

Copenhagen, 7 December 2004

Memorandum

Consolidated implementation basis for
“Danish Defence Agreement 2005 – 2009”

1. Introduction.

“Danish Defence Agreement 2005 – 2009”, which was concluded on 10 June 2004, ensures that Danish Defence is strengthened in two central areas: 1) Internationally deployable military capacities and 2) The ability to counter acts of terrorism and their after-effects.

The general structure of Danish Defence has been reorganised, rationalised and streamlined, the object of the reorganisation being to obtain an approx. 60 percent operational structure from the previous approx. 60 percent support structure and approx. 40 percent operational structure.

As a result, the operational structure of Danish Defence increases the immediate military readiness for Total Defence, and Danish Defence is now capable of deploying capacities corresponding to approx. 2,000 personnel in international operations. Similarly, the focus of the Home Guard has been targeted towards Total Defence.

The agreement will primarily have consequences for:

- Implementation expenses related to the transformation of the structure of Danish Defence.
- Capacity acquisitions in the form of equipment investments.
- Operational costs related to operating equipment allocated primarily for maintenance of the training and activity levels for Danish Defence operational capacity, including funds for increased equipment operation.
- Adjustment of the man-year composition, including an increase in the number of military personnel and a reduction in civilian personnel.
- Structural adjustments in the form of centralisation in both the staff and support structure and the operational structure, including disposal of surplus estate.
- Provision of additional operational capacity.

In relation to the final defence agreement, consolidation has made it necessary to make separate adjustments within a number of areas:

- Implementation costs have increased by approx. DKK 620 million to approx. DKK 2.2 billion through: increased building and construction activities amounting to approx. DKK 300 million; additional expenses for moving and reorganisation of Danish Defence's IT systems amounting to approx. DKK 320 million.¹
- The optimisation of the structure of the army has resulted in minor adjustments in and prioritisation of the equipment programme. This will benefit projects that strengthen the operational capacities of Danish Defence, providing opportunities for quickly establishing flexible contributions to international operations.
- The operational structure of the army has been adjusted and made more cost-effective while at the same time increasing its rapid response force capacity, including units for possible participation in the NATO Response Force (NRF).²
- Danish Defence's IT activities will be established as an independent department: Forsvarets Koncernfælles Informatiktjeneste (FKIT, Danish Defence IT Service). It will operate, develop and maintain the joint IT infrastructure (Shared Services) and will be the DeMars competence centre for all the authorities in the ministerial area.³

2. The general financial structure of the defence agreement.⁴

The key figures in the consolidated implementation plan are as follows:

| DKK bn (2004 figures) | 2005 | 2006 | 2007 | 2008 | 2009 | |
|-----------------------------------|--------------|--------------|--------------|--------------|--------------|--|
| Agreed agreement framework | 18.60 | 19.30 | 19.30 | 19.20 | 19.10 | |
| Implementation plan | 18.60 | 19.65 | 19.30 | 19.20 | 18.75 | |

| Danish Defence (DKK bn) | 2005 | 2006 | 2007 | 2008 | 2009 | Final target |
|--|--------------|--------------|--------------|--------------|--------------|---------------------|
| Operation, total | 10.70 | 10.80 | 10.75 | 10.80 | 10.90 | 10.90 |
| Acquisition of equipment, FMP1 | 2.40 | 3.05 | 3.05 | 2.80 | 2.65 | 2.80 |
| Equipment operation plan, FMP2 | 2.70 | 2.70 | 2.90 | 3.00 | 3.10 | 3.10 |
| Ordinary building and construction, FEP1 | 0.30 | 0.30 | 0.10 | 0.10 | 0.10 | 0.20 |
| IT plan | 0.40 | 0.30 | 0.40 | 0.40 | 0.40 | 0.40 |
| Total capacity plans | 5.80 | 6.35 | 6.45 | 6.30 | 6.25 | 6.50 |
| Total operation and capacity | 16.50 | 17.15 | 17.20 | 17.10 | 17.15 | 17.40 |
| Total implementation expenses⁵ | 0.20 | 0.60 | 0.40 | 0.40 | 0 | 0 |
| Home Guard, total | 0.60 | 0.60 | 0.40 | 0.40 | 0.40 | 0.40 |
| Danish Defence Intelligence Service | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 | 0.40 |
| Other⁶ | 0.90 | 0.90 | 0.90 | 0.80 | 0.80 | 0.90 |
| Danish Defence, total | 18.60 | 19.65 | 19.3 | 19.20 | 18.75 | 19.10 |

