



MINISTRY OF DEFENCE

[REDACTED]
DE&S International Relations Group



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MOD Abbey Wood
Bristol
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[REDACTED]
Our Reference: [REDACTED]

Date: 4 March 2015

Dear [REDACTED]

Thank you for your correspondence, received on 18 February 2015, where you ask several questions in relation to the use of offsets in UK defence procurement. This request has been treated in accordance with the provisions of the Freedom of Information Act 2000.

Your questions were:

I am interested in information about the MOD's defence offset situation. Which defence companies currently have offset obligations to the UK government, and what are the amounts for each? How much is still outstanding and in what time period is likely to be discharged? What percentage of these offset obligations has been and will be spent on training?

The current situation in regards to offsets in the UK is that the UK Ministry of Defence (MOD) does not use offsets in its defence procurement. Offsets were ruled unlawful (with some exceptions permitted) by the European Commission through Directive 2009/81 EC. Prior to the Directive, the UK Trade and Industry Defence Sales Organisation (UKTI DSO) did have a policy of Industrial Participation (IP) where overseas bidders to defence contracts were invited to detail how they would benefit UK companies should they win the contract. Following contract award, the overseas company's IP commitment was then tracked by UKTI DSO, but this was not like a typical offset arrangements where companies are given values, for example 100% of the contract, that they had to fulfil if they were not to incur penalties. Under IP, the companies themselves set the value and UKTI DSO simply ensured that the company did what it said it would.

In 2010 and as a result of the Directive, the UK's IP policy was scrapped and replaced in 2012 by a new policy called the Defence and Security Industrial Engagement Policy (DSIEP). This was launched in the National Security Through Technology White Paper and you can find this at paragraph 154 of this link:

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/27390/cm8278.pdf.

Defence Equipment & Support

DSIEP is the UK's alternative to offsets. It is entirely voluntary and overseas based companies are encouraged to sign up to DSIEP and invest into the UK, but no targets, penalties or legal commitments are made to do so. The only commitment entered into by the companies is to provide an annual report each year, detailing their investment into the UK by providing data on their UK supply chain, their research and development investments and any other activities that helped UK companies enter their supply chains or promoted exports. As a consequence, the MOD does not hold the data on offset obligations that you have requested.

What I can tell you, however, is that last year, the MOD received five DSIEP annual reports detailing £485 million of investment into the UK during the period January to December 2013. Currently, nine companies have signed up to DSIEP and we expect to receive their annual reports later this year.

The nine companies currently signed up to DSIEP are:

- Airbus Military
- Boeing Defence UK
- L3 Communications
- Raytheon
- Rheinmetall Defence
- Rockwell Collins
- RUAG
- Saab
- Safran SA

If you are unhappy with this response or you wish to complain about any aspect of the handling of your request, then you should contact me in the first instance. If informal resolution is not possible and you are still dissatisfied then you may apply for an independent internal review by contacting the Head of Corporate Information, 2nd Floor, MOD Main Building, Whitehall, SW1A 2HB (e-mail: CIO-FOI-IR@mod.uk). Please note that any request for an internal review must be made within two calendar months of the date on which the attempt to reach informal resolution has come to an end.

If you remain unhappy following an internal review, you may take your complaint to the Information Commissioner under the provisions of Section 50 of the Freedom of Information Act. Please note that the Information Commissioner will not investigate the case until the internal review process has been completed. Further details of the role and powers of the Information Commissioner can be found on the Commissioner's website, <http://www.informationcommissioner.gov.uk>

Yours sincerely,

