

Discussion of Offset and
Industrial Cooperation to
Enhance National Defense Capacities

Yu-Ming Li

Abstract :

1. In addition to the theme of this comprehensive Offset and industrial cooperation discussion the status of implementation of strengthening our national science & technology and defense industry is Provided to effectively enhance the effectiveness of national defense strength and provide policy recommendations.

2. Industrial cooperation and offset definitions may slightly differ, but the policy and implementation are actually the upstream and downstream relationship.

3. By analysis of industrial cooperation and offset, write off the concept of system content, and work together system in Taiwan is running the current situation, hoping to increase the defense organization, military operation unit, industry and government departments for a more extensive discussion, understanding, and use of industrial cooperation, and then maximum economic return on investment, and the existing institutional framework, the more effectively to achieve Taiwan's industrial upgrading and defense technology development goals.

A 、Preface

Taiwan started to promote industrial cooperation and offset to the requirements of Industrial Cooperation Agreement from 1993. It requests International procurement of the contractor to provide at least 40% (included) offset for the feedback, to help purchase state related defense and economic activities. In 2007, according to the annual report of the U.S. Department of Commerce (note 1), Taiwan amount to purchase U.S. goods the world's first two, but the relative demands of the trade contractor, write off the effectiveness of feedback is only to be executed or transactions the total amount of 22%, the relative backwardness of the effectiveness of national implementation of the country (Fig.1).

Caused the low rate of implementation of Offset of the above reasons, though many non-completely as "human" relationship, is also involved in politics, international politic, regulations, export licensing, policy and inter-agencies made such factors integration un-successful, However, so far, 12 countries, 53 foreign signed offset agreements with Taiwan (note 2), Taiwan's industrial cooperation results in the Ministry of Economic Affairs (IDB) for the staff to integrate all levels of government units and unit demand But generally ineffective, it is an indisputable fact, there is still room for more diligent. How to effectively promote the integration of results, the annual expenditure of huge defense spending to achieve "maximum return on investment" of aim should be to both national defense and economic policy priorities. (note 3)

B 、Industrial Cooperation and Offset

Basic overall concept (fig.2) INDUSTRIAL RETURN=ECONOMIC BENEFIT.

一 、Definition(note 4)

Internationally known as compensation trade (OFFSET), means the Government has used the case of the timing of external sourcing requirements by purchasing a foreign contractor, the amount of a particular case, the proportion of the total amount (at least 40% in Taiwan), in the country engaged in investment, procurement, research and development, training, technology transfer, and marketing assistance and other business activities.

The current global practice of many States had a similar, especially in military equipment and a major aviation and transport vehicles such as purchasing a high proportion of cases require the amount of industrial cooperation 。 Targets by major procurement in the case of the promotion of domestic industrial upgrading enhance the international competitiveness of industry and ensure that equipment or equipment of self maintenance capability. Also to the product of market price and benefit multiplier, contractor shall perform the write-off amount by way of trade; used to measure the value of commercial activities, according to tracking the implementation of effective assessment rather than the actual value of the currency amount 。

However, the industrial co-operation, the actual violation of free market competition in the spirit. In July, 2009, Taiwan's officially become a member of "World Trade Organization/Government Procurement Agreement (WTO/GPA)", the pre-signed agreement of the working group purchase case of sustainable or delay to stop the implementation of industrial cooperation time limit, the next addition to protection of fundamental national interests or national security, defense procurement substandard, can not require the contractor to provide trade offset and industrial cooperation and so on. (note 5)

二、Categories of offset in Taiwan

The existing Industrial Development Bureau Ministry of Economic Affairs in order to offset the amount of trade-economic cooperation as a means to promote industrial upgrading and so on; Offset categories include: "technology transfer", "domestic procurement", "local investment", "cooperative R&D," " training ", " market-assisted ", " International Certification "and" The joint venture "and the 8th , finance assistance is good in the USG , but not in Taiwan).(note 6 and 7 fig. 3 & 4)

三、Discussion of IC Policy & Accumulated credits

(一)Taiwan Industrial Cooperation policy, the proportion, administrative fee, schedule milestones as the assessment and description (note 8)

1.In 19993, the Executive Yuan of Taiwan will make use of government procurement opportunities outside the system to establish co-workers, effective introduction of foreign high-tech policy .

2.In 2004 for the procurement amount□40 % of the proportion of working together, at least 10 million U.S. dollars purchase case (judged that the contractor set of trade offset the administrative costs on average about~3-5%). Offset contractor(s) is responsible for 3-5% of the liquidated damages penalty. But no law will enter into agreements to work together time offer.