¹ Clause 23 of agreement.

² Clauses 2 and 3 of agreement.

³ Clause 9 of agreement.

⁴ Clause 24 of agreement.

⁵ The specific reapplication of sales income will depend on a case-by-case evaluation of the specific expenses for construction or acquisition of properties.

⁶ Contributions for NATO, the Department and Royal Danish Administration of Navigation and Hydrography

Defence Command Denmark's share of the agreement framework, including DKK 900 million allocated in accordance with section 35, general reserves, appears in the table above. The cost of the total agreement framework amounts to an average of approx. DKK 19.1 billion per year including appropriations for the Danish Defence Intelligence Service, the Home Guard and the Ministry of Defence.

The financial management of Danish Defence is to be strengthened by the establishment of a strong and central finance function at the Defence Staff. The consultancy firm Deloitte has examined Defence Command Denmark's finance and financial management proposals and has assessed that the proposed location of the finance function is practical and an improvement to the present situation. Deloitte has also suggested that additional resources should be added, which has been taken into consideration in the consolidated proposal. Finally, Deloitte presents a number of recommendations, which will be acted upon.

Implementation expenses⁷

The implementation expenses will be financed by: reductions in the ordinary building and construction framework; income from sale of properties; adjustment of the implementation rate for the operational capacities and the departmental structures. The adjustments will be put into effect in such a way that they will not have any adverse consequences for activity levels etc.

Building and construction activities have been increased by DKK 300 million. This increase has been financed by a reorganisation of funds from the ordinary building and construction projects. The consolidation process has also shown that approx. DKK 320 million is needed for implementation expenses in relation to general re-allocation and reorganisation of Danish Defence's IT systems.

Danish Defence will sell or transfer Sjælsmark, Jægersborg, Værløse, Auderød, Melby, Hevring, the buildings of the Defence Construction Service in Copenhagen and Viborg as well as various depots. In addition, a number of establishments under the Home Guard Command will also be sold or exchanged. The total revenue is estimated at approx. DKK 450-500 million. The establishments at Vedbæk are to be sold off due to the costs identified during the consolidation phase in connection with the location of the Danish Defence Acquisition and Logistic Agency. The Danish Defence Acquisition and Logistic Agency will be located at new premises in the Copenhagen area instead. A lease model and a purchase model are being considered for the relevant establishment.⁸

⁷ Clause 23 of agreement.

⁸ Clause 9 of agreement.

Capacity acquisitions.⁹

The total allocation in the equipment acquisition budget has been reduced by DKK 165 million from DKK 14,223 million to DKK 14,058 million compared to the wording of the agreement and a number of projects have been advanced from 2006-2007 to 2005-2006.

Consolidation has prioritised additional acquisition of logistic capacity for all three services, for example in support of the PCC initiatives, an increase in the logistic readiness of the allocated units has been included.

Planning takes account of the balance between payments and allocations for new projects seen as a whole for the entire agreement period. Projects are contracted jointly in order to obtain financial and time-related benefits.

Operational costs.

Consolidation has shown that strengthening the operational structure of Danish Defence and increasing requirements with respect to quick and flexible deployment of Danish Defence's operational capacities have resulted in a need to increase the robustness of the total Danish Defence equipment operation. Against this background, the equipment operation budget has been increased by approx. DKK 600 million per year compared to the previous agreement period.

