Offsets

Offsets are normally found in large capital projects or where there is substantial government procurement of military goods. It can involve either partial or full payment by means of the purchase of the resultant product or a commitment to purchase the resultant product.

Usually, offset activities are directly related to the product or services being purchased. In a number of cases, counterpurchase of unrelated goods or commodities, promotion of tourism and the export marketing of unrelated products may form part of an "offset" package, but these are considered to be indirect offsets. Direct forms of offsets include the following:

Co-production. Overseas production based on a government-to-government agreement that permits a foreign government or producer to acquire the technical information and know-how to manufacture all or part of an item. It includes government-to-government licenced production. It excludes licenced production based on direct commercial arrangements by manufacturers.

Licenced Production. Overseas production of all or part of an item of equipment based on transfer of technical information and know-how under direct commercial arrangement between a manufacturer and a foreign government producer.

Sub-contractor Production. Overseas production of a part or an item of equipment. The subcontract does not involve the licence of technical information or know-how and is usually a direct commercial arrangement between the manufacturer and a foreign producer.

Overseas Investment. Investment arising from the offset agreement, taking the form of capital invested to establish or expand a subsidiary or joint venture in the foreign country.

Technology Transfer (other than licenced production and co-production). Transfer of technology occurring as a result of an offset agreement that may take the form of:

- research and development conducted abroad;
- technical assistance provided to the subsidiary or joint venture (see Overseas Investment); or

- other activities under direct commercial arrangement between the manufacturer and a foreign entity.

The forms of the offset in individual contracts may vary according to the needs and desires of the procuring country. The opportunities for undertaking offsets may also be limited by the level and sophistication of the industrial base and by the country's comparative economic advantages.

Buyback

Buyback is most commonly found in the sale or modification of capital plant and equipment. It can involve either partial or full payment by means of the resultant product or a commitment to purchase the resultant product. Such deals are normally for large sums and involve a longer fulfilment period, anywhere from 5 to 15 years. Buyback percentages of the original sale may vary. Buyback commonly involves large-scale corporations with the marketing structure and internal capacity to absorb the buyback obligation. The contractual arrangements may be similar to counterpurchase, with the two transactions linked but financially separate.

Bilateral Agreements

Bilateral trade and payment arrangements are a systematized form of barter binding all or a certain amount of trade between two countries. This may arise from the lack of hard currency of one or both countries. These trade balancing arrangements commonly make use of clearing accounts, which permit trade to take place without the need for foreign exchange and which are normally balanced after a pre-determined time. Such agreements are common amongst Comecon and less-developed nations.

From time to time, trade under bilateral agreements may become severely imbalanced and balances become difficult to clear primarily towards the end of the agreed-upon accounting period. Under such circumstances, one country may owe the partner an outstanding amount of goods, but may be unable or unwilling to supply. An exporter wishing to sell goods to the partner can use this surplus through switch trading, usually through a switch specialist, with the sale being credited to the owing country's account. Normally, however the goods sold must be