Defense Offset and Cases of Corruption [DRAFT]

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http://hdl.handle.net/10945/34431
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Paper (Version 2) for 2012 IPMN Conference
Honolulu, Hawaii, 27-29 June 2012

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-This is a rough draft version. Please do not cite from this paper without the author's approval-

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Introduction

According to a recent report from the Stockholm International Peace Research Institute (SIPRI), 40 percent of all corruption in international transactions occur in the arms trade (SIPRI Yearbook 2010, p. 1), moreover the Trade Promotion Coordinating Committee of the US Department of Commerce claimed in a March 2000 report that the defense sector was responsible for more than 50 percent of all bribery allegations between 1994 and 1999 (Magahy et al. 2010, p. 14). Key reasons for this concentration in arms trade corruption include the high value and therefore the importance of single trades for individual countries and defense suppliers. Especially considering the increasing complexity of these security relevant transactions, that make it harder and harder for public managers to control and communicate information to superior authorities and the public.

When procuring armaments, a country must decide if a weapons system or a component can developed domestically or should be purchased off-the-shelf from a foreign supplier. Beyond these two possibilities lie other options, such as licensed production or shared development projects where the development or production of the good is shared between the companies of the vendor and supplier countries. Domestic development would theoretically strengthen a country’s defense industrial base, secure jobs and technological know-how satisfying the specific needs of the domestic armed forces. Yet it is "also likely to be the most expensive option" (Martin 1996a, p. 1) of maintaining the country’s military capability. On the contrary, off-the-shelf purchase means getting a system that is developed for another country's armed forces' needs, only producing jobs abroad and comports a danger to the secure supply of
needed parts and technical assistance. However, it is likely to be significantly cheaper. In order to overcome the above mentioned dilemma, many states link their defense purchases to compensatory trade agreements, referred to as ‘arms trade offsets’, ‘countertrade’ or ‘industrial participation’. Offsets mean that a country buying off-the-shelf military equipment ‘forces’ the foreign supplier of the product to reinvest an amount of the product price into the domestic industrial base. By adopting these practices a country can get a foreign military system, not pay the initial development costs, and – theoretically – still generate some domestic industrial benefits. These offsets are usually defined as some percentage of the purchasing contract price and a time period is set for the fulfillment of it. Additionally, when procurement with an offset contract is signed, the foreign company works directly with domestic companies to fulfill the offset obligation. A governmental authority monitors these processes and also evaluates the performance of these offset deals. As these additional processes and the coordination of several new stakeholders lead on the one hand to far more complex transactions than a basic outright purchase, as well as additional (transaction) costs of up to 20 percent of the original system price (Friedli et al. 2009), the probability for corruption increases as well.

Since the 1970’s the number of countries using countertrade has increased steadily. While countertrade originally consisted mainly of barter agreements exchanging goods rather than using a currency to ease transactions with countries of the Soviet Union and countries with ‘weak’ currencies, this is not the case anymore. Today, the vast majority of countertrade

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1 A good definition can be found in Martin 1996b.
transactions include offset agreements to maintain the defense industrial base and increasingly the dual-use- or civilian industry. More than 75 countries worldwide apply offset policies regularly and several additional countries use offsets for some specific procurement (CTO Data Services 2012). Most of these countries possess only a single governmental body with usually a relatively small staff of about five to twenty employees to govern these deals. Thus the functions of these agencies are relatively similar and, most importantly, they share the common problem of controlling the different offset deals between foreign vendors and domestic industries.

Usually, offsets are seen as a part of defense procurement and are seldom of higher interest for the general public, which also holds true for discussions on corruption in offsets. While corruption in arms trade in general was always of high interest for researchers and specialized media, broader discussions on corruption in offsets are a relatively recent phenomenon. But in 1999, because of the sheer amount of different allegations and the high volume of the procurement and offsets, the corruption within a South African defense acquisition came to public attention (Crawford-Browne 2009). Bringing further general awareness, Transparency International, a NGO specifically fighting against corruption, published a noteworthy report and started a campaign against corruption in offsets in 2010 (Magahy et al. 2010).