As part of the defence agreement for 2005-2009, a reserve of DKK 900 million has been allocated to finance additional expenses associated with Danish Defence's international operations. Within this reserve, Danish Defence can maintain deployed capacities corresponding to approx. 2,000 service personnel.

The increase in the ability to maintain activities in international operations for additional expenses of DKK 900 million has been obtained through a targeted development and modernisation of the operational structure of Danish Defence, investment in deployment capacities, a reorganisation in the way in which the forces are prepared for deployment as well as a marked strengthening of the equipment operation framework.

The appropriation (Section 35. General reserves) may be used for the directly related net additional expenses associated with participation in international operations, including expenses for mission preparation activities, local expenses in the mission area, increased payroll expenses in connection with deployment of contract personnel, additional and variable payments in connection with deployment of permanent personnel, expenses for net additional consumption of fuel, spare parts, ammunition etc., expenses for deployment and redeployment as well as construction, operation and dismantling of camps.

⁹ Clause 26 of agreement.

3. Composition of full-time equivalents¹⁰ and county distribution.

According to the agreement, the share of civilian personnel is reduced in favour of military personnel. This shift in the personnel structure is being implemented in order to strengthen the operational structure of Danish Defence to achieve the requested shift from 40/60 in favour of the staff and support structure to 60/40 in favour of the operational structure. The adjustment in the personnel composition will be implemented from the beginning of 2005 and will continue throughout the agreement period.

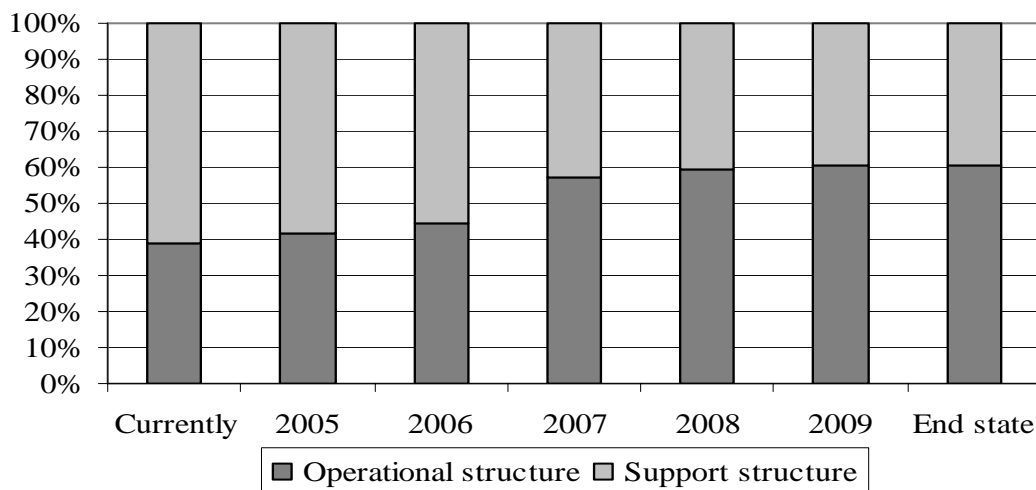
Permanent personnel at the operational commands:

| | Now | 2005 | 2006 | 2007 | 2008 | 2009 | End |
|--|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Military personnel at the three commands (approx.) | 12,200 | 13,220 | 13,350 | 14,380 | 15,130 | 15,560 | 15,540 |
| Civilian personnel at the three commands (approx.) | 3,240 | 3,080 | 2,570 | 640 | 640 | 570 | 570 |
| Total (approx.) | 15,440 | 16,300 | 15,920 | 15,020 | 15,770 | 16,130 | 16,110 |

