The *Saeima*1 has adopted and

the President has proclaimed the following law:

**Defence Industry Law**

**Chapter I**

**General Provisions**

**Section 1. Terms Used in the Law**

The following terms are used in the Law:

1) **defence industry** – merchants and scientific institutions engaged in the development, production, repair, or disposal of military or dual-use technologies or products;

2) **Ministry of Defence logistics project** – a set of measures related to the targeted research, acquisition, introduction, maintenance, and modernisation of goods, infrastructure, or services required for the development of the capabilities of the National Armed Forces;

3) **security and continuity of operations** – a set of measures to plan and implement the physical, operational, information space, and cyberspace protection of the defence industry in order to enhance the security of the supply of defence industry products and related services;

4) **security of supply**– a guarantee in respect of the supply of goods or provision of services necessary for the National Armed Forces within the framework of which a possibility of third party intervention is reduced to the minimum and which is necessary to ensure the performance of the tasks entrusted to the National Armed Forces in accordance with the national laws and regulations or within the scope of international commitments of the Republic of Latvia;

5) **strategic partnership** – a form of cooperation between the Ministry of Defence and its strategic partner which provides for the integration of defence industry representatives into the national defence system, along with their targeted training for continuous work in times of national threat, including an emergency situation, a state of exception, and war;

6) **strategic partner** – a capital company with which a strategic partnership contract is concluded.

**Section 2. Purpose of the Law**

The purpose of the Law is to ensure the security of the supply of goods and provision of services required by the National Armed Forces to fulfil their national defence tasks and international obligations and also to enhance the development of the defence industry.

**Section 3. Involvement of State Administration Authorities in the Development of the Defence Industry**

State administration authorities shall be involved in the development of the defence industry and the application of the security of supply principles within the scope of their competence. State administration authorities holding shares in State-owned capital companies shall set objectives compatible with the development of the defence industry for the inclusion thereof in the overall strategic objectives of the capital companies.

**Chapter II**

**Support for the Development of Industrial and Technological Base of Sustainable Defence**

**Section 4. Enhancing the Support for the Development of Industrial and Technological Base of Sustainable Defence**

(1) The support for the development of industrial and technological base of sustainable defence is a set of such well-targeted and organised development support measures at national and international levels which are taken to strengthen State defence and security and to extend the base of mobilisation resources of the National Armed Forces and which are applicable in the defence industry to such activities as research, knowledge, and technology transfer, development, testing, and putting into production of new technologies or products, and also enhancing export capacity, international cooperation, and recognition.

(2) The Ministry of Defence shall be the institution enhancing the support for the development of an industrial and technological base for sustainable defence and also the coordination of activities of other State, local government, or non-governmental institutions for the support for the development of an industrial and technological base for sustainable defence.

(3) The support for the development of industrial and technological base of sustainable defence includes:

1) identification of the defence industry and the related security of supply priorities in policy planning documents;

2) preparation of the laws and regulations required for the support for the development of industrial and technological base of sustainable defence;

3) identification of State and local government authorities involved in ensuring the support for the development of industrial and technological base of sustainable defence and coordination of their involvement;

4) identification, introduction, maintenance, coordination, and improvement of the forms (mechanisms) of the support for the development of industrial and technological base of sustainable defence;

5) cooperation with associations and foundations representing the defence industry interests;

6) international cooperation in the field of the support for the development of industrial and technological base of sustainable defence.

**Section 5. Mechanisms for the Support for the Development of Industrial and Technological Base of Sustainable Defence**

(1) Support for the development of the defence industry is organised:

1) within the framework of the State budget allocated to the defence industry development support;

2) by engaging other personnel, material, technical, and infrastructure resources available to the Ministry of Defence;

3) by engaging State support instruments available to the defence industry and also equivalent local government commercial activity aid mechanisms;

4) by attracting funding from European Union programmes or foreign financial aid;

5) by attracting funding from other international organisations or funds, programmes or mechanisms maintained by them and available for the support for the development of industrial and technological base of sustainable defence;

6) within the framework of bilateral or multilateral transnational cooperation projects;

7) by facilitating the attraction of co-financing and investments, including foreign investments, from legal persons governed by private law and natural persons to support the development of innovative military or dual-use technologies and products.