While the overall economic effects of offsets have been extensively addressed in the academic literature (Brauer 2004, p. 54), corruption and the role of the public agencies, and therefore Public Management, have not been subject to closer examinations. This is particularly unfortunate given the sheer volume of trades and money controlled by these governmental
offset agencies. In 2006 the overall volume of offsets in participating member states of the European Defence Agency was estimated around 5.6 billion Euros, which would correspond to 200-400 million Euros per annum for each member country (Eriksson et al. 2007, p. 4). Even a small and neutral country such as Switzerland with no membership to the EDA or the NATO, finds itself within these same average volumes of about 300 million Euros per annum (Friedli et al. 2009). Although the data is unavailable for countries outside of Europe, the volume for them is most likely in a similar if not even higher range, regarding the fact that some countries tend to have offset obligations of far beyond 100 percent and that they were not facing the same amount of defense procurement budget cuts as European countries during the last years. What makes offset deals even more prone to corruption is the impossibility to compare the costs of countries. First, because of the different military requirements within the same weapon system, and second, because of additional coordination expenses between the foreign vendor and domestic companies.

Unfortunately, quantitative data on corruption in offsets is lacking and only a handful of examples are used in (academic) discussions thus far. The reason is that, aside from speculations about the potential corruption risk, only a few cases of corruption have been widely discussed. As a consequence, this paper is aimed to start a further discussion in Public Management by giving an overview of cases of corruption that have been discussed in the media. A comprehensive survey and analysis of newspaper articles was conducted and the results are presented in this paper. The analysis contains the content of 250 English-speaking and translated newspaper and magazine articles on corruption in offsets from 1980 through
April 2012 that were selected out of a preliminary search of more than 1000 articles. It focuses at first on the following research questions:

1a) what allegations of corruption in offsets have been discussed in the media?

1b) which of these allegations concern Public agencies responsible for offsets and therefore involve Public Management?

While the first research question has the goal to identify all publicly known cases of corruption in offsets during the last 20+ years, this second question uses this data to compare existing measurements against corruption with the allegations. It therefore addresses the following question:

2) does a public agency have tools to detect and fight possible cases of corruption in offsets?

**Method and Data Collection**

To answer the defined research questions, an analysis of newspaper and specialized magazine articles was conducted. The selection is based on a LexisNexis major world publication search which is also the reason for a limitation on articles written in English or translated to the English language. Even though it is possible that some of the cases have not been discussed outside a non-English speaking country, it is likely that all major cases of corruption have at least been mentioned in prominent publications in the area of armament and defense that are available via LexisNexis, such as “Jane’s Defence Weekly”, “Defense News” or “Aviation Week” which have the resources to report on foreign defense news items. In an initial collection set, all
articles published between 1980 and 2012 containing the words “defense”, “offsets” and “corruption” or important synonyms\(^2\) in the full text were selected. The 990 resulting articles were filtered and coded by hand to ensure that the remaining articles were explicitly dealing with corruption in arms trade offsets. The final sample contained 250 articles from 12 countries\(^3\). The sample was supplemented by academic papers and reports of the same timeframe that specifically discuss questions regarding corruption in offsets\(^4\).

More than half of the articles (153) dealt with the aforementioned South African case, a case also included in all academic papers used for the data collection. The reason for this may be the uniqueness of the case as such (exceptionally high amount of offsets, number of different allegations\(^5\)) but there is a high probability that it is also due to the fact that South Africa is an English speaking country. Additionally, India (30), Saudi Arabia (15) and Australia (12) are examples with relative good data, while all other countries were mentioned between one to eight times in the articles. A set of 20 articles were texts where offset was associated with corruption but no example was given, therefore these articles were not used for the categorization scheme but are included in the discussion afterwards.