Total number of permanent personnel at Danish Defence:

| | Now | 2005 | 2006 | 2007 | 2008 | 2009 | End |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Military personnel (approx.) | 14,360 | 15,500 | 15,820 | 17,120 | 18,100 | 18,620 | 18,590 |
| Civilian personnel (approx.) | 7,330 | 7,600 | 7,230 | 6,140 | 5,770 | 5,520 | 5,480 |
| Home Guard (approx.) | 830 | 770 | 740 | 620 | 620 | 620 | 620 |
| Total (approx.) | 22,520 | 23,870 | 23,790 | 23,880 | 24,490 | 24,760 | 24,690 |

The diagram below illustrates the shift. The table is based on the assumption that approx. 500 persons as well as all civilians at the operational commands are included in the staff and support structure and that all personnel outside the operational commands are included in the support structure.



A working group will be established which will analyse the advantages and disadvantages in the period, including the financial aspects, of amalgamating the three operational commands and the associated tasks in one joint operational command.

¹⁰ Clause 15 of agreement.

4. Structural adjustments.

During the period, Danish Defence will review the comprehensive structural adjustments and changes. Consolidation has resulted in a need for the following additional adjustments:

Joint services

The table below illustrates the implementation rate of joint service agencies and authorities:

| | 2005 | 2006 | 2007 | 2008 | 2009 |
|--|------|------|------|------|------|
| Danish Defence Personnel Agency | | | | | |
| Defence Personnel Agency, staff | | | | | |
| Defence Personnel Agency at new domicile | | | | | |
| Danish Defence IT Service | | | | | |
| Danish Defence Acquisition and Logistics Agency | | | | | |
| Defence Acquisition and Logistics Agency, staff | | | | | |
| Defence Acquisition and Logistics Agency in new domicile | | | | | |
| Danish Defence Maintenance Organisation | | | | | |
| Danish Defence Supply Organisation | | | | | |
| Danish Defence Infrastructure Agency | | | | | |
| Defence Infrastructure Agency, staff | | | | | |
| Defence Infrastructure Agency, new domicile | | | | | |
| Local Support Centres | | | | | |
| Construction and Support Centres | | | | | |
| Danish Defence Health Service | | | | | |
| Royal Danish Defence College | | | | | |
| Danish Defence Accounting Service | | | | | |

The Defence Command, the Home Guard Command and Danish Defence Media Centre ¹¹ will be located at Kuglegården on Holmen. The synergy thus obtained gives the strategic management of Danish Defence the best possible conditions for developing the new structure of Danish Defence. Together with Danish Defence Personnel Agency, the project has been approved by the parties to the agreement.

Danish Defence will establish a Joint IT Service ¹² under the Defence Command. Forsvarets Koncernfælles Informatiktjeneste (FKIT, Danish Defence IT Service) will operate, develop and maintain the joint IT infrastructure (Shared Services) and will be the DeMars competence centre for all the authorities in the ministerial area. Furthermore, FKIT is charged with the coordination, planning, management of resources and the outsourcing, capacity administration and security etc. within the IT area.

¹¹ Clause 9 of agreement.

¹² Clause 9 of agreement.

Defence Research Establishment is to be decommissioned as a unit within the Defence College's organisation and established as an individual department within the Defence Acquisition and Logistic Agency.

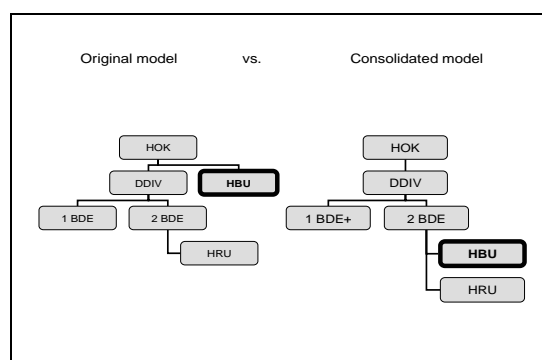
Communications within Danish Defence will be strengthened by the establishment of the Danish Defence Media Centre under the Chief of Defence. The Service is intended to strengthen internal and external communications within Danish Defence and ensure the largest possible degree of openness. Danish Defence Media Centre will be located on Holmen in Copenhagen.

