

Briefing: South Korea prepares offset reforms

Jane's Defence Industry

South Korea's DAPA introduces minor changes to defence offset guidelines in 2017, but agency points to significant future updates as a means to boost exports and capability. *Jon Grevatt* reports

South Korea's Defense Acquisition Program Administration (DAPA) has introduced some minor changes to the country's defence offset guidelines in 2017 but some more sweeping reforms can be expected in the next policy update, *Jane's* understands.

DAPA revises its defence offset guidelines regularly - about once every year - and the most recently updated policy came into effect earlier in 2017, although offset agreements currently in effect are not subject to the changes. The 2017 update was the 12th revision to the guidelines since the existing policy was introduced in 2008.

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2017 updates

DAPA has also introduced a clause stating that it will be entitled to confiscate from the performance bond up to 10% of the unfulfilled portion of the offset obligation as a penalty should the foreign contractor be attributable for extending offset implementation.

Previously this confiscation was not stipulated as a penalty, and DAPA believes the added clause will provide additional protection against non-compliance.

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'Selective' offsets

DAPA is also considering adopting a stance of being "more selective" in committing contractors to offset obligations, particularly in programmes that are supported by the US Foreign Military Sale (FMS) mechanism.

Jane's understands that this stance is being considered largely as a result of DAPA's previous difficulties in securing desired technologies from the United States under the FMS programme. DAPA believes that these difficulties have stemmed from the FMS mechanism's non-competitive nature.

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Banking

To leverage greater results from the offset policy DAPA is also considering methods to support greater use of the offset banking system. This would include providing contractors with enhanced flexibility in carrying out offset obligations beyond the life of the main contract.

At present contractors can face a burden in providing what DAPA terms as "high-quality offset items" because of the requirement to agree offset terms before the main contract is concluded.

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Multipliers

The requirement to boost domestic industry's integration into global supply chains is also expected to be supported by future changes to the multiplier system.

Jane's understands that DAPA is considering introducing a greater variety of multipliers with increased weighting for valued activities including technology transfers, involvement in international programmes, subcontracting, supporting military exports, and foreign direct investment.

The existing South Korean offset policy currently has a limited number of activities that are assigned multipliers and all have a relatively low value.

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SMEs

An important element of South Korea's defence offset policy in recent years has been its emphasis on supporting the development of domestic SMEs.

The DAPA official confirmed that this emphasis will remain in place for the foreseeable future, partly in a bid to support SME involvement in foreign contractor supply chains.

To support this effort, DAPA has recently introduced a programme to provide selected SMEs deemed to have high-growth potential with support ranging from product development to marketing.

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