

Defense Industry Offsets: The President's Hands on Policy

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Dissertation submitted to the faculty of the Virginia Polytechnic Institute and State University in
partial fulfillment of the requirements for the degree of

Doctor of Philosophy

In

Planning, Governance, and Globalization

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April 15, 2025

Arlington, Virginia

Keywords: Defense offsets, burden sharing, two-level game, relative gains

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Abstract

Defense industry offsets are negotiated benefits that exporters add to arms deals to satisfy importer desires for something beyond a basic exchange. They are estimated at 30%-40% of the total value of the worldwide arms trade, and while not commonly understood, offsets are so prevalent that most defense firms cannot compete internationally without them. The U.S. Government relies on the arms trade as a critical foreign policy tool, but rare U.S. Government support for offsets is handled inconspicuously. Rather than acknowledge government practice, government agencies, offset specialists, and scholarly publications tend to exaggerate the U.S. Government perspective by calling it the 'hands off' policy. This reinforces a misunderstanding that the U.S. Government completely abstains from promoting U.S. industry interests in offset projects. Although the president retains the discretion to authorize encouragement for offsets, the 'hands off' assumption is so strong that stakeholders and analysts do not anticipate or assume U.S. Government encouragement in practice.

This study addresses the question, "*Why and in what circumstances does the president decide to go 'hands on' for offsets as a foreign policy tool?*" This study argues that relative gains concerns in U.S. foreign policy and national security that are significant enough to overcome domestic political constraints can sometimes, but not always, influence the president to authorize encouragement for U.S. industry in offset projects. These concerns are more salient with offsets where defense companies from other countries are competing against U.S. industry to obtain major arms trade contracts. When choosing to promote offsets as a foreign policy tool, the president demonstrates a desire to build security partner capacity and improve U.S. bilateral relations with allies and partners. Simultaneously however, competing domestic U.S. stakeholders in Congress and their constituents among large defense contractors, labor unions, suppliers, and subcontractors may support or oppose offset policy based on their own primary interests and benefits. The president contends with these domestic constituent interests, where a few large defense contractors sometimes prefer more active government support for offsets, while opposing groups advocate for restrictions beyond the status quo to curtail competition and prevent job and technology losses.

This paper is among the first to explore U.S. Government offsets encouragement since policy implementation in 1992, at the end of the Cold War, highlighting a topic that continues to generate controversy between supporters and detractors. Research results will add to the body of knowledge and limited literature on U.S. offset policy. Understanding the causes and constraints for this unique and little-known U.S. Government practice builds understanding of national interests, the defense industrial base, the arms trade, domestic political constituent issues, and foreign policy interests shared with international security partners. Creating awareness beyond prohibitive assumptions will enable foreign policy leaders to expand their knowledge and perceptions of diplomatic alternatives, creating opportunities for success that most practitioners do not consider or acknowledge.

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General Audience Abstract

Federal policy on government support for offsets in arms exports sounds so prohibitive that it is frequently mislabeled the 'hands off' policy. This misses the clause, stated within the same policy, where the president can authorize government involvement. Offsets are defined as *direct* or *indirect*, when importers extract *extra* items and services tied to purchasing defense equipment or services to obtain something from exporters that the importers typically cannot accomplish on their own. An example of a *direct* offset is an exporter building an in-country factory for the importer to assemble tank parts into a final product, rather than simply providing a finished product. The offset is *direct* because the factory is directly related to the tank. *Indirect* offsets appear unrelated to the primary contract, where an exporter might train the importer's astronauts in connection with a fighter aircraft package, or build a shrimp farm as part of a ground-based radar deal. Most exporters would prefer to do business without offsets. However, intense competition among exporters creates a 'buyer's market,' giving importers the upper hand in judging weapon systems not only on their own merits, but also based on what offsets are included with the total package deal.

Although widely perceived as universally hands off, U.S. policy contains some flexibility for intervention. The "Declaration of Offset Policy" states:

"... no agency of the United States Government shall encourage, enter directly into, or commit United States firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments" (U.S. Congress 1992, §123 4207).

Government publications frequently repeat or paraphrase this prohibitive text. Yet the same federal statute also states, "the President may approve an exception to the policy." Federal agency publications typically exclude the clause, with most practitioners and academics unaware of this path to government encouragement for offsets.

Based on the chief executive's legislated policy role, this study looks into the exception, where the U.S. Government provides encouragement for offsets. American arms exporters deliver equipment and services as a tool of foreign policy intended for America's allies and partners. This means that foreign arms competition in the market and in the battle space can undermine these goals and hurt U.S. national interests abroad. When problematic offsets undermine foreign policy, they can produce national security concerns at the president's level that motivate and enable support and encouragement for U.S. exporters.

Reviewing cases with the United Arab Emirates, Poland, and India shows that prohibitions against government support for offsets are neither universal nor ironclad. Evidence is stronger in some cases than others when the federal government occasionally provides encouragement for offsets. Understanding how policy and practice interact and how to improve support for national security enables opportunities for success through offsets that most arms trade specialists and policy leaders do not consider or acknowledge.

Dedication

This dissertation is dedicated to the

- G.I. Bill -

a “scholarship” through the U.S. Department of Veterans Affairs,
changing lives and opening opportunities since 1944.

