

Offset Reporting Definitions

Offsets: Compensation practices required as a condition of purchase in either government-to-government or commercial sales of: (1) Defense articles and/or defense services as defined by the Arms Export Control Act (22 U.S.C. § 2778) and the International Traffic in Arms Regulations (22 C.F.R. §§ 120-130); or (2) Items controlled under an Export Control Classification Number (ECCN) that has the numeral “6” as its third character in the Commerce Control List found in Supplement No. 1 to part 774 of this chapter other than semisubmersible and submersible vessels specially designed for cargo transport and parts, components, accessories and attachments specially designed therefor controlled under ECCN 8A620.b; test, inspection and production equipment controlled in ECCN 8B620.b, software controlled in ECCN 8D620.b and technology controlled in ECCN 8E620.b.

Military Export Sales: Exports that are either Foreign Military Sales (FMS) or commercial (direct) sales of defense articles and/or defense services as defined by the Arms Export Control Act and International Traffic Arms Regulations.

Offset Agreement: Any offset as defined above that the U.S. firm agrees to in order to conclude a military export sales contract. This includes all offsets, whether they are “best effort” agreements or are subject to penalty clauses. The agreement is normally reflected in a contract that specifies the percentage of the total defense-related export sale to be offset, the forms of industrial compensation required, the duration of the offset agreement, and penalty clauses, if any.

Offset Transaction: Any activity for which the U.S. firm claims credit for full or partial fulfillment of an offset agreement. For the purpose of analysis, BIS divides offset transactions into nine different categories, which are defined in the “Types of Transaction” section below.

Direct Offsets: Offset transactions that are directly related to the article(s) or service(s) exported or to be exported pursuant to the military export sales agreement. Direct offsets are usually in the form of co-production, subcontracting, training, licensed production, or possibly technology transfer, investment, or credit assistance.

Indirect Offsets: Offset transactions that are unrelated to the article(s) or service(s) exported or to be exported pursuant to the military export sales agreement. The kinds of offsets that may be considered “indirect” include purchases, investment, training, credit assistance, and technology transfer.

Actual Value of Offset Transactions: The U.S. dollar value of the offset transaction in U.S. dollars without taking into account multipliers or intangible factors.

Credit Value of Offset Transactions: The U.S. dollar value credited for the offset transaction by application of a multiplier, any intangible factors, or other method. The credit value may be greater than, equal to, or less than the actual value of the offset.

Multiplier: A factor applied to the actual value of certain offset transactions to calculate the credit value earned. Foreign purchasers use multipliers to provide firms with incentives to offer offsets that benefit targeted areas of economic growth. When a (positive) multiplier is applied to the price of a service or product offered as an offset, the defense firm receives a higher credit value toward fulfillment of an offset obligation than would be the case without application of a multiplier. Conversely, foreign purchasers may apply “negative” multipliers to discourage certain types of transactions not considered to be in the best economic interest of the receiving entity.

Example: A foreign government interested in a specific technology may offer a multiplier of “six” for offset transactions providing access to that technology. A U.S. defense company with a 120 percent offset obligation from a \$1 million sale of defense systems ordinarily would be required to provide technology transfer through an offset equaling \$1.2 million. With a multiplier of six, however, the U.S. Company could offer only \$200,000 (actual value) in technology transfer and earn \$1.2 million in credit value, fulfilling its entire offset obligation under the agreement.

Types of Transactions:

Co-production: Transactions that are based upon government-to-government agreements authorizing the transfer of technology to permit foreign companies to manufacture all or part of U.S.-origin defense articles. Such transactions are based upon an agreement specifically referenced in Foreign Military Sales (FMS) Letters of Offer and Acceptance (LOA) and a government-to-government Memorandums of Understanding (MOU). Co-production is always classified as a direct offset.

Credit Assistance: Credit assistance includes direct loans, brokered loans, loan guarantees, assistance in achieving favorable payment terms, credit extensions, and lower interest rates. Credit assistance specifically excludes the use of “banked” offset credits (credits that exceed the requirement of the offset agreement and are permitted, by the terms of the agreement, to be applied to future offset obligation). Credit assistance is nearly always classified as an indirect offset transaction but can also be direct.

Investment: Investment arising from an offset agreement, often taking the form of capital dedicated to the establishment of a foreign entity unrelated to the defense sale or to expanding the U.S. firm’s subsidiary or joint venture in the foreign country. Investment can be either direct or indirect.

Licensed Production: Overseas production of a U.S.-origin defense article based upon the transfer of technical information under direct commercial arrangements between the U.S. manufacturer and the foreign government or producer. Licensed production is not pursuant to

a co-production government-to-government MOU. In addition, licensed production almost always involves a part or component for a defense system, rather than a complete defense system. Licensed production transactions can be either direct or indirect offsets.

Other: An offset transaction other than co-production, credit assistance, licensed production, investment, purchasing, subcontracting, technology transfer, or training. If a U.S. firm reports “other” as a type of transaction, please describe the transaction.

Purchases: Purchases involve the procurement of off-the-shelf items from the offset recipient. They are indirect transactions.

Subcontracting: In the offset context, subcontracting is the overseas production of a part or component of a U.S.-origin defense article. The subcontract does not necessarily involve the licensing of technical information. Instead, it is usually a direct commercial arrangement between the defense prime contractor and a foreign producer.

Technology Transfer: Transfer of technology that occurs as a result of an offset agreement and that may take the form of research and development conducted abroad, technical assistance provided to the subsidiary or joint venture of overseas investment, or other activities under direct commercial arrangement between the defense prime contractor and a foreign entity.

Training: Generally includes training related to the production or maintenance of the exported defense item. Training, which can be either direct or indirect, may be required in unrelated areas, such as computer training, foreign language skills or engineering capabilities.