Presidential Policy on Offsets in Military Exports

[The following represents an April 16, 1990 statement by President Bush's Press Secretary plus a separate Fact Sheet issued by the Press Secretary on the same day relating to offsets associated with military export sales.]

The White House
Office of the Press Secretary

The President announced today [April 16, 1990] his Policy on Offsets in Military Exports. This responds to the requirement under the FY 1989 National Defense Authorization Act, Section 825, 10 U.S.C. Sec. 2505.

The President stated that the United States Government is committed to the principles of free and fair trade. Consequently, the United States Government views certain offsets for military exports as economically inefficient and market distorting.

Mindful of the need to minimize the adverse effects of offsets in military exports, while ensuring that the ability of U.S. firms to compete for military exports sales is not undermined, the President has established the following policy.

- No agency of the U.S. Government shall encourage, enter directly into, or commit U.S. firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments.

- U.S. Government funds shall not be used to finance offsets in security assistance transactions except in accordance with currently established policies and procedures.

- Nothing in this policy shall prevent agencies of the U.S. Government from fulfilling obligations incurred through international agreements entered into prior to the issuance of this policy.

- The decision whether to engage in offsets, and the responsibility for negotiating and implementing offset arrangements, resides with the companies involved.

- Any exception to this policy must be approved by the President through the National Security Council.

The President also noted that the time has come to consult with our friends and allies regarding the use of offsets in defense procurement. He has, therefore, directed the Secretary of Defense, in coordination with the Secretary of State, to lead an interagency team to consult with foreign nations with a view to limiting the adverse effects of offsets in defense procurement. This interagency team will report periodically on the results of these consultations and forward any recommendations to the National Security Council.

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FACT SHEET

Offsets have become a common feature in the international arms trade. In the most general sense, offsets are industrial and commercial compensation practices offered or demanded in connection with the purchase of defense goods and services. While offsets also occur in civil trade, and include business practices as old as barter itself, the scope and variety of offsets associated with military exports have become the focus of increasing public attention.

Some forms of offsets have become basic components of achieving defense sales and of furthering national policy goals of the U.S. and foreign governments. The objectives of a government making a foreign arms purchase often go beyond procuring arms at cost-effective prices, and include considerations of the political acceptability of a foreign source, the maintenance and development of domestic defense and non-defense industries, obtaining advanced military and commercial technology, increasing employment, and other economic goals such as conserving foreign exchange.

In this context, a U.S. seller of defense goods and services is often faced with difficult choices:

- The seller can elect not to offer offsets, which could result in the loss of sales because of the existence of competition willing to offer offsets;

- The seller can elect to offer offsets and hope to minimize their costs during implementation;

- The seller may face foreign government demands that obligate the seller to provide offsets as a non-negotiable condition of sales.

Because some offsets can alter the nature of defense sales transactions by including terms unrelated to price and performance of the product or services, offsets can introduce market rigidities and increased costs to the purchaser. In these circumstances, the result not only distorts trade and reduces economic efficiency, but it diminishes the purchasing power of scarce defense resources.

The President's policy, announced today, clarifies the role of the U.S. Government in offset arrangements. It commits the government not to encourage or commit to offsets and constrains the use of U.S. Government funds in offset arrangements. However, recognizing the commercial reality of these arrangements in the free marketplace, the President's policy does not limit the negotiating and implementing rights of U.S. industry in establishing offset arrangements with foreign buyers of U.S. goods and services.

The offset policy was developed through interagency consensus on the subject. Participating agencies included the State, Treasury, Defense, Commerce, and Labor Departments, the Arms Control and Disarmament Agency, and the Federal Emergency Management Agency, as well as four elements of the Executive Office of the President (the United States Trade Representative, the Council of Economic Advisors, the Office of Management and Budget, and the National Security Council). The policy also reflects the majority of the views submitted by the public as a result of a Department of Commerce *Federal Register* notice inviting public comment on this issue.