(2) The Ministry of Defence may introduce, organise, finance, and support the following mechanisms to ensure the support for the development of industrial and technological base of sustainable defence:

1) defence innovation research programmes;

2) support programmes and funds for the research and development of military or dual-use technologies and products;

3) individual military research and development projects;

4) defence innovation activities;

5) defence industry product exhibitions and demonstration events, including the participation of the defence industry in international defence and security exhibitions and other international events;

6) defence industry product, including prototype, testing and evaluation activities;

7) consultations with defence industry merchants and non-governmental organisations representing their interests;

8) European Defence Fund, North Atlantic Treaty Organisation (NATO), or transnational projects in defence research and the research and development of military or dual-use products;

9) support programmes for master’s or doctoral studies related to the development of the defence industry;

10) engaging the personnel of the National Armed Forces in the training of specialists required by strategic partners.

(3) The Cabinet shall determine the procedures by which the Ministry of Defence conducts project competitions for the support for the development of military or dual-use products by prescribing the following:

1) the procedures for preparing and announcing project competitions;

2) the procedures for evaluating project applications and taking decisions on the winners of competitions;

3) the procedures for awarding aid and ensuring control in respect of the use of the provided aid according to the intended purposes.

(4) Fundamental and applied research projects in which the goods of strategic significance are used (created) or information the disclosure of which may compromise national security is used (created) and which are independently implemented by the Ministry of Defence or capital companies in which the Ministry of Defence is the holder of State capital shares shall be organised by the Ministry of Defence without applying the procedures and requirements for financing, evaluation, and administration of projects specified in the Law on Scientific Activity.

**Section 6. Regulatory Requirements for the Control of Aid for Commercial Activity**

The implementation of the measures referred to in this Law and the mechanisms for the support for the development of industrial and technological base of sustainable defence which correspond to the characteristics set out in Section 5 of the Law on Control of Aid for Commercial Activity shall conform to the regulatory requirements for the control of aid for commercial activity.

**Section 7. Cooperation with Associations and Foundations of the Defence Industry**

(1) When developing and implementing the policy for the support for the development of industrial and technological base of sustainable defence, the Ministry of Defence shall consult with associations and foundations of the defence industry. The Ministry of Defence shall determine the association or foundation that may nominate its representatives to the North Atlantic Treaty Organisation (NATO) Industrial Advisory Group.

(2) A person who corresponds to the requirements laid down in the law On Official Secret for the receipt of a special permit for access to an official secret may be appointed as a representative to the North Atlantic Treaty Organisation (NATO) Industrial Advisory Group. Where necessary, the representative of the association or foundation of the defence industry who has been appointed to cooperate with the Ministry of Defence shall also receive a special permit for access to an official secret in accordance with the procedures laid down in the law On Official Secret.

**Chapter III**

**Security of Supply**

**Section 8. Enhancement and Control of the Security of Supply**

(1) The Ministry of Defence shall enhance the security of the supply of goods and provision of services necessary for the fulfilment of the national defence tasks and international obligations of the National Armed Forces. Within the framework of the Ministry of Defence logistics projects, the security of supply shall be enhanced by assessing the influencing factors, defining and setting requirements facilitating the security of supply, and ensuring control of their fulfilment.

(2) Factors influencing the security of supply shall be assessed and requirements facilitating the security of supply shall be set and their fulfilment controlled by a commission established by the Ministry of Defence.

**Section 9. Factors Influencing the Security of Supply**

(1) Factors that may influence the security of the supply of goods or provision of services required by the National Armed Forces include:

1) nationality of the merchant, its owners, beneficial owners, and employees essential to the merchant’s performance;

2) possibilities to cooperate with the defence sector of the merchant’s country of origin (if other than the Republic of Latvia) in the field of ensuring the supply of the respective goods or provision of services;

3) role of the merchant’s country of origin (if other than the Republic of Latvia) in the national security system of the Republic of Latvia;

4) involvement of the merchant and the employees essential to the merchant’s performance in the National Armed Forces mobilisation system;

5) location and distance of the merchant’s production or service provision facility from the consumer in the defence sector;

6) necessity to cross national borders to supply goods or provide services;

7) estimated duration of the cooperation between the merchant and the National Armed Forces from start to completion;

