

KOREAN PROCEDURES WITH RESPECT TO DEFENSE PROCUREMENT AND INDUSTRIAL OFFSETS

The main priority of the Korean Government's offsets policy is the acquisition of advanced military and dual-use civilian technologies. In general, the Ministry of National Defense applies an offset program requirement to any military procurement that involves the spending of more than U.S. \$5 million in foreign exchange. The requirement exists with respect to all foreign purchase projects and license production projects. It also applies to all research and development projects that involve the expenditure of foreign exchange exceeding U.S. \$5 million.

The goal of each offset program is to obtain at least 30% of the total contract value in industrial benefits, with an emphasis on direct offsets. ("Direct offset" involves technology transfer or buy-backs that are directly related to the military equipment or material procured from the foreign contractor. "Indirect offset" involves technology transfer or buy-backs which are not directly related to the military equipment or material procured from the foreign contractor.) According to the Ministry of National Defense, the existence of the offset program is not to be a factor in determining prices, although this assertion is not entirely realistic.

Offset program proposals are considered on a competitive basis. The results of the evaluation of the proposed offset programs are an important factor in the selection of the final contractor.

The following two tables describe the procedures for defense procurement from a foreign supplier and for defense production under license from a foreign supplier. For the purpose of the tables, the abbreviations below are used:

MND	Ministry of National Defense
DLA	Defense Logistics Agency
FC	Foreign Contractor
KIP	Korea Industrial Partner
MOU	Memorandum of Understanding
MOA	Memorandum of Agreement
TAA	Subcontract/Technical Assistance Agreement
RFP	Request for Proposal

"KIP" selection is made by the MND, based on its evaluation of the capabilities of domestic companies, as well as on the recommendation that it receives from the DLA. The recommendation from the DLA to the MND is based on its evaluation of the offset proposal and the recommendations of domestic companies that are submitted by the FC.

The "MOA" is a document detailing obligations and understandings necessary for the execution of the offset program between the DLA and the FC involved.