3.In 2006 for the procurement amount□40 % of the proportion of working together, at least five million U.S. dollars of the procurement case, (assessed that the contractor(s) will requests the administrative fee on average about~3-5% from buyer). And Offset contractor(s) is responsible for 3-5% of the liquidated penalty.

4.Basically, In the case of the FMS, U.S. defense companies call for the implementation of administrative fee that the State about to buy around 5-11%, the other because of that plant or bid will be adjusted factors (such as a competitive project, this administrative fee (Hidden costs) will be less .

(二)Taiwan's Offset credits(note 9)

Taiwan accumulates total is around 9 billion U.S. dollars offset credits from January, 1988 to Oct. 2009. U.S. defense contractors, relative to provide defense procurement accumulated work together credit points data is as follows: Taiwan committed to working credits was about 5.8 billion, pre-approved credits is 3.486 billion, accounting for about the total degree of 80% There are more than 2.3 billion credit points can be used If it's apply for.

四、Offset goals (fig. 5)

Requested by the foreign contractor, industrial cooperation with Taiwan's policy of industrial cooperation agreement signed by the active promotion of industrial cooperation system, with the domestic industry and/or R & D units to establish the relationship between long-term cooperation to achieve the policy objective of fostering domestic industries Purpose of assisting local businesses to enhance investment, procurement, research 、 development, training, technology transfer and marketing capabilities.

五、offset organization and Mechanism

In July 2009, Taiwan as "the WTO Government Procurement Agreement (WTO/ GPA)" Member States work together for the future related to the protection of national lines only from the basic interests or defense procurement was . Therefore, Executive Yuan of Taiwan for the effective use of resources and integration of working together, in coordination with both national defense and Economics ministries to "flatten organizations, operating performance" of the principle of the original "demand-oriented, from the bottom The "adjusted" task-oriented, top-down "direction

driven mechanism for streamlining integration and offset work together and so limit the use of other important issues to reach a consensus.

Ministry of Economic Affairs of the SCO framework of the new work plan pursuant to the foregoing, in addition to the maintenance of the Industrial Development Bureau Ministry of Economic Affairs as the secretariat, as the two would often times co-convenor of the "Economic Policy and Defense Industry Cooperation Council", the Secretary of Economic Affairs Industrial Development Bureau, the convener, defense Secretary Ministry of arms Bureaus as a convener of collaborative "industrial cooperation to promote the group" the two-level organizational structure to more effectively allied with different overall strategy. (note 10)

六、U.S. government trade policy and (note 11)

collected prior "known" after "review" (export license of offset permit items) of the attitude and policy principles. However, write-off because of trade policy "not cost-effective and trade-distorting" the measures to prohibit any U.S. government agencies directly involved with the procurement of U.S. manufacturers of Industrial Co agreements between countries and other activities (note 12). Therefore the U.S. government's position :

(一)None commitment and/or none encourage U.S. companies to implement offset trade.

(二)The U.S. government should not subsidize offset.

(三)offset trade description must include Congress authorized file.

USG offset policy:

DoD allows contractors to recover all offset costs when:

(一)FMS contracts are based on LOAs financed wholly by purchaser cash.

(二)Offset costs are included in the LOA line item unit cost.

(三)USG assumes no obligation administer the offset requirement or to bear any of the associated costs.

七、The French Government possible offset policy

Contract budget has been covered offset administrative costs , so does not hide the provision; on important and sensitive work together painting project agreement, directly by the government and the intergovernmental negotiations advanced to facilitate such purchases (note 13).

C、Discussion of Offset and Industrial cooperation policy

Whether Industry cooperation or offset successful or not is depend on different factors. In addition to national strategies, regulations, means of implementation and human organizations are free to control the subjective facts, and the other due to restricted international politics, reality and the objective conditions of defense science and technology can not work together to complete transparency:

一、because the U.S.G (other major exporters of defense industry. Have A similar Provisions) identified co-workers may jeopardize the future of the business opportunities of the firms in the United States and the United States, the negative impact of industrial advantages; Although the transfer of technology work together, and helps the country to undertake the procurement of the industry to increase R & D capital investment, and Create or strengthen the present and future competition in the U.S. industry.

二、In 1999, the United States , the COX REPORT, play important factors such as cross-strait policy of reconciliation, so that part of the United States for national defense and security policy enforcement units and personnel, there are more on political considerations in Taiwan, worried about the future of national defense or civil-military share theft of high-tech hardware and software in PRC was a high risk factor.

