phase-C/D.

The full range of issues will be reviewed in consultation with industry, both with individual companies and Eurospace. This will be followed by a detailed evaluation and decisions by the Agency's Industrial Policy Committee and Council.

Developments in Procurement and Auditing

Most, if not all, of the different topics being pursued are not unique to the ESA environment, but are being reviewed in parallel by other large public



procurement entities. The key common denominators are the high technology involved and the lengthy durations of the programmes.

It is predominantly the space and defence sector that is confronted by these specialised procurement and auditing factors, which cannot be controlled by market conditions to a great extent.

The process of studying, reviewing and/or implementing the various new concepts for procurement and auditing cannot be handled by ESA in isolation. It needs to be done in concert with our counterparts in industry, and to accommodate the experiences and developments under way in similar public procurement bodies, notably those in defence.

As a consequence, ESA will host an international symposium from 14 May to 16 May 2007 at ESTEC. The organising committee is finalising a programme that ensures overall coverage of the main topics, with various plenary and parallel sessions. Committee representatives are from the space and defence sector, involved in both awarding contracts and receiving them.

The symposium alternates plenary sessions with keynote addresses and splinter/parallel sessions.

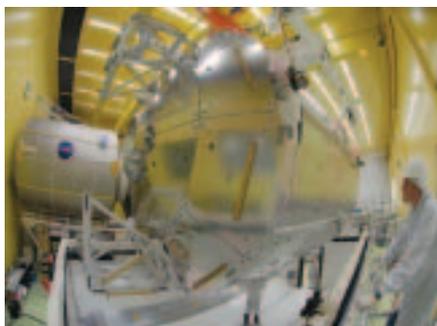
The topics

Bringing the key actors and decision-makers together in this symposium from both sides of the procurement fence will allow for a stimulating and interesting forum. The very essence of procurement is based upon an established partnership of agreed objectives, principles and outputs. Against this background, the main objective of the symposium is to determine whether the lessons learned from past high-technology/long-duration procurements, as seen from both sides, can lead to new ways of doing business together.

Contractual options in high-technology/long-duration procurements

The symposium addresses the impact of the prevailing legal framework, the various types of contract models, contractual tools such as incentive/penalty schemes, variable profit schemes, risk-sharing, price types, earned value schemes, and the elements linked to

	Value	Change	%Change
	3,006.62	38.97 ▲	1.31%
	2,649.71	33.35 ▲	1.27%
ex	807.90	2.93 ▲	0.36%
	10,744.54	96.03 ▲	0.90%
	1,367.40	13.28 ▲	0.96%
ex	626.42	4.70 ▲	0.76%
	64.77	0.49 ▼	0.79%



performance (monitoring and measurement) and those relating to contract termination.

Procurement authorities and industry

The relationship between procurement authorities and the industrial reality will be addressed. This includes the industrial policy dimension, Intellectual Property Rights, and the effect of the evolving industrial landscape on the procurement process and rules.

Procurement techniques, approaches and tools

The various workshops will address procurement phasing/cycles and competition, such as frame contracting, spiral development and smart procurement. The use of lists and pre-qualification of bidders will also be discussed, as well as the form of dialogue between procurement authorities and (potential) bidders during the tendering process. The increasing role of e-procurement will also be addressed.

The audit process

This topic deals with the operational aspects of the audit process. The

presentations will focus on the involvement of public audit authorities in the agreement and acceptance of industrial labour, facilities and overhead rates baselined for industrial offers.

Important aspects of agreeing the industrial rates is the handling of the recovery of self-financed research and development costs and the role of the institutional procurement authorities.

The costs of maintaining industrial capabilities during periods of over-capacity is a recurring issue for the space and defence institutional procurement authorities. The role of the procurement authorities, the planning process and the responsibilities of industry will be addressed during presentations and/or workshops. This will thus also touch upon the practical implications of the changing industrial business bases.

Long-term strategic partnerships between procurement authorities and industry, via multi-year rate agreements, is one of the options being applied.

Audit interfaces

For international procurement organisations, the approach to cooperation with other international or national audit authorities is an essential factor. The symposium will reflect on the different international methodologies and approaches to auditing in the space and defence sectors.

Another important issue will be the basic question of the right approach to auditing competitive and non-competitive procurements.

Different public procurement audit

For further information on the symposium, please see <http://www.congrex.nl/07a01/>

or contact:

Eric Morel
Head of ESA Procurement Department
Tel: +33 1 5369 7340
Email: Eric.Morel@esa.int

Pieter van Beekhuizen
Head of ESA Procurement Auditing Division
Tel: +31 71 565 3005
Email: Pieter.van.Beekhuizen@esa.int

Stefano Fiorilli
Head of Space Infrastructure Procurement Division
Tel: +31 71 565 5054
Email: Stefano.Fiorilli@esa.int

Pierre Reynaud
Head of Procurement Management & Regulations Division
Tel: +33 1 5369 7161
Email: Pierre.Reynaud@esa.int

authorities have different approaches for insourcing or outsourcing of the audit activities. Presentations will be made on the advantages and disadvantages of the different approaches, as well as presenting the rationales for the decisions made.

Finally, the role of the procurement auditor within the overall procurement process will be highlighted.

Conclusion

The procurement and auditing process needs to adapt to the changing industrial landscape, the contractual models, new tools and the roles and responsibilities of the contractual partners.

This process of change is under way within ESA, with the approval of the Council and the Industrial Policy Committee. Extensive consultation has begun with the different players, and it is envisaged that the organisation of the international symposium will contribute new ideas, suggestions and experiences.

