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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

- DAPA
  - Minister
    - Vice Minister
      - Audit & Inspection Bureau
      - Finance & Information Planning Bureau
      - Analysis & Evaluation Bureau
      - Defense Industry Promotion Bureau
      - Acquisition Planning Bureau
      - Acquisition Policy Division
      - Acquisition Infrastructure Division
      - Technology Planning Division
      - Offset Division
      - Defense Technology Control Bureau
      - Planning & Coordination Bureau

Program Management Agency (IPT)
Contract Management Agency
2. Overview of Offset Guidelines
2. Eligible Items

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

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

<table>
<thead>
<tr>
<th>Feature</th>
<th>Description</th>
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<tr>
<td><strong>Threshold</strong></td>
<td>US$ 10 Million</td>
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<tr>
<td><strong>Obligation</strong></td>
<td>Multiple sources: 50% ↑, Sole Source: 10% ↑</td>
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<td><strong>Beneficiary</strong></td>
<td>Proposal by DAPA or, Proposal by Contractor and approved by DAPA</td>
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<td><strong>Implementation Period</strong></td>
<td>Within the period of Main Contract</td>
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<td><strong>Performance Bond</strong></td>
<td>10% of total Offset Value</td>
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<td><strong>Penalty</strong></td>
<td>Confiscation of 10% of unfulfilled obligation</td>
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<td><strong>Multiplier</strong></td>
<td>- Core Technology (requested by DAPA): ~2</td>
</tr>
<tr>
<td></td>
<td>- Manufacturing &amp; Export (Weapons System): ~1.5 (SME: ~2)</td>
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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!