The Army¹³

According to the agreement, the army's 2nd Brigade was solely intended as a response force brigade – like the DRB – and organised as a "mirror image" of 1st Brigade. Initially, the 2nd Brigade was only to carry out response force training for the units under the Brigade. Therefore, basic army training was to be carried out within a training organisation which answered directly to the Army Operational Command.

Consolidation has shown that the army is able to establish the capacity corresponding to approx. 1,500 persons for continuous deployment in a more expedient manner by making the following adjustments in the operational structure:

- The army conscript training programme – or basic training – should be conducted within the framework of the 2nd Brigade and not in an independent structure under the Army Operational Command.
- Thus the 2nd Brigade will be responsible for basic training as well as response force training.
- The 2nd Brigade will carry out the response force training in two battalions. These battalions are specifically designed to be deployed on international tasks (INTOPS battalions) subsequent to response force training.



This has made the strength of the force generated in the 2nd Brigade more cost-effective since it may vary in type and volume according to need. As a result of the adjustments the

¹³ Clauses 2 and 3 of agreement.

1st Brigade has been boosted by approx. 350 man-year equivalents and approx. 400 response force contracts from the 2nd Brigade. Army capacities in a high state of readiness for immediate deployment – including units for NRF – have been increased from approx. 3,550 soldiers to approx. 4,300 soldiers. In consequence, Danish Defence maintains the ability to deploy capacities from the army corresponding to approx. 1,500 persons continuously or up to approx. 5,000 persons for shorter periods simultaneously with an increase in the response capacity.

Army basic training is carried out in Høvelte, Slagelse, Holstebro, Skive, Fredericia, Aalborg, Vordingborg and Varde. Army response force training is carried out in Høvelte, Slagelse and Holstebro, although elements of response force training may be carried out at other garrisons depending on the composition and task of the INTOPS battalion.

The future structure of the army comprises approx. 9,100 man-year equivalents as the final target. To this may be added approx. 1,970 response force contracts and approx. 2,130 man-year equivalent conscripts.

Navy

The future structure of the navy comprises approx. 3,350 man-year equivalents as the final target. To this may be added approx. 25 response force contracts and approx. 200 man-year equivalent conscripts.

Air Force

The future structure of the air force comprises approx. 3,600 man-year equivalents as the final target. To this may be added approx. 340 response force contracts and approx. 145 man-year equivalent conscripts.

The navy and the air force are thus guaranteed the capacities needed to make a continuous contribution corresponding to approx. 500 persons.

Home Guard

The operational structure of the Home Guard has been adjusted to the civilian regional borders proposed by the structural commission to ensure that the operators within Total Defence have the same regional borders. The local defence region of Bornholms Værn has been decommissioned and a joint home guard district has been established. The district structure of the Army Home Guard has been adjusted to the requirement and the number of districts has been reduced from 23 to 18. A command structure has been established in the Total Defence regions, to which the other parts of Danish Defence contribute approx. 900 reserve officers and NCOs. The future structure of the Home Guard comprises approx. 620 man-year equivalents as the final target.

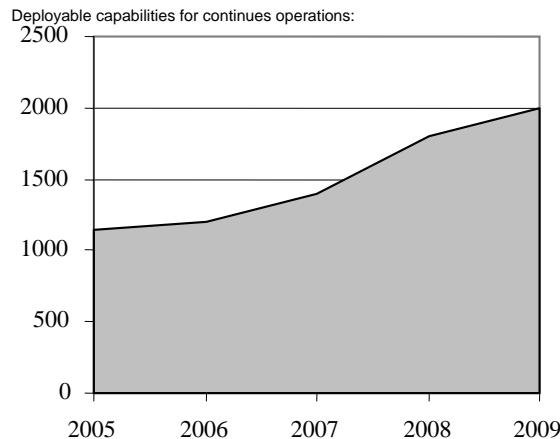
Total Defence.

