

31st IAA SYMPOSIUM ON SPACE POLICY, REGULATIONS AND ECONOMICS (E3)
Space economy – Stimulating measurable economic activities through space policies and budgets (3)

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KEYNOTE: REFLECTIONS ON THE ECONOMIC IMPACT OF PROFIT POLICIES BY PUBLIC
PROCUREMENT AUTHORITIES IN SPACE AND DEFENCE PROGRAMMES

Abstract

Technological advancements from different sectors feed into the space sector. Innovative and lower cost applications of space are emerging together with new business models, making investment in space more attractive and lucrative. Consequently, there has been a rapid growth of private and non-space commercial firms taking on a greater proportion of space-based activity during the last years, boosting as such the economic impact of space activities. In this context, public procurement authorities may need to evolve to be able to partner effectively with new (and old) space Industry players to consider their return on investment expectations whilst preserving the best value for public expenditure and maintaining an environment for economic growth. A special panel is proposed at the beginning of session E.3.3, assembling five invited heads of procurement from public procurement authorities. Various profit policies will be presented and in particular the mechanisms employed by public procurement authorities to stimulate economic growth by creating a profitable business environment on public procurement contracts. The panel will also address complex industrial chains with sub-contractors responsible at sub-system level and lower level equipment suppliers. The level of profit which a company can earn on any contract is indeed a key decision factor for a company to submit an offer. Achievable profits are an important catalysts leading to economic growth. Whilst on the commercial market the level of profit is not visible in the offers made / received, this is not the case for contracts awarded by the Public Procurement Authorities. Indeed, these authorities are governed by a set of rules which do prevent the economic operator to provide services / products below cost price at the start of the contract. For this reason, many public organisations in the space and defence sector have clearly defined profit policies and charge well-established and capable teams to review the proposals in detail. Profit policies also do vary from one organisation to another. There can be profit schemes based on different factors, such as assessment on technical risks, contract price types, cost of capital employed, volume of subcontractors involved, etc. Often, public procurement authorities include a link between the baseline profit and an incentive / penalty scheme. The proposed panel will cover these different important issues.