Acknowledgements

The list of people to thank for this dissertation is quite long, and likely insufficient. First, I owe tremendous gratitude to my family, especially to my wife and two grown sons, and to my 103-year old grandmother and father-in-law who both passed away while I was writing. I would also like to thank George Hutchinson for convincing me to use my G.I. Bill benefits to pursue a PhD, Randy Cole and Sayed Ghannam for recruiting me into Virginia Tech, and Jim Durand for supporting my application.

I owe a great deal to my dissertation committee chair, Prof. Chad Levinson, for holding me accountable in writing and keeping me motivated all the way through to completion. I am also sincerely thankful for the vital guidance from Virginia Tech's Prof. Ariel Ahram and Prof. Giselle Datz, and from Dr. Paul Linehan. Additional thanks go to Prof. Joel Peters and Prof. Gerard Toal in the Virginia Tech School of Public and International Affairs, and to Prof. Paul Avey in the Political Science department. Furthermore, I would like to thank Prof. Ron Matthews and Prof. Anicée Van Engeland, security studies scholars and instructors for real-time distance-learning classes I took through Cranfield University, in the United Kingdom.

Classmates made a considerable difference in offering insight on the way ahead, and as positive role models: Nada Alwadi, Delovan Barwari, Carol Beck, Gopi Bhamidipati, Shukriya Bradost, Eleanor Cambridge, Matthew Carpenter, Chris Fawthrop, Jim Davitch, George Greanias, Jaeyoung Koo, Denis Katolin, Walter Landgraf, Jonathan Lee, Farhad Mamshai, Daniel Mekibib, Emina Muzaferija, Haben Petros, Jasper Schneider, Julie Schupp, Nareg Sefarian, Stephen Sholl, Rachel Stanford, Margaret Stephens, Elmamoun Sulfab, Adam Tett, and Eric Yatar. I would also like to thank Tom Saggars, a classmate from Cranfield University, for his encouragement and intellectual contributions.

I could not have gotten through this rigorous process without current and previous members of the Virginia Tech community and organizations that were particularly helpful: Elia Amegashie, Juan Cordero, Kelly Crist, Patrick Greene, Corinne Julien, Myriam Lechuga, Dr. Bruce Pencek, Bryant Smilie, Krystal Wright, the School of Public and International Affairs, the Virginia Tech Library, the Office of Veteran Services, Services for Students with Disabilities, and the Virginia Tech Writing Center.

I am especially grateful for archival access to *Countertrade & Offset (CTO)*, the only publication dedicated exclusively to defense industry offsets. Thanks to Rodrik Cave (owner), Elina Solomon, and Rajpriya Bhattacharya. Jonata Anicetti, also at *CTO*, was not only very helpful, he published a book about offsets while I was looking at the same issues. We both arrived at some similar conclusions independently, unaware at first of each other's work. Because Jonata published before I finished this dissertation, he won the race, and his scholarship advanced my own research.

Additional guidance and contributions came from practitioners, subject matter experts, scholars, and inspirational writers. Alan Colegrove is a role model and a practitioner who also published a book on offsets while I was writing, raising awareness for my own research. Hwa Yu, a subject matter expert on the Reciprocal Defense Procurement Agreement (RDP-A), worked with me on other research and provided significant feedback at different stages in my draft materials. Nicholas Thorne and Gene Moran shared their dissertations, offering examples on how to organize and write. Daniel Schoeni provided helpful insight on expanding source research. Discussion and insight was very helpful from Joseph Goldberg (also a published author

on offsets), James Hasik, William “Billy” Mea, and Terry Vance. My membership in the Foreign Area Officers Association led to writing opportunities through the Defense Security Cooperation University, with inspiration from Kurt Marisa, Kevin Kozuch, Brian Lawrence, John Haseman, David Jensen, David Shin, and Eric Chan. I am perpetually grateful to one of my old teams – which is not the same team today, as each of them moves on to new roles: Mark Supko, Mark Thum, Maureen Linitz, John Black, Joanne Walsh, Jon Lau, Dave Park, Angel Morales, Chris Roper, Will Lane, Justin Stone, Eiji Nishikawa, Alex Arnista, and John Watkins. I also owe a great deal of appreciation to Tom Reich and Phil Georgariou for their guidance and insight.

Additional moral support came from Wayne Fujito, Mike Morgan, Tim Williams, Ikhwan Do, Mike Molnar, Ed Laughlin, John Cermak, Jonathan Jones, Dean Fukuhara, Gary Miller, Clayton Allen, Lori Allen, Chris Hobbs, Mike Schaub, Tim Tudor, and Júlia Jones. Continuing inspiration came from Ken Spurlock, an old classmate from the Naval Postgraduate School. Christopher W. Campbell, a former faculty colleague, frequently helped me develop more logical approaches. Russell Ashford, Paul McDowell, and Samson Habte provided insight on strategic context. Classmates from undergraduate days, Prof. Tony Arnold and Guillermo Yanguéz Bergantino, contributed to different aspects of my dissertation. A high school classmate, Richard Myers, let me abuse his printer until I caught up with 21st century electronic documents.

Other sources of insight, guidance, and support emerged through research. I am profoundly grateful to Tomasz Miedziński and Piotr Dudek for referring me to useful documents and insight found only in Poland. Separately, Ikuo Yoshida, Takashi Kodaira, and Kenjiro Hattori – research fellows at the Center for Strategic & International Studies (CSIS) – helped me better understand many aspects of offsets in international contexts.

