



Highlights of [GAO-03-649](#), a report to Congressional Committees

Why GAO Did This Study

Export sales of defense-related products often include “offsets”— industrial and commercial benefits, such as technology transfer, which U.S. companies provide to foreign governments as incentives or conditions for purchasing military goods and services.

Over the past decade, offsets have increased and in 1998, they totaled about \$3 billion per year. In December 2000, GAO reported that countries are becoming increasingly sophisticated in their use of offsets to achieve regional industrial and employment goals.

In 1999, Congress established a National Commission to report on the extent and nature of offsets in international defense trade by October 2001. The Director of the Office of Management and Budget (OMB) was designated chair of the Commission. Congress also required the President to report, within 90 days after the Commission’s final report, on the feasibility and desirability of seeking a multilateral treaty with international trading partners on standards for use of defense offsets.

GAO’s report responds to the congressional mandate for GAO to monitor and periodically report on the President’s progress in reaching a multilateral treaty.

www.gao.gov/cgi-bin/getrpt?GAO-03-649.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Katherine V. Schinasi at (202) 512-4841 or schinasi@gao.gov.

DEFENSE TRADE

Report and Recommendations of the Defense Offsets Commission Still Pending

What GAO Found

In February 2001, the National Commission on the Use of Offsets in Defense Trade issued an interim report, *Status Report of the Presidential Commission on Offsets in International Trade*. However, the Commission’s final report and recommendations are still pending—a year and a half after its mandated reporting date. The last Commission meeting was held on December 4, 2000, and no further activity is apparent. The 2001 change in presidential administrations resulted in vacancies in the five executive branch positions on the Commission, which have yet to be filled.

The interim report describes the extent and nature of defense-related offsets in both defense and commercial trade. For example:

- The cost to U.S. exporters of implementing defense offset transactions is a fraction of the transactions’ value.
- The extent of defense offsets relative to defense exports has remained stable over time; however, offset demands may have grown qualitatively.
- Most defense offset transactions are with developed nations and are associated with the export of aerospace products.
- Because U.S. policy considers offsets “market distorting,” it places no international restrictions on defense offsets and leaves responsibility for their negotiation and implementation with U.S. exporters.

The report also describes the effect that defense offsets transactions and agreements may have on the U.S. defense supplier base. For example, the Commission reported that while offsets may facilitate defense export sales—which can help maintain the economic viability of certain U.S. firms—offsets can also supplant a significant amount of work and jobs that would go to U.S. firms if export sales occurred without offsets. The Commission also reported that U.S. technology transfers through offsets often improved foreign firms’ competitiveness but rarely resulted in technology transfer back to the United States. And while it found that technology transferred through offsets did not appear to create a security risk beyond that posed by other transfers by U.S. firms, it cautioned that offsets could exacerbate any existing weaknesses in U.S. export control processes.

While the National Commission’s report remains pending and the President has not decided on a defense offsets multilateral treaty, Congress required GAO to monitor and periodically report to it on the progress in reaching a multilateral treaty. The Commission on the Future of the United States Aerospace Industry called for the pursuit of a multilateral solution to curtail offset demands in defense trade. It suggested that reactivating the National Commission may be the best alternative for developing recommendations on negotiating a multilateral agreement.

In commenting on a draft of this report, OMB officials provided technical comments, which were incorporated as appropriate.