8) the security and resilience of the supply chain of raw materials, components, and other means of production critical to the production of goods or provision of services;

9) the merchant’s ability to ensure the availability of introduction and after-sales services and also the transfer of related knowledge and technologies;

10) the merchant’s ability to ensure the continuity of the supply of goods or provision of services in times of national threat, including an emergency situation, a state of exception, and war;

11) the quality of the overall performance indicators of the merchant’s commercial activity, including the reputation of the merchant, its owners, beneficial owners, and employees essential to the merchant’s performance;

12) the technical competence of the merchant and of the employees essential to the merchant’s performance and also the professional qualifications of the employees;

13) the technological capacity of the goods or services to be purchased;

14) the market situation and availability of the goods or services to be purchased, including equivalent alternatives;

15) the merchant’s ability to ensure compatibility of the goods with other goods in the possession of the National Armed Forces.

(2) The Ministry of Defence may identify other factors influencing the security of supply, insofar as they do not contradict the provisions of this Law or other laws and also international legal norms binding on the Republic of Latvia in the field of defence and security procurements.

**Section 10. Requirements for Enhancing the Security of Supply**

(1) When determining requirements for enhancing the security of supply, the Ministry of Defence shall base itself on the identified factors influencing the security of supply referred to in Section 9 of this Law.

(2) The requirements for enhancing the security of supply for procurement procedures carried out within the framework of the Ministry of Defence logistics projects shall be set by a unit of the Ministry of Defence, i.e. the contracting authority.

(3) After assessing the factors influencing the security of supply referred to in Section 9, Paragraph one of this Law within the framework of the Ministry of Defence logistics projects, the Ministry of Defence shall set the requirements for enhancing the security of supply with regard to:

1) identification of the merchant, its owners, beneficial owners, including employees essential to the merchant’s performance;

2) the organisation of the merchant’s production or service provision process, including related logistics, physical, industrial, labour, information security, and cyber security;

3) the ensuring of the status and accessibility of the intellectual property rights of the project framework;

4) the availability of support for the introduction, maintenance, repairs, improvements, modernisation, compatibility, and disposal of products (both goods and services), including associated spare parts and the user training system required;

5) the identification, engagement, and mutual cooperation of the merchant’s subcontractors essential to the security of supply;

6) the creation, maintenance, replenishment, and management of reserves of raw materials, components, other means of production, or finished products essential to the security of supply;

7) the involvement of the merchant in the planning and preparation of the National Armed Forces mobilisation system;

8) the internal analysis of the security of supply risks and the development of measures to prevent or mitigate their possible consequences.

(4) The Ministry of Defence may identify and impose on the merchant other requirements for enhancing the security of supply, insofar as they do not contradict the provisions of this Law or other laws and also international legal norms binding on the Republic of Latvia.

(5) In order to ensure the security of supply, the Ministry of Defence shall manage investments in the national defence industry. The Ministry of Defence may, in accordance with the laws and regulations governing the performance of State administration tasks, fully or partially delegate the coordination of the processes related to the management of investments in the national defence industry and the development of the production of military goods to *valsts sabiedrība ar ierobežotu atbildību “Valsts aizsardzības korporācija”* [State limited liability company National Defence Corporation].

(6) In order to enhance the security of supply, the Ministry of Defence shall, as a matter of priority, assess the possibilities of implementing the Ministry of Defence logistics projects in cooperation with other North Atlantic Treaty Organisation (NATO) member countries, European Union Member States, or countries of the European Economic Area.

(7) The Cabinet shall establish the procedures for the application of the requirements enhancing the security of supply in procurement procedures and shall determine the logistics projects for which the requirements enhancing the security of supply shall be set and the factors influencing the security of supply shall be assessed.

**Section 11. Implementing a Strategic Partnership**

(1) In order to enhance the security of supply, the Ministry of Defence can establish a strategic partnership by concluding strategic partnership contracts with the capital companies to whom the special permit (licence) for commercial activities with the goods of strategic significance or the certificate of a military manufacturer has been issued. The conclusion of a strategic partnership contract requires the authorisation of the Cabinet.