And finally, although this list might seem exhaustive, thanks also to the many others who provided support, guidance, feedback, and participated in interviews, but who specifically wished to remain anonymous.

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List of Abbreviations

Abbreviation	Definition
9/11	September 11, 2001 terrorist attacks on the Pentagon and New York City
A&S	Acquisition and Sustainment, U.S. DoD; OUSD(A&S) or USD(A&S)
ACDA	Arms Control and Disarmament Agency, U.S. DoD
AH-64	Apache attack helicopter, U.S. model; Boeing Company
AIA	Aerospace Industries Association, U.S.
AIM-120	AMRAAM, beyond-visual-range missile, U.S. model; Raytheon
AmCham	American Chamber of Commerce
AMRAAM	Advanced Medium Range Air-to-Air Missile; AIM-120 beyond-visual-range missile, U.S. model; Raytheon
AT&L	Acquisition, Technology, and Logistics, U.S. DoD; also known as OUSD(AT&L) or USD(AT&L); its primary functions were reorganized and became OUSD(A&S)
AWACS	E-3 Sentry Airborne Warning and Control System aircraft, U.S. model; Boeing Company
BAE	British Aerospace until 1999; BAE Systems from 1999
BEA	Bureau of Export Administration, U.S. Department of Commerce; became BIS
BIS	Bureau of Industry and Security, U.S. Department of Commerce; was BEA
BRICS	Brazil, Russia, India, China, and South Africa intergovernmental organization
[C]	Claim; theoretical claim
C-130	Hercules transport aircraft, U.S. model; Lockheed Martin
C-17	Globemaster transport aircraft, U.S. model; Boeing Company
CAATSA	Countering America's Adversaries Through Sanctions Act, U.S.
CAT	Conventional Arms Transfer Policy, U.S.
CEO	Chief Executive Officer
CFR	Code of Federal Regulations, U.S.
CH-47	Chinook transport helicopter, U.S. model; Boeing Company
CIA	U.S. Central Intelligence Agency
COMECON	Council for Mutual Economic Assistance, a Soviet-led Cold War-era intergovernmental organization

CSF	Compagnie Générale de Télégraphie Sans Fil; a French company; merged with Thomson to form Thomson-CSF
CSIS	Center for Strategic & International Studies, a U.S. think tank
<i>CTO</i>	<i>Countertrade & Offset</i> ; a U.K.-based subscription publication
(D)	Democratic Party, U.S.
DAP	Defence Acquisition Procedure, India MoD
DCS	Direct Commercial Sales
DFAR	Defense Federal Acquisition Regulation, U.S. DoD
DFARS	Defense Federal Acquisition Regulation Supplement, U.S. DoD
DoD	U.S. Department of Defense
DOFA	Defence Offset Facilitation Agency, India MoD; became DOMW
DOG	Defence Offset Guidelines, India MoD
DOMW	Defence Offset Management Wing, India MoD; was previously DOFA
DPA	Defense Production Act of 1950, U.S.
DPP	Defence Procurement Procedure, India MoD
DSAA	Defense Security Assistance Agency, U.S. DoD; became DSCA
DSCA	Defense Security Cooperation Agency, U.S. DoD; was previously DSAA
DTTI	Defense Technology and Trade Initiative, U.S. DoD
ECCO	European Club for Countertrade and Offsets
EU	European Union
F-5	F-5E Tiger II fighter aircraft, U.S. model; Northrop
F-15	Eagle fighter aircraft, U.S. model; was a McDonnell Douglas aircraft until merger with the Boeing Company
F-16	Fighting Falcon fighter aircraft, U.S. model; was a General Dynamics aircraft until the business line was acquired by Lockheed Martin
F/A-18	Hornet fighter aircraft, U.S. model; was a Mc Donnell Douglas aircraft until merger with the Boeing Company
F-35	Lightning II fighter aircraft, U.S. model; Lockheed Martin
FCPA	Foreign Corrupt Practices Act, U.S.
FDI	Foreign Direct Investment
FEMA	U.S. Federal Emergency Management Agency
FMF	Foreign Military Financing credits – (1) a loan to a foreign government importer that is <i>repayable</i> to the U.S. Government, or (2) <i>nonrepayable</i> grant aid from the U.S. Government to a foreign government importer

FMS	Foreign Military Sales
FOIA	Freedom of Information Act, U.S.
FY	Fiscal Year
GAO	U.S. General Accounting Office until 2004; U.S. Government Accountability Office from 2004
GCC	Geographic Combatant Command, U.S. DoD
GCC	Gulf Cooperation Council
GICA	Global International Cooperation Association; was previously GOCA
GOCA	Global Offset and Countertrade Association; became GICA
HASC	House Armed Services Committee, U.S.
HTCG	U.S.-India High Technology Cooperation Group
IaWG	Interagency Working Group for Offsets, U.S.
INDOPACOM	Headquarters U.S. Indo-Pacific Command, U.S. DoD; was PACOM until 2018
IOP	Indian Offset Partner
IPO	Initial Public Offering
ITAR	International Trade in Arms Regulations, U.S.
JAS-39	Gripen fighter aircraft, Sweden model; Saab
KPMG	The KPMG accounting and consulting firm
LM	Lockheed Martin Corporation
LOA	Letter of Offer and Acceptance, U.S. DoD
Lt Gen	Lieutenant General (3-stars), U.S. Air Force
M777	155mm howitzer towed artillery, UK and U.S. model; BAE Systems
MASM	Military Assistance and Sales Manual, U.S. DoD
MIC	Military-Industrial Complex
MiG-21	NATO-designated Fishbed fighter aircraft, Soviet Union then Russia model; Mikoyan-Gurevich
MiG-29	NATO-designated Fulcrum fighter aircraft, Soviet Union then Russia model; Mikoyan
MiG-35	NATO-designated Fulcrum-F fighter aircraft, Russia model; Mikoyan
MMRCA	Medium Multi-Role Combat Aircraft; a procurement competition in India that selected the Rafale fighter aircraft from Dassault in France
MoD	Ministry of Defence, India
MOU	Memorandum of Understanding