\(^2\) \text{(offset* OR countertrade OR barter OR “industrial participation”) AND (defen*e OR military) AND (corrupt* OR bribe)}

\(^3\) Australia AU, Czech Republic CZ, Greece GR, India IN, Indonesia ID, Poland PL, Portugal PT, Saudi Arabia SA, South Africa ZA, South Korea KR, Thailand TH, United States of America US

\(^4\) For example Magahy et al. 2010, or Dunne, Lamb 2004

\(^5\) South Africa bought 70 JAS Gripen from BAE/Saab and got offered 110 billion Rand in offsets that were said to lead to 65'000 new jobs.
The second part is based on a comprehensive literature study on countermeasures of corruption in smaller governmental agencies or in the field of public acquisition, with a focus on academic papers in the field of Public Management.

**Cases of corruption**

One of the major problems when studying corruption is the fact that it is relatively hard to narrow down the research to specific cases of corruption because “definitions are controversial, and solid evidence is often elusive” (Johnston 1991, p. 9). To have the maximum number of cases for further analysis, this paper will use the relatively broad definition by Transparency International: “[corruption is] the abuse of entrusted power for private gain” (Magahy et al. 2010). This definition is even broader than the definition of the United Nations Development Programme, stating corruption as “the misuse of public power, office or authority for private benefit – through bribery, extortion, influence peddling, nepotism, fraud, speed money or embezzlement” (United Nations Development Programme (UNDP) 1999, p. 7).

In addition to a definition of what offset is, a categorization scheme is needed to gain an overview of the differences and similarities of cases of corruption in offsets. While several very general categorizations of corruption exist, a specific scheme for offsets has not been developed. Even though the first report of Transparency International had several quasi categorizations for portions of offset processes, for example pathways from tender to winning the award (Magahy et al. 2010, p. 18), none of these were able to include all cases of corruption.
found in this analysis. Therefore, this paper utilizes a very general method of categorization.

First, the cases will be split up according to the main stakeholders involved. As mentioned earlier, the increasing number of stakeholders is one of the reasons for a decreasing level of transparency. Next to the most obvious groups, the foreign suppliers and the national, importing government, national beneficiaries (mainly companies) play a major role in the offset business as they are the receiver of the offset obligations. A fourth group includes third-party entities, such as brokers or consultants (Magahy et al. 2010, p. 13). It could be reasonable for further studies to further breakdown the government and the national beneficiaries into subcategories. So far, the government includes the offset agency, as well as the decision-makers that are generally politicians, or higher ranking officials on a ministerial level. National beneficiaries could be at least divided into state-owned and private companies, as there is a high chance that state-owned companies are favored to privatized ones, as for example, the case of India shows (Raghuvanshi 2005). Also splitting the defense-from dual-use and civilian companies could be of interest, as, depending on the legal interpretation of different governments, the WTO/GATT offset contracts only allow for security related deals or also include pure civilian beneficiaries. Second, while the idea of a division according to the course of action within offsets seems to be a good idea, it is not understandable why corruption should stop at the point in time when the contract is signed. Even though one major scenario for corruption within the arms trade as a whole is as good as done at that point (one foreign

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6WTO/ GPA Article XVI-1: Entities shall not, in the qualification and selection of suppliers, products, or services, or in the evaluation of tenders and award of contracts, impose, seek, or consider offsets.
company wins the procurement against its competitors), other possible scenarios such as national companies that try to become beneficiaries still remain. As the offset contract as such still seems to be the major turning point within the process, the categorization will only be divided into a pre- and a post- contract agreement phase.

Relatively similar cases have been combined to get a good overview of the different methods of corruption within offsets. Additionally, the countries in which these cases of corruption happened were included. The articles are not analyzed statistically as multiple examples of the same case have no impact on the severity or the type of the corruption.