三、Including Taiwan, the procurement agencies and defense contractor, signes defense industrial cooperation agreement Programs (ICAs/ICPs), the contractor considered trade secrets and other interests; another agreement will be expressly provided, Industrial cooperation plans (ICPs) implementation or not by intellectual property rights and the need for the two governments agreed to (including the output of the review) and other prerequisites. Case of the U.S. government on important military (business) sales case, the need for military services to assist the technical review

of safety, and then cross-ministry policy discussion, including a description of the U.S. region (other international) stability and security (including defense against the development of the situation of Taiwan in the Taiwan Strait), economic interests, political and defense relations, purchasing state of the reception of new weaponry, combat capability and enhance the national defense budget was, on U.S. military readiness, and possible leakage of sensitive technology, the impact of effects-based, with or without industry cooperation to provide content, to complete the "policy legitimacy" (Policy Justification) analysis paper, and then timely to do congressional authorization (note 14) to complete the export license from standard operating requirements; other national security that do not involve technology transfer, export licensing review Even if the same equipment, such as the procurement unit of the country to undertake R & D organization, may be ready for "reverse engineering" capabilities, was reviewed by the opportunity to pursue profitable than small firms (fig.6)

四、offset administrative fee topic :

Because the USG in its relatively "opaque, and indirectly" involved in the US contractors sell process and "indirectly helped" carry on business and produce "extra" expenses, a purchasing country can not capture the "hidden costs" (Hidden Cost) of the offset requirement, or so-called "offset administrative costs", hidden in the LINE ITEMS OF LOA inside. and this action is fully opposed the U.S. government stressed the principles of transparency and guidance for sales to the international community.

This administrative fee will be due to the contractor, the country strategy and procurement request for the proportionality of the different adjustments for the typical "whatever you're given, you pay for." the case. Therefore, the relevant government ministries dealing with co-workers administrative costs in coordinating with the U.S. attitude and approach need to be more careful .

D、The effectiveness and status quo of Industrial cooperation and Offset in Taiwan

Ministry of Economic Affairs to promote the overall effectiveness of industrial cooperation (fig.7): between Jan. 1988 to Oct. 2009 years, Taiwan has total of 54 foreign contractors from 12 nations have been signed total 108 industrial cooperation agreements , and about 9 billion credits of offset. The amount of 5,956 billion credits had been used, of which including:

- Non- Defense industries had been used 4.773 billion credits.
- Defense industry had been used 855 million credits.

Although the industrial cooperation (including offset) in the Ministry of Economic Affairs Industrial Development Bureau strenuous efforts, the overall effectiveness is far better than the result of the annual report of the U.S. Department of Commerce countries (including Taiwan) and better ratings. Direct offset, regardless of their depth and/or scope, effectiveness is relatively limited, about our work together has been use of total credits of 18%, compared with offset be used in the global trade is average implementation rate of 40% which has a big difference). (fig.8)

While the Ministry of Defense emphasized that in countries such restrictions to protect the environment Policy and has been successfully working together to secure the total amount accounted for 20% degree of effectiveness of technology transfer cases (note 15) for support. But the ministry of Defense work hard to promote the direct offset of the actual results, more efforts needed to achieve the so-called "investment in national defense expenditures" target.

E、Direct Offset Review

一、Ministry of defense (including military services) is directly responsible for human-power needs to integrate the quantity and quality, long-term training, and attitude adjusted to a professional staff, then can effective ,different perspectives, communicate with the officers from the Ministry of Economic Affairs.

二、USG, "Federal Procurement Law", explicitly discusses and regulated the Administrative fee of offset in the LOA (with note 12), but the Administrative fee attitude of U.S. is not transparent enough, even very often to avoid to discussion this issue. How to break the opaque practices of the United States Government :

Ministry of defense to work together on existing inter-ministerial mechanism to integrate and enhance the policy meeting to discuss the United States, parties may seek the fair and reasonable approach (fig.9)

U.S. government working together on administrative fee and the percentage of transparency issues discussed, is by no means a piece of Fate board can not be shaken, but the need to carefully choose the issues and exchanges with the United States to enter the equipment (note 15), the expression of patient negotiations and the determination to promote.