MP	Member of Parliament
MSME	Micro-, Small-, and Medium-Enterprise
NATO	North Atlantic Treaty Organization
n.d.	No Date; in citations for sources that do not have an identifiable publication or origination date, such as many web pages
NDAAs	National Defense Authorization Act, U.S.
NEC	White House National Economic Council, U.S.
NSC	U.S. National Security Council
NSM-18	“National Security Memorandum/NSM-18: Memorandum on United States Conventional Arms Transfer Policy” (Biden Jr. 2023)
NSPM-10	“National Security Presidential Memorandum Regarding U.S. Conventional Arms Transfer Policy” (Trump 2018)
OMB	U.S. Office of Management and Budget
OPEC	Organization of the Petroleum Exporting Countries
OUSD	Office of the Under Secretary of Defense, U.S. DoD
P-8	Poseidon maritime patrol aircraft, U.S. model; Boeing Company
PACOM	Headquarters U.S. Pacific Command; became INDOPACOM GCC in 2018
PDD-34	“Presidential Decision Directive/NSC-34: U.S. Policy on Conventional Arms Transfer” (Clinton 1995)
PM/RSAT	Office of Regional Security and Arms Transfers, U.S. Department of State
PPD-27	“Presidential Policy Directive/PPD-27: United States Conventional Arms Transfer Policy” (Obama 2014)
PwC	The PwC consulting firm
QME	Qualitative Military Edge, U.S.
(R)	Republican Party, U.S.
R&D	Research and Development
RAK	Ras Al Khaimah, UAE Emirate
RDP	Reciprocal Defense Procurement
ROK	Republic of Korea; South Korea
RSI	Rationalization, Standardization, and Interoperability
SAMM	Security Assistance Management Manual, U.S. DoD
SAO	Security Assistance Office, U.S. DoD
SCO	Security Cooperation Office, U.S. DoD

SIPRI	Stockholm International Peace Research Institute, Sweden think tank
SLD	Sojusz Lewicy Demokratycznej (Democratic Left Alliance) Party, Poland
SME, S.M.E.	Small- and Medium-Enterprise
STEP	Science, Technology and Economic Policy, U.S.
ToT	Transfer of Technology
TPF	U.S.-India Trade Policy Forum
UAE, U.A.E.	United Arab Emirates
UOG	UAE Offsets Group
UK	United Kingdom
US, U.S.	United States
USA	United States of America
USD	U.S. Dollar
USIBC	U.S.-India Business Council
USML	U.S. Munitions List
USTR	U.S. Trade Representative
vs.	Versus
V3	Visegrád Group, 1991-1993 – Poland, Hungary, and Czechoslovakia
V4	Visegrád Group, from 1993 – Poland, Hungary, Slovakia, and the Czech Republic
WTO	World Trade Organization

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Chapter 1. The President's Hands on Offsets

This study explores U.S. Government encouragement for offsets and the president's role according to the Declaration of Offset Policy (see *Annex A* for The Unabridged "Declaration of Offset Policy"). This brief section in American federal statute prohibits U.S. Government encouragement for U.S. industry offset projects, yet also recognizes that the president legally makes exceptions to the prohibition (U.S. Congress 1992, §123 4206-4208). Although perspectives for offsets vary according to countries and scholars, this study adheres to U.S. Government definitions where offsets are "industrial compensation arrangements required by foreign governments as a condition of the purchase of defense articles and services from a non-domestic source" (U.S. Department of Commerce, Bureau of Industry and Security 2024, ii).

Elsewhere in the literature, offsets are also described as side-deal sweeteners, inducements, and marketing discriminators where sellers voluntarily use them to make arms deals more attractive to buyers (Balakrishnan 2018, 25; Bitzinger 2009, 178; Hall and Markowski 1994, 174–75; Matthews 2019, 150). On the purchasing side, importers require or expect offsets, relying on a 'buyer's market' advantage that pits sellers against each other in offering the best packages linked to arms deals (Lifshitz 2010, 270; Markusen 2004, 72; Matthews 2004, 93; U.S. House of Representatives 2004a, 9; Wezeman 2010, 193).