<table>
<thead>
<tr>
<th>Pre contract agreement</th>
<th>Post contract agreement</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Foreign</strong></td>
<td></td>
</tr>
<tr>
<td>Government bribed to manipulate tender (-process) (ID, IN, ZA)</td>
<td>- Incorrect claim of offset deal (AU, PT, ZA) - Bribe is claimed as offset (KR, ZA)</td>
</tr>
<tr>
<td>Politicians bribed to influence decision-makers (IT, PT, ZA)</td>
<td></td>
</tr>
<tr>
<td><strong>National</strong></td>
<td></td>
</tr>
<tr>
<td>Government</td>
<td>High ranking officials own/ work for offset receiving company (ID, ZA)</td>
</tr>
<tr>
<td>Overassessment of benefits in offset proposal (CZ, GR, PL, PT, ZA)</td>
<td></td>
</tr>
<tr>
<td><strong>Beneficiaries</strong></td>
<td></td>
</tr>
<tr>
<td>National</td>
<td></td>
</tr>
<tr>
<td>Agency bribed to receive share of offset obligation (AU, CZ, ZA)</td>
<td></td>
</tr>
</tbody>
</table>

*Table 1: Overview of cases of corruption in offsets*
What can be seen in Table 1 is that the number of unique cases is very small, and that only seven different types of corruption could be identified based on the data collection. All pre-contract-agreement-cases have been types of corruption where one of the stakeholders tried to change the competition between the potential suppliers to its own benefit, or in other words where the government favors a specific stakeholder who provides favor usually in the form of rewards. All these cases can be defined as public-interest-centered types of corruption according to Arnold Heidenheimer & Johnston (2001, p. 9).

The tender process has been manipulated in a variety of ways. For example one of the South African procurement decisions was based on a shortlist that excluded the price and therefore favored the proposal with the best offset offer (Pressly 2011). Another example was the bypassing of the Minister of Defense by the Chief of the Air Force in Indonesia (Roundup: Trade deal for Sukhoi jets turns politicized in Indonesia 2003) or the temporary loss of all offset proposals by an Indian official (MyNews Interactive Media 2011). At least for the last case no evidence could be found that this was a case of corruption, but it can still be seen as an example of how a tender process could be potentially manipulated. Cases where politicians or higher-officials have been bribed to influence decision-makers have been seen in South Africa (Agence France Presse -- English 9/09/1999) and in Italy (Pabby 2012). The Portuguese case is an allegation according to which an intermediate got 30 million Euro for brokering the procurement and the offset contract, using portions of the deal to bribe others, including officials of the offset agency (Magahy et al. 2010). In several cases the fact that the proposed offset benefits have been extraordinary high has been a reason for corruption allegations. For example a U.S. company offered new jobs worth three billion U.S. dollar to the Polish government. “Critics call it what it is: bribes and
corruption” (Jackson 2003). By far the biggest discussions happened because of the proposed (and never completely realized) 65’000 new jobs in South Africa (Crawford-Browne 2009).

Several companies have also tried to ensure business with the offset supplier by becoming a compulsory partner for the foreign supplier. This has for example happened in Australia (‘Richo' cleared of corruption claims 1995) or the Czech Republic (Kominek).

Other allegations of corruption can be seen in the second phase of the offset process. Multiple cases exist especially where a company personally associated to high ranking officials or politicians who have been organizing offsets has been a beneficiary. For example, this was the case in South Africa where a minister took up a position in an offset benefiting company directly following his political term (Mitchell), or where politicians were shareholders of such companies (Calland 2011). These cases can be defined as market-centered corruption (Heidenheimer, Johnston 2001, p. 8). The last two types are the probably most mentioned in the media but least explained cases. According to several articles offset deals were used as bribes. Unfortunately there is only one article that gives an explanation on how this could have happened: In Korea a deal was claimed as offset but the service in return by the national company never occurred (Summer 17/09/1998). These cases could be defined as public-office-centered corruptions even though the payments seem to be rather floating to private companies than to public officials (Heidenheimer, Johnston 2001, p. 8). The last type includes cases where the foreign supplier tried to claim several offset deals incorrectly, usually by overestimating the value of the deal. Allegations about such cases have been made in Australia (Richardson 1995) and in Portugal (Pop 2010).
It is important to mention at this point that all of these discussed types are primarily suspected cases of corruption. Most newspaper articles have been concerned with allegations but only a few of these cases have been verified by courts of justice later on. Additionally, even though the types as such comprise in, some cases, a risk of corruption, a portion of the examples from the newspaper articles do not. This will be especially of importance of further discussions in the next part of the paper.