(2) The Ministry of Defence may conclude a strategic partnership contract:

1) with a capital company which has at least two years of appropriate commercial experience in the supply of the respective goods or services and this experience has been acquired while performing supply or providing services to the National Armed Forces or the armed forces of other North Atlantic Treaty Organisation (NATO) member countries, European Union Member States, or countries of the European Economic Area;

2) with a newly-established capital company formed for such purpose by an association (consortium) of capital companies, with the majority of shareholders (stockholders) meeting the requirements laid down in Clause 1 of this Paragraph.

(3) The Cabinet shall set the conditions and procedures for establishing a strategic partnership. A strategic partnership may be established if the conditions set by the Cabinet are found to be fulfilled within the framework of the Ministry of Defence logistics project.

(4) The Ministry of Defence, when concluding a strategic partnership contract, shall determine:

1) the purpose of the strategic partnership;

2) the management mechanism for the strategic partnership;

3) the contracts for the supply of goods or provision of services under the strategic partnership framework;

4) the conditions for ensuring the continuity of production and supply of goods or provision of services under the strategic partnership framework during a threat to national security, including an emergency situation, a state of exception, and war;

5) the conditions for the creation, maintenance, replenishment, and management of the reserves of raw materials, components, other means of production, or finished products intended for ensuring the continuity of the production, supply of goods or provision of services under the strategic partnership framework;

6) conditions for the involvement of employees essential to the performance of the strategic partner, including performance of the capital company, in the National Armed Forces mobilisation system;

7) the conditions in respect of monitoring the performance of the contracts for the supply of goods or provision of services under the strategic partnership framework, the maximum profit threshold, which must not exceed 10 per cent, and also the handling of cases where the maximum profit threshold is exceeded;

8) the conditions in respect of handling the cases where the strategic partner is operating at a loss in the performance of the contracts for the supply of goods or provision of services under the strategic partnership framework;

9) the mechanism and procedures for auditing the contracts for the supply of goods or provision of services concluded under the strategic partnership;

10) the conditions of the security and continuity of operations appropriate to the strategic partnership framework.

(5) A strategic partnership shall be concluded in accordance with the laws and regulations regarding procurements in the fields of defence and security.

(6) A strategic partner shall inform the Ministry of Defence in writing, at least once every three months, of all essential objects of infrastructure, means of production, other essential logistical resources involved in the performance of the contracts for the production and supply of goods or services concluded under the strategic partnership framework and also of the employees recruited for the performance of the aforementioned contracts.

(7) A strategic partner shall inform in writing, at least once every 12 months, all employees recruited for the performance of the contracts for the production and supply of goods or services concluded under the strategic partnership framework and essential to the performance of the capital company of their role and duties with regard to the involvement in the National Armed Forces mobilisation system and also in ensuring the continuity of production and supply of goods or provision of services under the strategic partnership framework during a threat to national security, including an emergency situation, a state of exception, and war.

(8) A strategic partner shall immediately inform the Ministry of Defence in writing if any of the characteristics of insolvency of a legal person specified in the Insolvency Law is likely or is actually identified in the activities of the capital company or if the merchant faces other, including unforeseen, significant risks that threaten the performance of the strategic partnership contract and the strategic partnership framework contracts for the supply of goods or services.

(9) If, after assessment of the information referred to in Paragraph eight of this Section, the Ministry of Defence establishes that the threat to the performance of the strategic partnership contract and strategic partnership framework contracts for the supply of goods or services cannot be eliminated within the framework of the respective strategic partnership contract, it shall, in accordance with the procedures laid down in the Law on Governance of Capital Shares of Public Entity and Management of Capital Companies Thereof and the State Administration Structure Law, prepare and may advance a proposal on the acquisition of national ownership in the person of the Ministry of Defence or acquisition of decisive influence in the capital company of the strategic partner.

(10) If the strategic partner or the Ministry of Defence establishes that the strategic partner corresponds to any of the signs referred to in Paragraph eight of this Section, the strategic partner has the obligation to request and obtain the approval of the Ministry of Defence for all its transactions with property or financial resources with a framework value exceeding 10 thousand euros.

(11) Within the framework of a strategic partnership, the Ministry of Defence may, for a period not exceeding the duration of the strategic partnership contract, transfer property in its possession, including land and the right of superficies, to the strategic partner for gratuitous use, insofar as this is necessary for the performance of the strategic partnership contract or individual contracts for the supply of goods or services within its framework, for the enhancement of the security of supply or the security and continuity of operations of the strategic partner and does not affect the competition of such products on the internal market of the European Union which are not directly intended for military purposes.