According to U.S. Government definitions, offset practices fall into two categories – *direct* and *indirect*. *Direct* offsets are "transactions that are directly related to the article(s) or service(s) exported or to be exported pursuant to the military export sales agreement" (U.S. Department of Commerce, Bureau of Industry and Security 2023, 39). In other words, *direct* offsets contribute back into the primary contract – such as a U.S. company building an in-country fighter aircraft factory for domestic assembly and economic benefits and providing

training on aircraft production and maintenance. *Indirect* offsets are “unrelated to the article(s) or service(s) exported or to be exported pursuant to the military export sales agreement” (Ibid). In other words, *indirect* offsets are any projects not associated with the main contract – such as importing armored vehicles – with offsets covering submarine maintenance, government employee education, hospital repair, surplus frozen chicken marketing, financing of other projects, or tourism promotion (Hoyos, Tsar, and Amann 2013; Nose 2021; U.S. General Accounting Office 1985; Weiss 1985).

The U.S. Government’s position on offsets in defense exports is found in the 1992 “Declaration of Offset Policy.” It begins by asserting prohibitions:

“... no agency of the United States Government shall encourage, enter directly into, or commit United States firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments” (U.S. Congress 1992, §123 4207).

However, the Declaration also continues with a clause that states, “the President may approve an exception to the policy” (Ibid).

Although the Declaration includes both the prohibitive norm and the activist exception, current executive agency publications do not acknowledge the president’s role. For example, the Bureau of Industry and Security (BIS) in the Department of Commerce publishes annual “Offsets in Defense Trade” reports for Congress. Current reports interpret the Declaration of Offset Policy by paraphrasing only its prohibitions. Furthermore, these reports specifically exclude the statutory waiver that states, “the President may approve an exception to the policy” (U.S. Department of Commerce, Bureau of Industry and Security 2008, i; 2010, i; 2011, 1; 2012, 1; 2013b, 1; 2013a, 1; 2015, 1; 2016a, 1; 2016b, 1; 2018, 1; 2019, 1; 2020, 1; 2021, 1; 2022, 1; 2023, 3; 2024, 1).

Despite assumptions grounded in the prevailing norm since implementation of the Declaration of Offset Policy in statute by Congress in 1992, the U.S. Government encourages offsets and promotes them to foreign counterparts – although infrequently, and typically beyond public awareness. Such rarity challenges analysis, to the point that many practitioners and researchers deny it ever happens. Even so, news media occasionally describes the U.S. Government encouraging and promoting offset arrangements. In what is both a rare and visible example, U.S. agencies engaged a proposed exchange of frozen chickens from Thailand for Lockheed Martin (LM) F-16 fighter aircraft as offsets in 2005, although the transaction fell through (Berkowitz 2011; Hudson 2011; Nose 2021). Separately, in 2015, LM threatened to default on its obligation to launch military communications satellites, agreed as offsets to the Republic of Korea for procuring F-35 fighter aircraft. In this case, U.S. agencies intervened with mediation to keep deals on track (“Korean MP Says Lockheed Favored in F-35 Deal as Offsets Waived” 2017). Eventually, LM successfully met its obligation through SpaceX launches from Cape Canaveral, Florida in 2020 (Clark 2020; Shanson 2020c).

On the other hand, because the widespread norm opposes encouraging offsets, government and industry interests must align before the U.S. Government can step in to help. Industry has declined government assistance offers for offset issues due to a mismatch in expectations between business goals and government policy desires (U.S. House of Representatives 1999, 153). Expressing concern, a Lockheed Corporation letter to the Department of Commerce said:

“Direct U.S. government involvement in the process of negotiating and/or implementing offset obligations must be held to a strict minimum if U.S. companies are to remain competitive in an increasingly demanding world marketplace” (“Says Tight Restrictions Will Hurt Ability to Compete: Defense Industry Urges Commerce Not to Impose Strict Offset Regulations” 1990, 11).

Moreover, even when industry does seek support, the U.S. Government typically abstains, turning to prohibitions in the Declaration of Offset Policy. However, under rare circumstances when overcoming their differences, the U.S. Government steps in, encouraging and promoting offsets in ways that U.S. industry both seeks and accepts.

Focusing on U.S. Government encouragement for offsets, this study explores the president’s discretion in the exception to the Declaration of Offset Policy. Although the Declaration highlights chief executive authority in either adhering to the prohibitive norm or otherwise encouraging offsets by exception, it is not clear about what criteria leads to government intervention. Because the prohibition says that no U.S. agency shall “encourage” U.S. firms in offset practices without a presidential exception, it generates a question as to what constitutes or defines “encouragement.” Congress recognizes policy through federal statute, but the exception is neither standard operating procedure nor formal regulation. Instead, it is open to the president’s judgment. Furthermore, the exception highlights a discrepancy. Executive branch publications generate a misperception by repeating and paraphrasing only prohibitions. This provokes doubt about who injects such creativity into arms trade deals by encouraging offsets on behalf of the president. It also elicits questions as to why U.S. agencies foster an environment of denial about the president’s role, and also about their own roles within the president’s branch.

1.1 Offsets in Context & Literature

1.1.1 Basic Concepts

Five common concepts for offsets illustrate how offsets are used – threshold, obligation, valuation, multiplier, and banking [Table 1.1]. The threshold value of a contract frequently determines when offsets are required, and where offsets are not required on contracts with values falling below the minimum

Table 1.1. Common Concepts for Offsets

- | |
|---------------|
| 1. Threshold |
| 2. Obligation |
| 3. Valuation |
| 4. Multiplier |
| 5. Banking |

threshold. In two examples in the past, Brazil had a \$1 million threshold on the low end and India had a \$305 million threshold on the high end (Srinivas 2010, 81; Spindel 2024, 10; Behera 2020, 134).