**Tools to fight corruption**

Based on a comprehensive analysis of articles, a collection of different cases of corruption in defense offsets could be made. The question that still needs to be answered is, if governmental agencies dispose of tools that would be useful in identifying or fighting these types of corruption. A growing number of academic papers have been focusing on aspects of how to fight corruption and different strategies have been discussed widely in academia but especially in policy papers of international organizations such as the World Bank or the OECD.

Several different aspects have been in the focus of researchers. On the one hand, a theoretical discussion on drivers of corruption has been going on since almost 20 years based on the renowned book of Robert Klitgaard (1991). And even though these theoretical frameworks have been discussed and re-arranged widely (see for example Hors 2001 or McLinden 2005) the main ideas that corruption is driven by a lack of efficient control, discretionary power and the possibility to work within a network still remain the same. On the other hand, a lot of
researchers have been dealing with concrete strategies that states use against corruption. Especially the research on anti-corruption-agencies has been relatively extensive (see for example DeSousa 2006, Klemencic & Stusek 2007, or just recently Quah 2011). Also the necessity of administrative reforms (Fjeldstad 2003) or the questions of interrelationships between a reform such as New Public Management and corruption (von Maravic & Reichard 2003) have been discussed broadly. What can be seen is, that most research and discussions are held on a national level that end relatively fast in recommendations to introduce either new national strategies and policies (Bryane & Polner 2008), or new audit systems (Baltaci & Yilmaz 2006, Cantens et al. 2010, or Ferreira). The perspective of small agencies has been of minor interest to most researchers, even though especially in discussions on audit or performance, case studies on specific cases have been made (Baltaci & Yilmaz 2006, Anderson & Gray 2007 or Cantens et al. 2010). What these discussions share is the introduction of new control and audit systems.

Coming back to scenarios of corruption in arms trade offsets especially three aspects should be discussed further. The overview of cases of corruption in Table 1 shows that especially two possible scenarios seem to happen when a governmental agency is involved. Either, a civil servant is privately linked to a company and is therefore favoring it to other competitors, or, the civil servant gets a bribe from a company and is misusing his power usually by misinterpreting or manipulating performance data. These findings are concordant with especially two Klitgaard’s drivers of corruption (1991): the possibility to work within a network (private linkage) and the absence of accountability (misusage of performance data).
Most of the cases of corruption in offsets show as well the problem of the lack of transparency. Klitgaard’s discretionary power is insofar a real problem for corruption as it leads to a complexity that does not allow for explicit verdicts. Therefore the question of transparency has to be further discussed as well.

**Networks and Due Diligence**

*Due diligence in offsets has been a major point of discussion at an industrial offset conference beginning of June. As this will hopefully lead to the publication of additional literature within the next weeks, the writing of this part has been delayed.*

**Absence of Accountability and Performance Management**

One of the main allegations of corruption in South Africa, as well as other countries, has been the promise of additional jobs for the national industry. For example, in the South African case the foreign supplier was offering offset obligations worth 104 billion Rand (approximately 17 billion USD 1999) which equates to three times as high as the procurement contract volume. It was suggested that this sum would create approximately 65,000 jobs. While this number implies an extreme example of overestimation, this is hardly the case when realizing that each of these jobs was planned to cost more than 20 times as much as an average job in South Africa’s defense industry at that time (Dunne & Lamb 2004, p. 288). Due to a lack of data, it is not possible to calculate the exact number of jobs created with the industrial participation program in South Africa, but the number is most likely not even a third as high as estimated. Several articles have claimed that the proposed number of jobs has been a “sweetener”
(Unnithan 2005) for the procurement act and a “key motivation” (February & Calland 2011) for the whole deal. Unfortunately it is not evident if the proposed number of created jobs was part of the South African contract. For a country with an employment rate of approximately 30 percent at that time (Dunne & Lamb 2004, p. 288) such an offer was more than welcome but usually only the financial volume is defined in an offset contract. Moreover, it is possible that this number was defined and used by the government as an additional reason and positive side effect of the arms procurement. In the end what happened was that a supplier was not able to fulfill all expectations.

