

OFFSETS PANEL

IFBEC CONFERENCE 2019



PANEL

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OFFSETS – ALSO KNOWN AS.....

- **AKA:**

- Industrial Participation
- Industrial Cooperation
- Industrial Development
- Industrial Strategy
- Industrial Benefits
- Countertrade
- Counter Purchase
- Compensation

Typically Industry to
Gov.t Relationship.....
to enable
International Sales

GENERAL OFFSET TERMS

“Offset Guidelines / Policy”

General framework or policy statement defining the offset requirement of the country



“Offset Authority”

Official Agency empowered by a foreign government to agree offset requirements & enforce the agreement



“Offset Agreement”

An agreement, negotiated between a contractor and the offset authority of a foreign government, that includes a commitment on the part of the contractor to perform offset in the foreign country.



BASIC OFFSET CATEGORIES

“Direct Offset” - Directly Related to the End Item Purchased by the Foreign Government

- e.g. Co-production, support equipment, training

“Indirect Offset” - All Forms Other Than Direct Offset

- e.g. Technology Transfer, Marketing Assistance, Infrastructure, Studies and Surveys

Definitions Vary
Country To Country

OFFSETS CREDIT VALUATION

- Typically a percentage of contract value (30% - 100%)



Base Value of:

- Purchase Order
- Technology
- Export
- Grant
- Investment

Incentives for preferred:

- Technologies
- Transactions
- Economic Sectors
- Geographic Regions

Values negotiated
between Company
and Offset Authority

TI-UK VIEW OF OFFSETS (DCI ASSESSMENT)

*“Offsets represent one of the most **opaque** practices in the Defence Sector”.*

*“...the **lack of transparency and scrutiny** around this practice presents a number of significant **corruption risks** at each stage of the procurement process.”*

*“...the offset could be **tailored to influence** the competitive decision for awarding the main contract, the offset itself could **function as a bribe**, or the offset contract could be inflated to account for or mask the existence of bribes.”*

IFBEC OFFSETS STUDY 2015

IFBEC Offsets WG chaired by the Basel Institute on Governance Dec 14 to Aug 15

Produced paper, '**Offsets in the Aerospace & Defence Industry**' (2015)

Offsets paper acknowledged potential **risks of bribery**, particularly in countries with high corruption risk, but had differing opinions on:

- The **risks of using third parties** and;
- Where the **risks lie** in the offsets lifecycle (pre-tender, tender or post-award)

The paper recommends further work;

- 1) Develop **Minimum Standards in Offset Activity** anti-corruption compliance including third party due diligence and training all involved in offset activities;
- 2) **further collaboration** between the industry and other stakeholders (such as offset Authorities) possibly via a WG.

PANEL SESSION

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PANEL QUESTIONS

1. How do you review and approve proposed offset arrangements from an anti-bribery and anti-corruption perspective? (Kevin)
2. Where are the biggest risks of corruption in the offset lifecycle (pre-tender, tender or post award) and how can these be assessed and mitigated? (Vincent)

Do these risks differ due to the following and if so, why?:

- a. the offset model used (i.e. direct, indirect or a mixed model)
- b. The use of third party consultants/advisors
- c. The size of the offset obligation

3. What other risks may exist in future offset arrangements? (Phil)
4. Thinking of the recommendation from the IFBEC Offsets paper to develop Minimum Standards in Offset Activity anti-corruption compliance; is there an appetite within companies to adopt a set of offset-related principles that could be developed by IFBEC?

WHAT QUESTIONS DO YOU HAVE FOR US?