Contracts exceeding the threshold incur offset obligations – what the importing government says the exporting company must achieve. The obligation is usually a minimum percentage of the overall contract, with a value typically ranging between 30%-100% of contract value. In some cases, the obligation can extend beyond 100% or even beyond 200%, depending on the importing country’s obligation policy (Moag 1993; Petty 1999, 3; Srinivas 2010, 81; U.S. General Accounting Office 1996, 6).

Valuation is how a country assesses the value of an exporter’s offset proposal. In a basic example, every dollar of work given by an exporter to a local company counts for one dollar of an offset project’s value, measured against the obligation. However, as importers impose obligations reaching and exceeding 100% of contract value, such simple methods for calculation do not work (Colegrove 2023, 23). This leads to multipliers.

Valuation and multipliers are mutually linked, and important for fulfilling the obligation. Importing countries use multipliers to both incentivize or discourage certain kinds of offset projects. Importing countries use multipliers to incentivize exporters by awarding higher credit values for offsets in prioritized areas such as transferring technology, forming joint ventures, promoting agriculture, directing work to economically disadvantaged areas of a country, or whatever the importer prefers (Aggarwal 2011, 42; Misra 2012, 129; Núñez Urrutia 2004, 4–5). Conversely, importers apply fractional numbers known as “negative” multipliers when discouraging offsets that are acceptable but not preferred, assessing valuation at only a quarter or half of the project’s reported cost (U.S. Department of Commerce, Bureau of Industry and

Security 2024, 41). In practice, multipliers have been documented as low as 0.1 in Norway and up to 20 in Finland (Srinivas 2010, 81).

Continuing with how offset credits work when incentivized through a multiplier, “for every dollar placed with a machine shop turning out aerospace parts, ten dollars” in offset credit value “might be awarded. So, all the rental cars, hotels, flights on the national airlines, and office space expenses could be submitted as value to local companies and awarded a dollar for dollar offset value.” However, where the importer uses a multiplier of 10 for machined parts, “placing a large order for” locally-produced “machined parts would generate ten dollars in offset value for every dollar placed under contract” (Colegrove 2023, 23).

The creative use of multipliers leads to situations where obligations, stated as percentages of the contract, might give an inflated impression, especially when exceeding the contract value. As stated in testimony to the House Armed Services Committee:

“There is nothing more misleading than offset percentages” (U.S. House of Representatives 2004b, sec. Statement of Dr. Charles W. Wessner, 68).

When a valuation is stated as 100% or 300% of the contract value, it means that multipliers are at work. There is no way companies can consistently do business by operating at a 200% loss on each contract.

When exporters use multipliers that achieve valuations exceeding actual obligations, exporting firms in some cases earn offset credits beyond what can be applied immediately. This leads to banking, where exporters can save millions of dollars’ worth of surplus offset credits for use on potential future contracts. Some importing countries allow foreign companies to sell or trade their banked offset credits to other foreign companies, creating a secondary market in offset credits (U.S. House of Representatives 2004b, sec. Statement of Katherine V. Schinasi, 68; Suman 2021, 252). Although not all importing countries accept offset banking practices,

successful exporting companies want to optimize their risk coverage in case they lose future bids in the same country (Colegrove 2023, 27). This also benefits companies winning new defense business, where obtaining surplus credits from other companies enables full or partial relief from host-country offset requirements.

1.1.2 Widespread, but Not Widely Understood

Although around 80 countries employ official legislation driving offsets as an explicit foreign policy and domestic economic tool, as many as 50 more countries require or expect offsets as an implicit norm not spelled out in national-level policy or legislation. Even so, a lack of transparency with offsets means they are poorly understood (Balakrishnan 2018, 5, 9, 120, 127; Matthews 2004, 98, 100; 2014, 6; Nackman 2011, 514; Neuman 1985, 35; Sköns 2004, 150; Brauer and Dunne 2004, 1, 2, 9–10). Because of being such a pervasive business practice, exporting large defense programs can be almost impossible without addressing the multi-faceted dimensions of offsets (Balakrishnan 2018, 25; Sköns 2004, 150; Brauer and Dunne 2004, 2). Offset projects are estimated to be anywhere between 30%-40% of the overall cost of defense procurements worldwide (Anicetti 2024, 20; Balakrishnan 2018, 5).

Most economists, policy experts, and international trade practitioners not focusing specifically on offsets do not know what they are, and even when aware “do not connect the various types of offsets together as a similar tool painted a different color” (Colegrove 2023, 6). Offsets are complex, frequently buried within arms trade deals, varying from case to case, and are typically excluded from consideration as a practical tool of U.S. foreign policy. Outside of defense industry and foreign policy experts with a narrow focus on offsets, the term is often confused with other meanings for the same word. Offset practices are shrouded in sensitivity, mystery, and secrecy for numerous reasons. They are used in negotiations associated with

national security and politics at both domestic and international levels, based within proprietary and contractual relationships, and leveraged by both importers and exporters to gain advantages in international trade. Furthermore, offsets revolve around military products and advanced technologies while carrying perceptions and misperceptions of favoritism and corruption (Balakrishnan 2018, 120–21; Fluker, Muravska, and Pyman 2016; Goodman 2023; 2024; Hasik 2004; Magahy, da Cunha, and Pyman 2010; Petersen 2011, 486; Platzgummer 2013, 17; Schaffer 1989, xv–xvii; Slijper 2013; U.S. House of Representatives 2004a, 9; Vittori 2019).

