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Offsets in Defense Trade Fifth Annual Report To Congress - United States Department of Commerce - Illustration - Statistical Data Included

The decision to codify its policy on offsets coincided with the Czech Republic's announcement of its plan to devote \$2 billion for the purchase of new fighter aircraft to replace its fleet of Russian MiGs. Since as early as March 1999, Czech Republic government officials have stated that offsets will be the main criteria for deciding which fighter aircraft they purchase. Because Czech officials view the technical parameters of the fighter jets being offered as so similar, offset packages will outweigh technical factors and price when making a final decision.

Realizing this new opportunity for sales, the Czech Republic has been inundated with offers from major international aerospace contractors. The companies vying to conclude deals with the Czech government include Boeing with its F/A-18, Lockheed Martin with its F-16, British Aerospace-Saab with the JAS-39 Gripen and Dassault Aviation with its Mirage 2005. In addition to presenting their product, each firm is constructing offset packages (each of which will be at least 100 percent) and starting to create a niche for itself in the Czech economy. (13)

Boeing bought 34 percent of Aero Vodochody, a Czech firm, as a pre-offset and won a contract to supply 737s to Czech Airlines. It was valued at \$33 million and resulted in a deal between Boeing and Czech Airlines. Boeing's subsidiary, Ayers, also bought LET Kunovice, a major producer of commuter planes. Ayers plans to move part of the production line for its own planes to LET. Lockheed Martin's pre-offset activities included a technology transfer program with Skoda Elcar, a Czech manufacturer of transportation equipment. Saab and British Aerospace have also started to make pre-offset arrangements with the Czech government. (14)

3.12 United Arab Emirates: The Use of Offsets

The United Arab Emirates (U.A.E.) has developed an extensive offset policy aimed at developing its economy. The U.A.E. Offsets Group (U.O.G.) administers the program and

seeks suppliers who show a commitment to the growth of the U.A.E., not just to the procurement or the offset agreement. In this sense, the U.A.E. offset program is a prime example of a developing country using defense procurements to benefit other aspects of its economy. As **Dr. Amin Badr-El-Din** comments in a U.O.G. brochure,

The aim of our offset program is to enhance security by leveraging off our defense procurements to fulfill both our military and economic goals simultaneously... The U.A.E. offset program is designed to generate wealth among the people of the U.A.E. and assist with the global integration of its economy by the creation of commercially viable ventures through partnerships and strategic alliances between the domestic private sector and international business. (15)

Offsets are required on all U.A.E. armed forces procurements over \$10 million. Offsets must be a minimum of 60 percent of the imported content of the defense item. Pre-offset credits may help a prime contractor win an award; the credits may later be traded or banked for future obligations. Prime contractors may choose to fulfill offset obligations in any industry except oil. Credit is awarded based on the profits of the projects undertaken in the offset program. Since the U.O.G. strives to increase its gross domestic product (GDP) per capita, credits will not be awarded for projects that are labor intensive.

Between 1993 and 1998, U.S. defense prime contractors signed \$180 million in new offset agreements in connection with \$325 million in export sales, for an average of 55 percent required offsets. During this same time period, U.S. primes fulfilled part of these and previous agreements with \$65 million worth of transactions, receiving \$206 million worth of credits. These credits average a multiplier of 3.2.

The U.O.G. has been quite creative in generating new ways to fulfill offsets and help the economy. For example, offsets were used to manage Ghantoot, a world-class polo and racing facility that stages annual international events. (16) The U.O.G. encourages foreign offset partners to launch initial public offerings (IPOs) for all of their joint venture projects. Not only do the IPOs raise money for the projects, but they also increase profits. In 1998, a new joint venture company called International Fish Farming Company was created for offset credits, in which Dassault and other foreign partners provided 45 percent of the capital investment and 55 percent came from public and IPO funding. Recently, Boeing joined Berlitz International, Inc. and local investors to fulfill an offset obligation by establishing a Berlitz Language Center in Abu Dhabi. (17)

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