



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 earlier this year, our Newsletter has received a great deal of positive feedback from companies that are serious about keeping up to date with 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?

- Norway
- Republic of Korea
- India

page3: Increasing Competitiveness & Reducing Risk

page3: Pilot Study into Indirect Offset Initiative

page4: Offsets Training Workshops



Current Issues & Themes In Offset



Market Spotlight – What's New?

Norway

As a major importer of defence equipment and an important export market, **Norway** has implemented offset for many years (100% offset for contracts over NOK 50 million). However it is interesting to note that Norway's latest offset policy is designed to actively encourage foreign defence companies to do business with SMEs in its defence sector. The **new offset policy** in Norway will reward offset 'obligors' with an additional multiplier of 1.5 to the existing range of multipliers previously available (1-5). In addition, obligors can obtain high multipliers when engaging in 'technology cooperation' projects with Norwegian industry, thus earning multipliers up to 7.5 (i.e. every £100 spent with Norwegian SME can generate up to £750 in offset credit.)

Republic of Korea

A similar approach has been taken by the **Republic of Korea**, which is due to publish **new offset guidelines** imminently. The change in Korean offset policy will include several revisions (such as allowing FDI to count as offset, plus it will allow civil (indirect) offsets). However, other changes are thought to encourage foreign offset obligors to work with Korean SMEs, whereas in the past, it is fair to say, that the main share of offset related work went to Korean multinationals such as Samsung, Hyundai and Daewoo. It is commendable that both Norway and ROK (and other countries, such as the Netherlands) are leveraging their respective offset policies to actively promote their defence SMEs and indeed to encourage foreign defence firms to engage in high technological areas. It will be interesting to see practical examples of these policies at work, and also whether other countries, such as the **United Kingdom** which also places the development of SMEs as a priority (in line with the Defence Industrial Strategy) could consider adopting a similar approach in its Industrial Participation (IP) programme?

India

Developments in the **Indian** defence market have been under the spotlight for some time, given that it too introduced an offset programme in anticipation of significant increases in its defence budget. The offset programme in India may still be considered to be in the early stages of development, however several large defence acquisitions have already invoked offset, for example IMI (Barak VIII Missiles), EADS (Microwave Products) Rosoboronexport (Su-30MK1 multi-role jets.), etc. Looking ahead, the requirement for 126 Medium Multi-Role Combat Aircraft (MMRCA) to the IAF has itself positioned the international competition to

enter work share arrangements with local industry to comply with the 50% offset requirement.

The offset programme in India, as with many other countries, is politically important with politicians promising economic growth from offset during recent elections. Economic priorities are; employment, technology transfer and long term self sufficiency in the Indian Defence sector. Indian companies such as HAL, Tata, Astra, Mahindra & Mahindra etc., are positioning to undertake work on these defence programmes as offset recipients, and are proactive in creating international partnerships with foreign defence companies for this purpose.

Unlike the Norway and ROK, the Offset policy in India categorically states that multipliers are not allowed. That said, the Defence Offset Facilitation Agency (DOFA) acknowledges that special consideration 'could' be given where exports are generated or where the project might lead to the "building (of) indigenous capability in strategic technology products". Worth noting also, that (according to the Confederation of Indian Industry) DOFA is currently considering changes to the policy, multipliers are very much on the review list on the grounds that introducing them into the policy in a more structured way would lower risk, ensure targeted offset and encourage technology transfer.

page2: Market Spotlight - What's New?

- Norway
- Republic of Korea
- India

page3: Increasing Competitiveness & Reducing Risk

page3: Pilot Study into Indirect Offset Initiative

page4: Offsets Training Workshops



Current Issues & Themes In Offset



Increasing Competitiveness & Reducing Risk

As independent offset consultants, we at Offsets 2000 Ltd are regularly required to work on behalf of our clients to develop, package and deliver a proposal and the ensuing obligation. The following are two simple tips seen by us as the essential for success;

1. Prepare the Organisation from the Top Down

It is increasingly apparent to us that a growing number of defence contractors and suppliers are starting to employ management processes, reporting and internal co-ordination protocols to manage and mitigate risks associated with offset delivery. Therefore, from the outset, companies that are planning to engage in offset for the first time should start by installing new or amended procedures ensuring that the organisational model which governs the inter working of functions such as marketing, commercial, purchasing and finance are aligned to the new demands that offset delivery will impose. Companies that fail to make adjustments for offset in their delivery model and business strategy could ultimately struggle to succeed, risking profits and future business.

2. "Fail to Plan / Plan to Fail"

Companies that have made a success in offset, have all incorporated offset in their marketing strategy through to bid preparation and delivery. The strategy for offset should be on the table from the start of any sales campaign, shaping your 'messages to market' and your 'make / buy' plan. Success, with respect to offset planning and delivery is judged to be the creation of a portfolio of pre-approved projects ready to be actioned at contract award by a team that is ready to deliver. This will impress the customer (who may award points for a compliant proposal) and will significantly reduce your risk.

Pilot Study into Indirect Offset Initiative

For a number of years, there have been various attempts in the UK at harnessing the potential technologies and business ideas from SMEs under offset programmes. However, the general consensus is that a vast number of opportunities go unrecognised due to (a) SMEs not having a clear understanding of offset, and (b) the defence companies not having the resources needed to trawl the country looking for good companies to work with.

To address this situation, Offsets 2000 in partnership with Birmingham Science Park, Aston undertook a six-month Pilot Study to investigate whether a structured approach to assessment and selection of SMEs, and matching technologies with market priorities, could assist both the defence companies and the SMEs. The benefits from the Pilot Study were seen as follows;

- SMEs would gain access to funding and assistance in export markets.
- For the defence companies, the Pilot Study could identify a more efficient approach to matching their offset requirements with the required technologies,

This initiative (known as Offset Business Development – OBD) has so far gained the support of BAE SYSTEMS and Rolls Royce. Other defence companies and SMEs are welcome to take part. In the full implementation phase, which is expected to kick off in early 2010, the participating defence companies will receive 4 reports a year containing summary business plans of the SMEs that have been selected. This project is free of charge for both SMEs and defence companies to participate. For a more detailed description of how the OBD project works please contact Offsets 2000 or;

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page2: Market Spotlight - What's New?

- Norway
- Republic of Korea
- India

page3: Increasing Competitiveness & Reducing Risk

page3: Pilot Study into Indirect Offset Initiative

page4: Offsets Training Workshops



Current Issues & Themes In Offset



Offsets Training Workshops

Our Workshops have been developed in conjunction with the Defence Manufacturers Association (now ADS) in response to a growing demand for greater knowledge and awareness of offset. We have delivered Workshops at many training events, Conferences and more recently as part of the Cranfield University MSc in Defence Marketing.

In November 2009, we are delighted to have been invited to give a 'Masterclass' in offset at the Nelson Mandela Metropolitan University in Port Elizabeth, South Africa. This Masterclass coincides with the 1st International Conference on Offsets and Industrial Participation to be held in this region.

In all our Workshops we take a holistic approach, encouraging organisations to effectively involve and mobilise all departments and functions in offset delivery (see Best Practice), including Sales, Contracts, Finance, Procurement, Engineering and General Management. These Workshops are therefore of practical benefit to all people in these areas of business. Our next Training Workshop will take place in London at the SBAC offices on **3rd November 2009**, in association with ADS.

To reserve your place please contact;

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page2: Market Spotlight - What's New?

- Norway
- Republic of Korea
- India

page3: Increasing Competitiveness & Reducing Risk

page3: Pilot Study into Indirect Offset Initiative

page4: Offsets Training Workshops

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