U.S. Department of Defense to arms sales to Taiwan, treatment of trade offset the administrative costs of the two different cases illustrate; Department of Defense prior to purchasing a certain type of missile sales, the right hand side of the missile unit was about a hundred million dollars (note 16), the total procurement of 200 missiles, the U.S. Department of Defense did not let Taiwan offer the information of the hidden the ratio of about 8% administration fee for each missile sell. But, the U.S. Department of Defense deal with the sale of submarines does offer process, under pressure from all sides, providing the first publicly traded in the design phase offset ratio administrative fee is 4% (note 17).

三、The possible ways to request of offset contractor(s) in the ICA/ICP obligation to deal with the export control issues :

(一)Adjust too much emphasis on the myth of technology transfer :

The provisions 22 of the National Defense Law; out procurement, technology transfer requirements should be implemented. Technology transfer using various measures to reduce demand in China and abroad, of course, is an important means of scientific and technological gap. Technology transfer is of course important, because the general economic environment and foreign demand, etc. will make recommendations However, the military business of national defense or dual-use technology is also important to national control programs, so to promote technology transfer, as the overall strategy required to understand the national export licensing policies and careful planning with the timing and other factors The Defense Ministry needs full support from policy to promote the (negotiation level, strength and promote the export permit etc) work together with the integration credits of use etc., all parties may be effective.

(二)Because the current Department of Defense needs work together , which include :

- Transfer of R & D capacities.
- Build weapons development or maintenance of capacities.
- The establishment of regional service center.
- Maintenance of military equipment to provide training.
- High-tech or high value-added products in international sales.

Above the guidance of the Ministry of Defense needs or demand for items to clear, before being required to obtain or advance the contractor and to promote the export permit. Ministry of Defense or the ministry of economic affairs will refer to the state economy work together to promote the policy of priority projects, every six months by the various units to the proposed amendment Direct offset closely together with the operational needs or to be more effective and efficient promotion and attention; Direct offset to promote the overall and integrated view should be adjusted (fig.10) ; For contingency needs, the availability of industrial co-coordinating mechanism (Ministry of National Defense and the Ministry of Economic Affairs), integration of relevant offset credits to support planning or to better meet the real needs.

(三)Because of Taiwan's Industrial cooperation regulations and categories on strengthening the national defense and upgrade the economic progress is needed to enhance; Because there has only eight categories of offset in Taiwan is unable to effectively contain the full needs of the direct work together. So the Industrial Development Bureau of Ministry of Economic Affairs, need to Expand the categories, in order to prevent the system may produce excessive and inefficient waste credits of offset to be used is very important. Offset category needs to have some kind of adjustment is necessary, so that the Ministry of Defense (armed services as well) can be more flexible in response to operation "contingency needs."

F · Conclusion and vision Conclusion

Firmed policies affecting the quality of implementation", industrial cooperation to promote the same applies. Europe and the United States the use of the advanced industrial countries, the process of cooperation, will be a senior defense officials and Economics public policy of the first and the last expression oath and attention ° Offset no additional economic benefits of defense procurement, no shortcuts possible, but part of overall national economic security policy , Should be and as important as defense procurement, the Defense Ministry to work together with the amendments to the existing provisions of defense procurement and industrial cooperation with the priority order of the law will be worthy of consideration and reflection.

Vision :

- Policy determination and execution.
- Brainstorming, integration and promotion.
- Complete regulations, Rights and Responsibilities in line.

note 1:2007 US DOC ANNUAL REPORT.

note 2:2007 No. 2 Industrial Co IDB Group Industrial Co newsletter.

note 3:2009 China Times, "to prepare motivated by a butterfly-effective" special article.

note 4:2009 Ministry of Economic Affairs to promote industrial cooperation profile report .

note 5:2009 Ministry of Economic Affairs Industrial Development Bureau to provide Information and Article 23 of the Agreement on Government Procurement agreement

note 6:2009 informal Raytheon brief review of industrial cooperation projects

note 7:2009 Industrial Development Bureau Ministry of Economic Affairs to provide information.

note 8:2009 Industrial cooperation report.

note 9:2009 Industrial Cooperation cumulative effect analysis.

note 10:2009, Ministry of Economic Affairs and the Department of Defense information.

note 11:U.S. Defense Procurement University "International Defence Procurement Policy," briefing.

note 12:2009 U.S. Department of Commerce offset report the 13th.

note 13:2009 The work of France in Taiwan officials to discuss cooperation.

note 14:2009 U.S. Department of Defense Defense Security Cooperation Agency to the United States Conference on the length of the U.S. government arms sales to Australia explanatory information.

note 15:2009 Arms Bureau defense industry cooperation report.

note 16:2010 Republic of China central government budget (Defense) Report.

note 17:2002 Ministry of defense Military News Agency news.