The tasks of the emergency management services, the Home Guard and Danish Defence are gathered under the authority of the Minister of Defence in order to strengthen Total Defence by creating a coherent and coordinated emergency management. Furthermore, an office has been established in the Ministry of Defence to implement the development of Total Defence. The report of the working group regarding the centralisation of the Danish Emergency Management Agency and Danish Defence will be available at the end of the year.

Compulsory military service is reorganised and targeted towards Total Defence. Danish Defence Days (Forsvarets dag) will be held as part of the general conscript recruitment effort. All young men will be called in to attend and all young women will be invited to attend. Danish Defence Days will not only comprise elements from Danish Defence but also the emergency management services. Danish Defence Days will be held at the same time as the examination of men liable for military service and invited women. The day will start with a written test, physical examination to determine suitability for military service. Subsequently, all men and women declared suitable for military service will receive a presentation on Danish Defence and the emergency management services. The presentation will comprise information about military service, employment and career opportunities and response force contracts, etc. After the presentation those found suitable or partly suitable for military service may, if they so wish, conclude an agreement on military service and employment etc. following individual guidance.

5. Operational capabilities.

Danish Defence has been reorganised in order to provide operational capabilities and free resources to enable Danish Defence to establish and deploy forces in international operations quickly and flexibly, and maintain deployed capabilities corresponding to approx. 2,000 personnel (approx. 1,500 from the army and approx. 500 from the navy and the airforce). The capacity of Danish Defence to continuously deploy forces will be strengthened as follows:



By 2009, through targeted development and modernisation of the operational structure of Danish Defence, a reorganisation of the way in which forces are prepared for deployment and a significant strengthening of the equipment operation framework Danish Defence will be able to maintain capabilities corresponding to approx. 2,000 soldiers in international operations for DKK 900 million per year, compared to capabilities corresponding to approx. 1,150 soldiers in 2005.

6. Other issues.

The Ministry of Defence will analyse the total activity and development of Danish Defence continuously in order to report on this annually, including the deployment and redeployment of forces, the financial situation and the status of agreement implementation. The development of the functional services will be given special attention. The report will be transmitted to the Defence Committee of the Danish Parliament and will form the basis for a discussion between the parties to the agreement. One of the purposes of the discussions is to consider necessary corrections to the development of Danish Defence during the agreement period in order to ensure optimal relevance of Danish Defence and its capabilities, and to assess the correlation between the activities, efforts and finances of the Home Guard.

In the agreement period the Ministry of Defence will initiate work on any necessary adjustments and optimisation of the staff structure and school structure, including a possible amalgamation of two or more schools. The purpose of this work is to ensure balance between the personnel structure and the long-term development of Danish Defence taking into account the tasks of Danish Defence, personnel flexibility, recruitment possibilities and structural adjustments etc. Furthermore, the possibilities for training and recruiting reserve officers in the future will be analysed.

During the period the Ministry of Defence will establish a working group, which will analyse the advantages and disadvantages, including financial aspects, of amalgamating the three operational commands and the associated tasks in one joint operational command.

The Ministry of Defence has asked the Defence Command to prepare the basis for an anonymous survey among deployed Danish soldiers to have their opinion of the mission and the local population. The survey will also evaluate the training of enlisted personnel and officers prior to stressful deployment tasks in order to assess if the existing preparation and training is adequate. The result of the survey will be presented to the parties to the agreement before it is implemented.

It is generally agreed that the coordination of military and civilian efforts in international operations must be strengthened to obtain synergies from individual efforts and to heighten the visible effect of the overall Danish effort. A working group, which includes various NGOs, under the chairmanship of the Danish Ministry of Foreign Affairs has been established to draw up proposals for procedures for cooperative efforts between emergency relief agencies and Danish Defence. The result of the work will be presented to and discussed by the agreement parties.