

ROK Offset Program Policy 2016

Offset Division
Defense Acquisition Program Administration



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1. Introduction



1. Legal Basis

Defense Acquisition Program Act

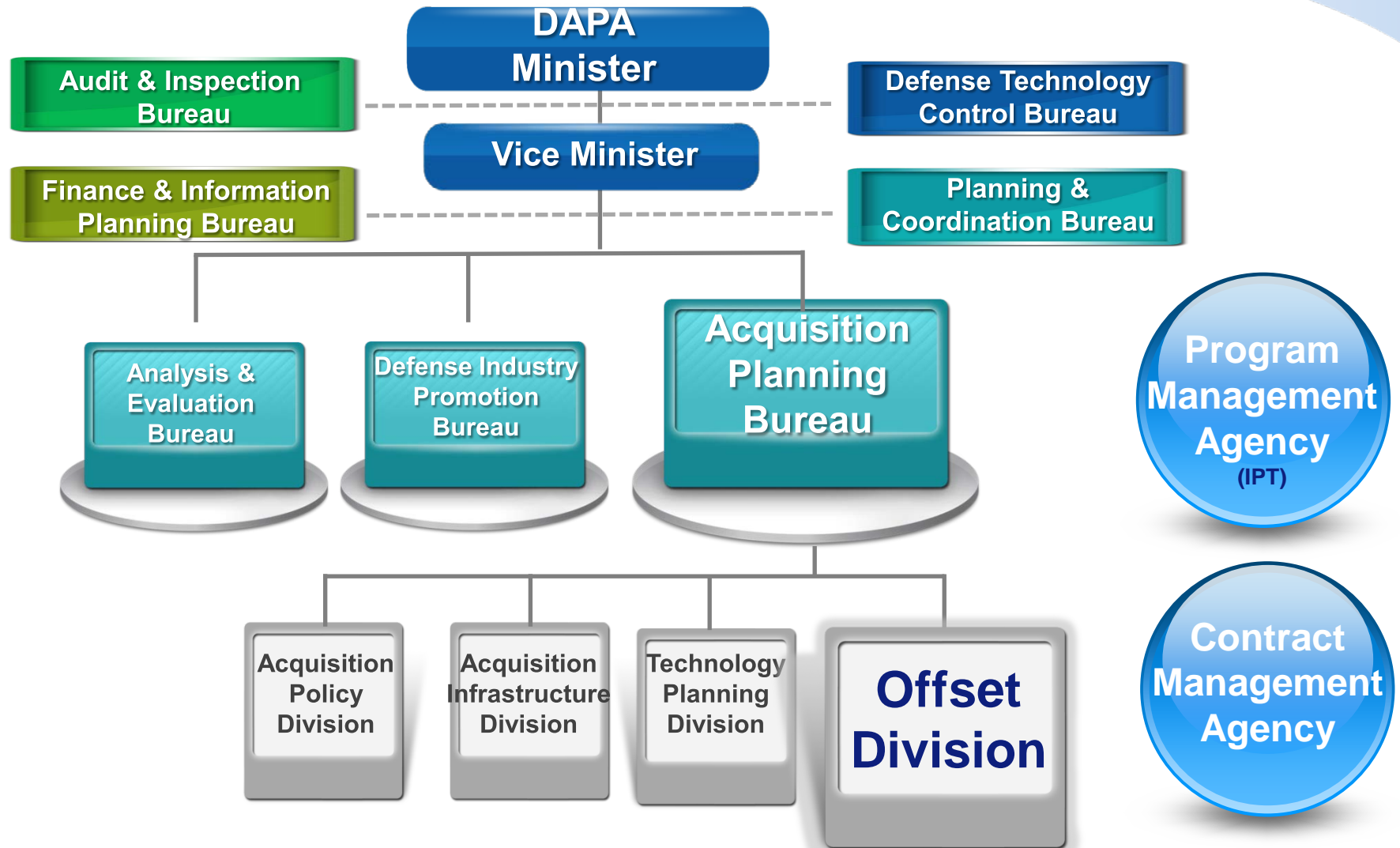
Article 20 (Offset Trade) (1) Where the Minister of the Defense Acquisition Program Administration **purchases munitions from abroad** pursuant to the provisions of Article 19 (1), **the promotion of offset trade** for a unit project worth more than the amount prescribed by Presidential Decree **shall be the principle.**

* Article 19 (Purchase) is about the purchase of munitions.