Projects can be simple or complex, a hybrid mix of *direct* and *indirect* offsets, determined before or after the primary contract is signed, accomplished together with the main program or on a separate contract, take place within, before, or beyond the timeframe for the main program, and involve combinations of products, technologies, or services.

The Department of Commerce accommodates for such a wide variety by defining eight types, with a catch-all category for “*Other*” [Table 1.2] (U.S. Department of Commerce, Bureau of Industry and Security 2024, 10, 42). It shows that offset projects are limited in practice only by the exporting company’s imagination and the importing government’s policy (Colegrove 2023, 33).

Table 1.2. Department of Commerce Offset Categories

1. Co-production
2. Credit Assistance
3. Investment
4. Licensed Production
5. Subcontracting
6. Technology Transfer
7. Training
8. Other

The World Trade Organization (WTO), the European Union (EU), and the U.S. Government consider the practice of offsets as a market distorting non-tariff trade barrier (European Union, European Commission, Directorate General Internal Markets and Services 2009; U.S. Congress 1992, §123 4207; 1999, §1242(a) 501A-500, §1244(4) 502; World Trade Organization 1994). Although all of these institutions grant exceptions for offset practices based on “national security” justification, their official negative discourse dampens open public

discussion. Despite these stated preferences, every liberal institutional and national attempt to halt international offsets has failed so far (Anicetti 2024, 24; Weida 1986, 6).

Countries and trade groups obscure their offset activities by using titles for policies and organizations that reflect “compensation” or “benefits” for “cooperation” and “participation,” while excluding the word “offsets” (Braz et al. 2019, 3; Colegrove 2023, 1; Gandolfos 2015, 13). Finland uses “Industrial Participation” and Canada calls it “Industrial and Regional Benefits Policy” (Srinivas 2010, 30–31). Australia calls it the “Defence Policy for Industry Participation” (Matthews and Fitriani 2022) and Korea uses “Industrial Cooperation” (U.S. Department of Commerce, International Trade Administration 2023). The offset authority in Perú is called the “General Directorate for Industrial and Social Compensation” and in Taiwan it is the “Industrial Cooperation Steering Committee” (Anicetti 2024, 22). Within collaborative EU weapon system programs, participating countries use the offset-like practice of *juste retour* (fair return), where firms receive work share contracts proportional to their own government’s financial investment in the program (Butler 2017, 152, 384; DeVore 2014, 421; Tucker 1991, 100; Hasik 2004). Even outside of national governments, a trade group known as the “Global *Offset and Countertrade* Association (GOCA)” re-named itself the “Global *International Cooperation* Association (GICA)” (Shanson 2020b).

Although many states and specialists employ offset concepts aligning with the U.S. Government, definitions are not universal (Anicetti 2024, 10; Srinivas 2010, 176). For example, U.S. policy frames *direct* offsets as any projects directly related to the main program, and *indirect* offsets as anything not directly related (U.S. Department of Commerce, Bureau of Industry and Security 2023, 39).

Table 1.3. Different International Terms & Definitions

Definition Sources	Offset Categories		
U.S. & Most Countries <i>Direct vs. Indirect</i>	Direct		Indirect
	related to the main program		unrelated to the main program
Türkiye <i>IP vs. Offsets</i>	Industrial Participation (IP)		Offsets
	related to the main program		unrelated to the main program
Some Countries <i>Semi-Direct (two definitions)</i>	Direct	Semi-Direct	Indirect
	related to the main program	unrelated to the main program -but- in the defense field	not in the defense field
		related to the main program -but- delivery of offsets to a third-party importer	unrelated to the main program
India, Malaysia, Oman, South Africa <i>Direct category is broad</i>	Direct		Indirect
	related to the main program	+ unrelated to the main program -but- in the defense field	not in the defense field

Some countries, however, employ different definitions for the same vocabulary, the same definitions for different vocabulary, or entirely different terms and concepts [Table 1.3]. Türkiye avoids using the terms *direct* and *indirect* by using “industrial participation” for *direct* offsets and refers to *indirect* offsets simply as “offsets” (Anicetti 2024, 21). Other countries refer to “coproduction,” which is one way to fulfill an offset requirement (U.S. Department of State, Bureau of Political-Military Affairs 2023).

In addition to *direct* and *indirect* offsets, some countries recognize *semi-direct* offsets, with different meanings depending on the importing country. In the majority of cases, *semi-direct* offsets means where projects are not related to the main program but remain within the defense field (Colegrove 2023, 28–33; Gandolfos 2015, 10; Government of Belgium, FPS Economy, S.M.E.s, Self-Employed and Energy 2011; Henriksson and Hermansson 2011, 17, 19; de Mello Lima 2022, 55; République française, ministère des Armées [French Republic, Ministry of the Armed Forces] 2009, 2; Suman 2010). However, another meaning for *semi-direct* offsets is more complex, where the offset project is delivered to a third-party importer instead of

to the importer that holds the main contract and determines the obligation (Núñez Urrutia 2004, 2; Mardones Costa 2002, 245; Welt and Wilson 1998, 49n6). Furthermore, India, Malaysia, Oman, and South Africa use a uniquely broad definition for *direct* offsets that includes what others would separate into the two categories of *direct* and *semi-direct* offsets (Braz et al. 2019, 3; Georgariou 2008, 1; Joshi 2015, 102–3; Srinivas 2010, 51, 175–76; Suman 2010; Countertrade & Offset 2024, 5). Some countries such as Singapore and Japan do not address offsets in their laws or policies, and do not have government offset authorities, yet typically require local content and offsets labeled instead as “industrial participation” (Balakrishnan 2017, 268).

