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Therefore we buy not value insurance for the new fighter aircraft

Article | Last updated: 01.05.2016 | [Ministry of Defence](https://translate.googleusercontent.com/translate_c?depth=1&hl=no&ie=UTF8&prev=_t&rurl=translate.google.com&sl=no&tl=en&u=https://www.regjeringen.no/no/dep/fd/id380/&usg=ALkJrh9nkGZXmecbgBWst8udbOLgGQ) ([https://translate.googleusercontent.com/translate_c?](https://translate.googleusercontent.com/translate_c?depth=1&hl=no&ie=UTF8&prev=_t&rurl=translate.google.com&sl=no&tl=en&u=https://www.regjeringen.no/no/dep/fd/id380/&usg=ALkJrh9nkGZXmecbgBWst8udbOLgGQ)

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Over the past year, the Norwegian krone fell sharply in value. This has led to repeated questions about the consequences for the Norwegian procurement of new combat aircraft F-35, and about why we have not gained any special insurance for such currency fluctuations. Here we have compiled the answers to some of the most common questions we encounter around value.

1: How vulnerable is combat aircraft acquisition for currency fluctuations?

Fluctuations in exchange rates is a general challenge for the defense sector. We are the part of the state that is most dependent on equipment, materials and supplies from abroad. Approximately 80% of the fighter costs are paid in US dollars through a number of smaller partial payments spread over a period of more than ten years, and prices will continue to fluctuate during this period. Despite the fact that the dollar in the past has been very high, later variations still could smooth this out.



Here flies Norway's new fighter aircraft for the first time. Photo: Lockheed Martin

No. 2: Why did not you obtained insurance against currency fluctuations?

Although the defense sector is particularly vulnerable as also affected both operating and acquisition budgets of other ministries such fluctuations. Yet the government has concluded that it does not pay to insure themselves against this. This is part of the so-called SELF-INSURANCE POLICY embodied in management by § 20. SELF-INSURANCE POLICY means that the state itself assumes currency risk. Over time this will be profitable for the state as a whole. Overall state in a financial situation that allows it to be able to handle expenses associated with particularly high exchange rates. In line with management by § 20 Ministry of Defence has therefore not insured themselves against a high dollar exchange rate in their procurements, either with regard to the procurement of fighter aircraft and other equipment.

3: If F-35 is generally more expensive, as critics claim?

No, quite the contrary. All production series of F-35 is so far contracted and delivered at a lower price than the price the multinational program planned by. Norway got its first two aircraft delivered through production series 7 and we have had payments on these planes over the years 2012 to 2015. This means that the price of these was as expected, also measured in Norwegian kroner.



Figure 1 The figure shows the

exchange rate USD / NOK in the period Fighter aircraft program had payments. The blue line shows the expected average price during the same period.

Fighter program conducts every year a new uncertainty analysis of the costs which the uncertainty of each part of the program is considered to create a snapshot of the status of the application. The latest edition of this analysis, which was conducted in spring 2015 shows that if we ignore the value changes as the expected cost of combat aircraft acquisition actually declined compared to the original plan.

4: Is it true that Norway is the only country that has not cut the number of F-35?

No, Norway decided in 2012 to acquire up to 52 aircraft. After the program was revised in 2010, only Italy and the Netherlands have reduced their planned procurements, and then because of national economic conditions and major changes in their defense organizations. None of the remaining 7 countries in the program have reduced their planned acquisitions. In addition also has three countries in the same period reached that external buyers of F-35. Altogether ten countries now ordered F-35.

5: What happens in the other F-35 countries now?

Of the nine partner countries who are involved in developing the F-35 has only two countries, Denmark and Canada, so far not taken a final decision to buy the planes. Both are nevertheless still in the multinational program that develops the new aircraft.

Denmark has had a plan of the 30 aircraft since the reorganization of the program in 2010, and has not made any reductions after that. They have not carried out any "new" competition as some critics claim, but has now finally completing a process that was put on hold for a few years ago. The decision has been postponed due to the change of government in 2015.

Canada chose the F-35 in 2010 without conducting a competition, but the then government decided in 2012 to go back on this decision after it had been highly controversial. The claim that the Canadian decision should have come because of a desire to purchase more mature and cheaper aircraft later is therefore not correct. This exposure has resulted in Canada need to implement new and expensive upgrades to their existing aircraft, since they must allow even more time before they can be replaced. The new Canadian government that came in after the elections in autumn 2015 have said they will not proceed with the acquisition of the F-35, and that they will conduct a competition, which will be in line with processes including Norway and Denmark.

Regarding procurement in the individual production series made it all the time unless hula hoops between which years the various countries want their planes delivered. Norway has also implemented such changes, most recently in connection with the long-term plan in 2012. The basis for such decisions is both economic and not least operational, related to the status of countries' existing fleet. In some cases this leads also to the production of aircraft accelerated, as Norway did in 2012, and so the United States has now decided to do. In the 2016 budget, the US Congress increased the American order of new aircraft with 11 aircraft (from 57 to 68.)

Ministry of Defence

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972417823