* The amount prescribed by Presidential Decree is **10 Million US Dollars.**



1. Authority & Responsibility



2. Overview of Offset Guidelines



2. Eligible Items

Defense Acquisition Program Act

Article 20 (Offset Trade) (3)

1. **Technology** necessary for projects for the improvement of defense capability;
2. **Logistic support capability** for the purchase of weapons systems;
3. Participation in the **development and manufacture** of weapons systems;
4. The **export of munitions**, such as defense materials, etc.;
5. **maintenance materials** for the weapons systems; or
6. **export of commercial items** or **foreign investments**
(on the conditions that any of subparagraph 1 through 5 is performed)



2. Fundamental Principles

Defense Acquisition Program Management Regulations

Article 230 (Offset Principles)

- Conclusion of Offset MOAs before Main Contract
- Completion of Offset implementation within the Main Contract period
- No increase in the Main Contract Amount due to an Offset program
- Right to own/use of technology & equipment shall belong to ROKG

* Main Contract : A contract that DAPA (or a Korean Company) enters into with the Contractor in order to acquire equipment, goods, material, etc. from the Contractor

2. Key features of Offset Guidelines

Threshold

US\$ 10 Million

Obligation

Multiple sources : 50% ↑ , Sole Source : 10% ↑

Beneficiary

**Proposal by DAPA or,
Proposal by Contractor and approved by DAPA**

**Implementation
Period**

Within the period of Main Contract

**Performance
Bond**

10% of total Offset Value

Penalty

Confiscation of 10% of unfulfilled obligation

Multiplier

- Core Technology (requested by DAPA) : ~2**
- Manufacturing & Export (Weapons System) : ~1.5 (SME: ~2)**

2. Banking

Requirements

- Contractor's intention of excess implementation beyond agreed Offset value in MOA
- Decrease in the Main Contract Amount due to quantity reduction

Use of Banking Credit

- Contractor's Submittal of Banking Plan including detailed project contents
- Offset Council's Approval of Banking
- Offset MOA Amendment (including Banking Implementation Plan)
- Banking Credit Use
 - Expiration date : within 5 years from the date of approval
 - Applicable to Only Sole-source program
 - Can be used for up to 50% of the offset obligation

3. Offset Policy 2016



3. Multiplier Adjustment

Promoting SME Activities

- Manufacturing and Exporting Parts of Weapons Systems (**× 2**)
 - * For Others (non-SME) : (**× 1.5**)
- Exporting Military / Commercial Items (**× 1.5**)
- Overseas Maintenance Workloads (**× 1.5**)

* SME : Small and Medium Enterprises

If the Beneficiary for Exporting Items is **SME**,
then the Multiplier not less than **× 1.5** will be applied.

* For the Program whose RFP is based on the new Offset Guidelines (dated Mar. 11, 2015)

3. Partnership Building

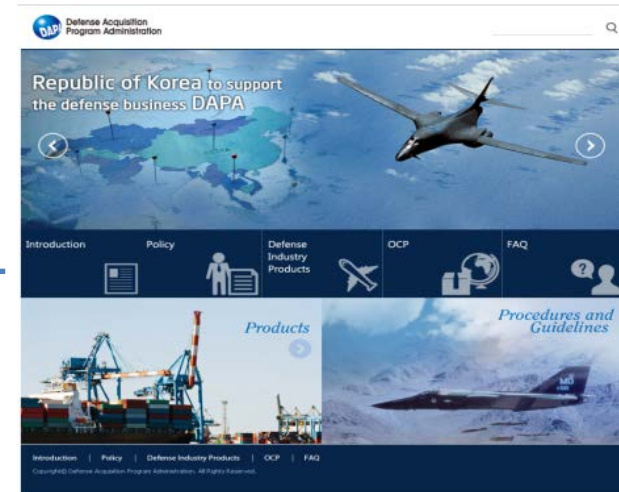
Offset Market

- Upon Major Programs
- Annual Global Offset Market



Offset Website

- Offset Regulations & Policy Publication
- Defense SMEs & Products Promotion



3. Other Updates

Eligible Parties for Commercial Items Export

- Other foreign company(ies) can fulfill the offset obligation on behalf of the Foreign Contractor following approval by DAPA.
- However, in case of exporting commercial items, only the affiliates of the Foreign Contractor can be approved on a case by case basis.

Separating Offset Program from Main Contract

- Offset MOA shall be concluded before the Main Contract is signed.
- Only after approved by the Offset Council, can the Main Contract be signed before the conclusion of Offset MOA. (“Separation”)
- In this case, the total amount of offset obligation can be increased by up to fifty (50) percent of the original obligation. (ex: 30% → 45%)

4. Conclusion




4. Conclusion

Offset as a stepping stone for mutually beneficial relationship

Vigorous technology exchange

Strengthened industrial cooperation



Enhancement of bilateral cooperation in economic, social and cultural areas

Thank you!