Another allegation in South Africa was the usage of multipliers of the original investment to accrue the offset credits (Ensor 2012). Unfortunately this case is not defined any further but the potential allegation is/was that the company did not need to invest the complete offset obligation into the country. At least in Europe, a majority of countries are using multipliers up to the factor ten (Friedli et al. 2009). This means that an investment of one million will be counted as offset deals worth ten million. The reason for this is that offsets happen most often with companies that lack the specific knowledge of how to produce a commissioned part. Multipliers are then used to award the technology transfer.

Both given examples, employment creation and multipliers, contain estimates that can be used in the worst case to misleadingly overestimate the value of offset deals and in the best case to further complicate the process and decrease transparency. While it could be said that some allegations were nothing more than misunderstandings, they also show that the usage of
indicators is always dangerous. Still, remains to be seen if one of these examples has been counted as corruption.

A recent study on a specific offset example in Switzerland (Platzgummer, Gonzales Llozano 2012) suggests that companies tend to overestimate their offset obligations especially after a phase of claiming offset obligations below average. The reason for this is likely due to the company realizing that the generally weak defense industrial base can only handle a specific amount of offsets at the same time\(^7\) and that the fulfillment is to be at risk overall. This can lead to severe penalties of up to ten percent of the whole offset obligation (Friedli et al. 2009). Even with very basic performance evaluation tools that only provide an analysis of the claimed financial volumes, phases of achievements below the average could be detected very easily. The governmental agency should not only have an overview of the already achieved volume but should also be willing to warn the foreign company in such cases. This could prevent cases of corruption.

What can be seen overall is that even a very simple performance management and audit system would allow an agency to detect the majority of corruption scenarios. Insofar, there is not really a need to develop new frameworks or performance management systems but to ensure that a basic performance management system is used and that the results are audited internally to some extent.

\(^7\) For example with on average 300 million Swiss Francs offset obligations are responsible for more than ten percent of the annual volume of the whole defense industrial base in Switzerland Rose, Platzgummer 2012. Regarding the fact that most offset suppliers are not able to work with the whole industrial base from air system to land- or even sea system producer, suppliers should try to achieve a relatively balanced allocation of annual obligations.
Discretionary Power, Transparency and Media

The biggest problem with offsets seems to be the fact that they lack transparency and increase the level of complexity. More than once, allegations were made that can neither be agreed to nor denied. An example of such a case is an allegation in Portugal stating that offsets were claimed for already existing investments worth 34 million Euros (February & Calland 2011). While this sounds like a perfectly clear case of corruption in the first place it does not necessarily constitute as one. Most countries offer the possibility of ‘banking’ offset credits. This means that a company is allowed to claim a specific amount of deals that have been contracted with offset beneficiaries before the original offset agreement was signed. The reason for this is that government procurements can be postponed due to tax cuts or political changes. And due to tight production schedules and a high probability that national companies need some time to build up the specific knowledge, companies tend to award first offset contracts to national companies as soon as the competition ends (but the offset agreement still needs to be discussed and signed). For example, Switzerland is allowing 20 percent of banking in the current jet fighter procurement due to a political adjournment of the procurement process (news.ch 2012). Again, this is a possible excuse for the allegation but it does not have to be the ultimate reason. Chances that the acceptance of this offset claim by the governmental agency in Portugal is a case of corruption still remain.

While these cases lead to a lot of discussions, the solution to increase transparency is relatively easy. In 2008 the European Defence Agency launched the Code of Conduct on Offsets (European Defence Agency 3/05/2011). While the document does not include important
political aspects on offsets it has at least increased transparency. For example, all 25 participating member states have to publish their offset policies on the EDA webpage. Future cases such as the above mentioned Portugal banking case could be clarified quickly.

A second allegation that is frequently made in the media is that offsets are “no bribes, but pretty damn close” as U.S. Senator Ross Feingold mentioned it in a speech (Sennott 1996). Even though offsets are used as marketing tools within procurement competitions, most countries demand them very actively. One of the major accomplishments of EDA’s code of conduct was the confinement of offset obligations to no more than 100 percent. Prior to this code, several countries in the European Union were demanding up to 200 percent offset obligations in defense procurements. Volumes that some of the companies can hardly implement in the few defined years of the offset agreement.

