



Current Issues & Themes In Offset



Welcome

In these Newsletters we provide our clients and industry partners with an independent assessment of the latest developments in Offset and related issues. Since its inaugural publication in 2009, our Newsletter has received a great deal of positive feedback from companies that are serious about keeping up to date with the latest Defence Industry developments in offset and who want to learn more about best practice in this niche area of defence business. Our aim therefore is to communicate what we have learned through practical experience in our consultancy work together with latest legislation and Industry developments.

With a wide range of synonyms that include; industrial co-operation, industrial collaboration, industrial participation and industrial & regional benefits (to name only a few) offset is now an integral part of defence procurement law in more than 70 countries. Moreover, in today's defence climate, where technical excellence and price competitiveness is taken for granted, offset is now considered a critical success factor in the highly competitive world-wide defence export market.

We have extensive knowledge of current rules and regulations for a wide range of countries. Added to which, we have a growing number of examples where we have 'hands on' experience of managing offset programmes, either through the bidding stage or managing the delivery of contracted offset projects. We hope that these Newsletters and its companion web site (www.offsets2000.com) are therefore of practical assistance to you. If, however, you have a specific question you would like to discuss please feel free to contact us where we shall endeavour to assist you in strictest confidence.

ROGER BULGIN,
CEO

page2:

- Market Spotlight - What's New?

page3:

- A|D|S Offset Advisory Service

- Offset Training in South Africa

page4:

- LCR Appointment

- UK/Denmark Joint Industry Seminar

- Best Practice



Current Issues & Themes In Offset



Market Spotlight – What's New?

India

In November 2009, India's Ministry of Defence issued the latest revision of the Defence Procurement Procedure; DPP 2009. Whilst the bulk of the offset regulations remain unchanged - the threshold rests at INR3 billion (approx USD65 million), 30% of which must be discharged as offset, multipliers are still not explicitly accepted and the mandate continues to be the creation of a self-sufficient defence industry - the offset authorities have made one radical change that could potentially have far reaching implications.

In a bold move the MoD has introduced a new category, 'Buy and Make (Indian)' that will allow RfPs pertaining to specially selected programmes to be issued to Indian industry directly rather than foreign primes. The onus will then be on the indigenous Indian company to identify foreign contractors for technology transfer and industrial co-operation.

It is understood that Indian authorities hope that the rule change will encourage the "formation of joint ventures and alliances for co-production with Indian companies".

The new procedure became effective on 1st November 2009.

Brazil

At the time of writing, the winner of the Brazilian USD7 billion fighter competition is yet to be announced. However, the manner in which it has been contested, with almost unprecedented promises of technology transfer and indigenous production, serves to demonstrate the prominence of offset and industrial participation in international defence acquisitions.

All three primary contenders – Dassault (Rafale), Saab (Gripen NG) and Boeing (F/A-18 Super Hornet) have presented formidable industrial co-operation packages;

Saab, veterans of offset delivery, are reportedly promising to manufacture 40% of the aircraft in Brazil as well as offering USD 12 Billion in ongoing industrial co-operation. There is also rumoured to be talk of the Swedish Air Force replacing its fleet of trainer aircraft with Embraer's Super Tucano.

Boeing, whose offering might have otherwise suffered due to restrictive U.S. export controls, have secured the weighty and impressive support of the U.S. Government. In a rare move, US State Department Under Secretary for Arms Control Ellen Tauscher and Pentagon Acquisition and Technology Chief Ashton Carter have

explicitly stated that they will allow the transfer of technology to Brazil, going on to imply that the move will be the first step in forging a deeper alliance the Brazilian defence industry.

In the meantime Dassault, for whom success would trumpet the first export order of Rafale in its 10 years of production, will possibly benefit from warm diplomatic relations between Brazil and France, particularly in the realm of co-production. Indeed Nicolas Sarkozy has reportedly written to Brazilian President Luiz Inacio Lula da Silva promising "unrestricted access to technology" in support of the Rafale bid.

A decision on the Brazilian fighter competition is expected Q1 2010.

page2:

- Market Spotlight - What's New?

page3:

- A|D|S Offset Advisory Service
- Offset Training in South Africa

page4:

- LCR Appointment
- UK/Denmark Joint Industry Seminar
- Best Practice



Current Issues & Themes In Offset



A|D|S Offset Advisory Service

Offsets 2000 is pleased to announce our appointment as A|D|S Offset Advisors. A|D|S, formed from the merger in October 2009 of the Association of Police and Public Security Suppliers (APPSS), the Defence Manufacturers Association (DMA) and the Society of British Aerospace Companies (SBAC), aims to promote the interests of UK aerospace, defence and security industries.

Increasing global offset obligations (estimated to be in excess of USD70 billion at the time of writing) coupled with protectionist sentiment arising from the recent economic slowdown has raised the profile of offset globally. As trends in defence procurement policies and offsets remain fluid with no indication that they might solidify in the near future, A|D|S recognises that its members will benefit from access to clear and up-to-date information on offset rules, regulations, the socio-economic environment and relevant regional intelligence in target markets.

Given that more than 70 countries now request some form of offset or countertrade as part of government defence or security related procurements, the ability to package and deliver a comprehensive offset programme is fast becoming a discriminating factor in many competitive tenders.