**Chapter IV**

**Security and Continuity of Operations of Defence Industry**

**Section 12. Enhancement of Security and Continuity of Operations of the Defence Industry**

(1) The Ministry of Defence shall enhance the security and continuity of operations of the national defence industry.

(2) The Ministry of Defence may enhance the security and continuity of operations of the defence industry imposing on the defence industry such physical, industrial, labour, information security, and cyber security requirements, procedures, and principles as are applied in the field of national defence, insofar as this does not contradict the provisions of this or other laws and also international legal norms binding on the Republic of Latvia in the field of continuity of operations of the defence industry.

(3) In its operations, the defence industry shall comply with the requirements for security and continuity of operations set by the Ministry of Defence. Failure to comply or incomplete compliance with such requirements may be the ground for the Ministry of Defence to restrict or terminate cooperation with the respective defence industry representative in accordance with the procedures laid down in this Law and other laws and regulations governing the security and continuity of operations of the defence industry.

**Section 13. Measures to Enhance Security and Continuity of Operations of the Defence Industry**

(1) The Ministry of Defence may, within its competence and available resources, implement the following measures to enhance the security and continuity of operations of the defence industry:

1) to organise consultations of the Ministry of Defence experts on the research, development, testing, certification, marking, packaging, manufacture, storage, transport, demonstration, sales, repair, modification, modernisation, or disposal of the defence industry products, including essential components or prototypes designed or adapted specifically for military use;

2) to perform the testing of defence industry products, including essential components or prototypes designed or adapted specifically for military use, using specialised products, goods, or infrastructure in the possession of the Ministry of Defence;

3) to organise, in accordance with the procedures laid down by the Cabinet, training for the defence industry employees in the use of specialised logistical resources designed or adapted specifically for military use;

4) to create and allow, for a period not exceeding three years, the use of specialised infrastructure of the Ministry of Defence to such commercial company which has obtained the special permit (licence) for commercial activities with the goods of strategic significance issued by the Ministry of Defence or the certificate of a military manufacturer if the respective infrastructure is required by the commercial company for the development and storage of the defence industry products under initial development, testing, or production designed or adapted specifically for military use, including essential components or prototypes, or for the processing and protection of restricted access information or information containing official secrets related to the development of such products;

5) to allow, for a period not exceeding three years, the use of specialised products or goods in the possession of the Ministry of Defence to such commercial company which has obtained the special permit (licence) issued by the Ministry of Defence for commercial activities with the goods of strategic significance or the certificate of a military manufacturer if the respective products or goods are required for testing the defence industry products under initial development or production by the merchant designed or adapted specifically for military use, including essential components or prototypes;

6) to acquire and maintain specialised products or goods, services or infrastructure required in order to comply with the provisions of Paragraph one of this Section.

(2) The costs of the defence industry security enhancement measures referred to in Paragraph one, Clauses 4 and 5 of this Section for the use of the property in the possession of the Ministry of Defence shall be reimbursed by the respective defence industry merchant at actual cost.

(3) While enhancing the security of the supply of goods and provision of services, the Ministry of Defence may take over from the merchant, by way of compensation for the costs incurred, into State ownership the prototypes of such defence industry products designed or adapted specifically for military use by the national defence industry merchant, including their essential components, which for technical reasons cannot be certified as ready-to-use products.

**Section 14. Supervision of Strategic Partnership and the Support for the Development of Industrial and Technological Base of Sustainable Defence**

Supervision of strategic partnership and the support for the development of industrial and technological base of sustainable defence shall be carried out by the State Audit Office in accordance with the procedures laid down in the State Audit Office Law.

**Transitional Provisions**

1. The Cabinet shall, by 15 December 2024, issue the regulations referred to in Section 10, Paragraph seven of this Law.

2. The Cabinet shall, by 15 December 2024, issue the regulations referred to in Section 11, Paragraph three of this Law.

3. The Cabinet shall, by 1 March 2025, issue the regulations referred to in Section 13, Paragraph one, Clause 3 of this Law.

The Law has been adopted by the *Saeima* on 27 March 2024.

President E. Rinkēvičs

Rīga, 10 April 2024