From the point of view of the researcher probably the most shocking aspect of the article analysis is the lack of knowledge regarding offsets and the dishevelment of the allegations. In several cases the journalists confused the terms offsets and barter\(^8\), other articles used incorrect definitions of special terms such as direct or indirect offsets (Pubby 2012), or called ten-year-old contracts illegal based on a one-year-old law. One article went so far as claiming that in “Bulgaria, one of the EU's most corrupt countries, the government set up a special offset office in the Ministry of Economy” (EU code of conduct may shine light on practice of arms dealing 2009) suggesting that this is in and of itself is a case of corruption.

Also the report by Transparency International includes several aspects where a differentiation between corruption in the ‘normal’ procurement and corruption in offsets is not possible\(^9\) which decreases instead of increases the transparency within the report.

Another main actor of befuddlement is the United States government. From the point of view of the biggest weapons exporting country it is comprehensible that offsets are everything but favored as they force U.S. companies to alter already existing supply chains and invest into less competitive foreign countries. Yet instead of supporting their arguments with facts the U.S. government seems to use the words offset and corruption as a matter of principle in the same sentence, for example: Offsets are nothing more than economic bribe (Hunter 2004), they seem to be a way to bribe other countries to do something (Tolchin 1987) or they foster corruption (Intelligence Online 17/01/2008). These arguments would be taken more seriously without a Buy American Act with more or less the same goals and instruments.

What this part of the analysis shows is that not only newspapers, but also governments should raise the transparency within offsets. Either, through explicitly dedicated information portals, such as the one of the European Defence Agency, which offers at least transparent policies and some basic information, or through specialized education in the form of workshops for journalists, who focus on defense and security topics. Both options would lead to an increase of transparency within even tight budgetary restrictions.

\(^{9}\) See for example the case of Taiwan in Magahy et al. 2010
A more general concern is whether there is really such a big lack of transparency in offsets (Pressly 2011). The problem with this question is that there are very different notions of transparency. Regarding the fact that offsets are part of a governmental procurement which involves defense goods, offsets are not more or less transparent than the rest of the procurement. Taking into consideration that private companies are usually not asked to disclose their complete supply chain to everyone including their competitors, the lack of transparency seems to be relatively small. Also from the WTO’s point of view, a view that supports free trade and competition in a market, transparency is not really missing. According to article XVII of GATT both contracting partners can request information about the specific operations that can have an impact on the procurement.  

**Conclusion**

This paper had two main intentions: First, to give an overview of known cases of corruption in offsets and second, to analyze if tools exist to identify or even fight some of the previously defined cases.

What can be seen so far is that a relatively manageable number of different (known)types of corruption in offsets exist. It can also be seen that a focus on the first part of the offset process from the earliest request for proposal to the date of the contract agreement cannot highlight all cases of corruption and should therefore be reconsidered.

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10 For a further discussion see the very interesting article from Robert Howse 2010.
So far, the discussion about corruption in offsets has most of the time focused on the problems concerning the transparency and complexity of arms trade offsets. Still, by using the already existing tools a better part of potential cases of corruption can at least be overseen.

The main problem is that more or less all of these specific governmental agencies do not even use basic performance management and are highly influenced by other stakeholders to use immeasurable indicators such as additional employment factors.

Additionally offsets seem to be surrounded by an aura of ignorance, definitions are misused, critiques are not questioned, and this leads to a very negative undertone when dealing with offsets.

It is important that government officials dealing with offsets know that there is a danger of corruption and it is even better when they are able to flag potential risks within the process, but it is also important that they realize that some of the potential allegations are made up out of thin air and that for example a closer cooperation with media corporations could help defuse a negative situation.

Government would be able to increase the transparency but also the usage of performance management tools for offsets without the implementation of new tools and with relatively low costs. That’s where the fight against corruption should start.
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