



ACQUISITION AND  
TECHNOLOGY

OFFICE OF THE UNDER SECRETARY OF DEFENSE

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DP/FC

MEMORANDUM FOR THE DIRECTOR, DEFENSE ACQUISITION REGULATION  
COUNCIL

Subject: Proposed Change to DFARS 225.7303-2(a)(3), Offset  
Administrative Costs

I. PROBLEM: Current coverage unduly limits recovery of offset implementation costs by US contractors on Foreign Military Sales (FMS) contracts.

II. RECOMMENDATION: That DFARS Part 225 be revised as set forth at Tab A.

III. DISCUSSION: The U.S. Government policy is that we will not enter into an offset agreement with a foreign government or international organization. However, the U.S. government does not object to a prime contractor entering into such an agreement. In fact, in the majority of all international defense sales purchasers require offsets from the vendor, usually through separate agreements. Some examples of offset arrangements are at Tab B.

\* [ When a U.S. company sells on a direct commercial basis, offset implementation costs are recovered. On an FMS sale, DFARS 225.7303-2(a)(3) limits the cost recovery by a U.S. contractor to the "administrative costs to administer specific requirements of its offset agreement." Thus, the full cost necessary to implement or to put in place an offset has not been an allowable cost. The proposed change at Tab A would eliminate this inconsistency between the FMS and direct commercial systems by clarifying that the U.S. contractor may recover the full cost necessary to implement an offset agreement. The proposed change is consistent with the USG offset policy as set forth in the 1990 Presidential offset policy and the 1992 Congressional policy (P.L. 102-558, section 123).

IV. COLLATERAL REQUIREMENTS: None

V. CONCURRENCE: Concurrences are at Tab C.

*Eleanor R. Spector*

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Director, Defense Procurement



225.7303-2(a)(3) Offset ~~administrative~~ implementation costs.

(i) A US defense contractor may recover costs incurred to ~~administer specific requirements of~~ implement its offset agreement with a foreign government or international organization if the foreign military sale Letter of Offer and Acceptance is financed wholly with customer cash or repayable foreign military finance credits.

(ii) No change

(iii) Delete

(A) Delete

(B) Delete

(C) Delete

(D) Delete

(E) Delete