Offsets 2000 Ltd are able to provide A|D|S members with key offset intelligence, trends, changes in legislation, strategy & planning, bid preparation, risk assessment and risk mitigation. Expertise and advice will be available to members via a free virtual 'help desk' service allowing members to contact Offsets 2000 Ltd by phone or email to discuss issues and obtain guidance on offset-related matters.

Offsets 2000 Ltd consultants may also be available and present at A|D|S regional events and conferences.

A|D|S Offset Helpdesk:

info@offsets2000.com

+44 (0)1293 539 797

Please quote your A|D|S membership number.

Offset Training in South Africa

In November 09, Offsets 2000 was invited by the Nelson Mandela Metropolitan University in Port Elizabeth, South Africa to give a 'Masterclass' in Offset. The Masterclass was attended by a mix of local government and regional companies, plus several foreign defence primes.

In line with previous Masterclass events we were delighted to have Mr. Dov Hyman (CEO Dolin International) as our guest speaker who delivered an excellent seminar on "The Role of Innovative Financing

Solutions in Offset Delivery." The Masterclass was part of the University's inaugural Conference on Offsets & Countertrade in South Africa. It is expected that this conference will be a regular event, which for 2010 is likely to be held in Cape Town.

Our next public Offset Training Workshop will be held on the 2nd July in Farnborough, UK, in association with A|D|S. The workshop aims to provide participants with essential knowledge and tools to help reduce risk and increase competitiveness in international business. The workshop will cover;

- A background to offsets, the market and legal requirements.
- The diversity of offset with excellent supporting case studies and examples.
- Common pitfalls and how to avoid them.
- Key customer priorities and emerging trends.
- Implementation and delivery strategies.
- Assessing proven methods of managing risk.
- Strategic planning.
- Offset as a business development tool for non-defence companies.

It is hoped that workshop participants come away with a clear understanding of what exactly offset is and what its implications are for international business, proven best practice models, an understanding of how to reduce the risk and enhance profitability, an understanding of how to use offset strategies to increase orders, critical marketing and business development strategies, guidance as to how offset can significantly enhance a bid in a competitive tender situation, and the importance of international partnering.

Please note that the next event will held on 2nd July in Farnborough, UK. For more information please contact Christine.Gomm@adsgroup.org.uk.

page2:

- Market Spotlight - What's New?

page3:

- A|D|S Offset Advisory Service
- Offset Training in South Africa

page4:

- LCR Appointment
- UK/Denmark Joint Industry Seminar
- Best Practice



Current Issues & Themes In Offset



LCR Appointment

Roger Bulgin, CEO of Offsets 2000 Ltd, has been appointed 'Meetings Secretary' of the London Countertrade Roundtable (LCR). The LCR aims to promote information exchange and networking amongst industry professionals particularly those with practical interest and expertise in offset and countertrade. For more information on how the LCR may be of benefit to you please visit the LCR web site at <http://www.londoncountertrade.org>

UK / Denmark Joint Industry Seminar

On 26th November 2009, we took part in the outward mission to Copenhagen, jointly organised and hosted by A|D|S and the Confederation of Danish Industry (DI). The objective of the mission was providing a basis for defence business between the two nations. Offset plays an important part in providing the framework for industrial cooperation, with Denmark and the UK policies focussed their respective defence sectors.

Best Practice

In common with previous editions of our News Letters, we aim to pass on tips on best practice related to offset. Whilst much of our services are geared towards supporting industry in offset, industrial participation and other forms of defence-related countertrade, Offsets 2000 also offers services to governments in the shaping and honing of offset rules and regulations.

An academic study conducted by an Offsets 2000 senior consultant on "Offset, Industrial & Economic Development and Investment; Implementation and Contextual Relevance" (reproduced here in part with the author's permission) demonstrated that the customer shares accountability with the obligor in the implementation of successful offset programmes. Indeed, the probability of offset-related activities resulting in positive economic value can be related to a government's:

1. Vision; what is the government's economic imperative? How do the government and those responsible for shaping offset regulations expect that offset can contribute to this imperative?
2. Self-Awareness; Are the goals for social/economic/industrial goals for the nation realistic?
3. Bureaucracy; Governments must not allow onerous regulations to effectively deter, dissuade or hamper potentially economically-beneficial offset-related activities.

Best Practice can be evidenced in Norway's departure last year from traditional offset strategies; instead Norwegian authorities actively discourage defence contractors direct offset by limiting the potential for multipliers against such transactions. Jon Gunheim, Assistant Director General, Forsvarsdepartementet (offset authority for the Royal Norwegian Ministry of Defence) has indicated that this switch in focus will increase the opportunity for foreign contractors to develop long-term sustainable collaborative projects with Norwegian industry rather than encourage short-term contracting of work-packages that could potentially be transferred out of Norway once the offset programme is complete.

From an industry perspective, as a company engaging in offset, it is important to be able to recognise those offset environments that fit well with the capabilities of the company and those that do not. Bell Helicopter reportedly withdrew from India's INR30 billion (USD600 million) RSH competition on the grounds that the offset rules were "restrictive and narrow". Early assessment of country regulations and the economic aspirations of the customer are key to successful delivery. Failure to do so can result in penalties, both financial and reputational.

page2:

- Market Spotlight - What's New?

page3:

- A|D|S Offset Advisory Service

- Offset Training in South Africa

page4:

- LCR Appointment

- UK/Denmark Joint Industry Seminar

- Best Practice