Trade associations such as the European Club for Countertrade and Offsets (ECCO) and GICA – formerly known as GOCA – have tried to align definitions and terminology, but even they continue experiencing differences (Balakrishnan 2018, 20). The most common feature is simply that defense offset obligations are predominantly between exporting companies and importing governments (Balakrishnan 2018, 8; Nugent 1985, 834).

1.1.3 Offsets as a Tool

Offsets are a tool used by both buyers and sellers in a very competitive global market primarily involving defense products, technologies, and services (Flamm 1999, 131). Importing governments use offsets as leverage to extract from exporters, and exporters use offsets for international marketing (Marvel 1995, 5–6). Furthermore, governments are not only the clients that buy the arms, they are also key actors on the exporter side (S. S. Cohen and Zysman 1986, 47; Heidenkamp, Louth, and Taylor 2013; Zysman and Cohen 1983, 1127). Each exporting company sells arms with the blessing of its home government, and whether exporting governments actively promote offsets or not, they rely on their exporting firms using offsets a

foreign policy tool. Exporters and their governments would rather not deal with the additional complexities of offsets, but in many cases they are required by importers, and serve as a discriminator for exporters to gain the upper hand in the arms trade.

From the exporting government perspective, offsets help extend national security by improving state-to-state relations with importing governments, building industrial capabilities, standardizing military equipment, modernizing military forces across allies, and bringing down domestic defense costs by producing military equipment at greater economies of scale (Balakrishnan 2018, 10; Chinworth 2004, 228; Pamp, Dendorfer, and Thurner 2018; Petty 1999, 22–27). Some authors insist that the “most significant real benefit” of arms trade collaboration is interoperability (DeVore 2014, 440). Even so, the U.S. Government frames itself as negatively disinterested, portraying offsets as “economically inefficient and market distorting” (U.S. Congress 1992, §123 4206). However, U.S. policy also employs a pragmatic approach that incorporates a role for industry, because prohibiting U.S. companies from the reality of employing offsets would undermine the arms trade as a U.S. foreign policy tool (Hoyos, Tsar, and Amann 2013; U.S. Department of Commerce, Bureau of Industry and Security 2024, 3).

From the exporter perspective, offsets provide commercial leverage (Balakrishnan 2018, 53; Dumas 2004, 21; Matthews 2004, 100; Spreen 2007, 115). Where multiple suppliers typically offer products with similar capabilities to the importer, success for an exporter can hinge on offsets as a marketing discriminator over other offers (Weida 1986, 24). In addition to targeting governments, offsets also serve as enticements for attracting indigenous companies on the importer side. When exporting companies recruit in-country industry and labor for future offset projects, those in-country representatives will lobby domestically to their own importing governments on behalf of foreign exporters (Spreen 2007, 110–11). Furthermore, partnering with

international importers can lead to those foreign companies and their governments lobbying back to the U.S. Government for orders (Sköns 2010, 287).

From the perspective of importing governments, there are several national security, political, and economic reasons for offsets being a condition of purchase. From a strategic perspective, national leaders view arms trade collaboration as a means of reinforcing ties with key allies and preserving a degree of indigenous defense-industrial autonomy (DeVore and Weiss 2014, 501, 525n15; Kapstein 1991). In all states, national defense procurement is “undertaken by a single customer (the government),” a monopsony buyer reflecting “perceived national security interests” with a strong “economic component (protecting or stimulating the defense industrial base)” (Flamm 1999, 128). States are the consumers of armaments and also exercise the right to regulate how their domestic firms participate in collaborative arms trade projects (DeVore and Weiss 2014, 508; Heidenkamp, Louth, and Taylor 2013). Therefore, in their leading role with national defense, importing governments seek foreign exporter companies that modernize indigenous military forces and standardize military equipment.

Furthermore, offsets give politicians and government officials a means for providing “subsidies to indigenous military industrial firms” and other domestic producers “for reasons that might not be politically popular” while selling the shared public good of costly weapons purchases to domestic government opponents and constituents (Dumas 2004, 21). Successful arms trade collaboration can provide jobs and sustain domestic defense-industrial capabilities (DeVore and Weiss 2014, 501, 525n14; Hartley and Martin 1993; Lorell and Lowell 1995). Keynesian economic intervention by the state with “tools such as offsets is still seen as necessary in many parts of the world,” to obtain what a purchasing government cannot produce or purchase on its own, unless bundling the deal with a larger defense purchase (Balakrishnan 2018, 37).

Economically and politically, special interest groups “want a larger share of government rents,” the populace “desires general economic opportunity,” and officials want to be appointed, elected, re-elected, and promoted (Colegrove 2023, 131).

Although offsets can be characterized as side deal sweeteners, they are not a ‘free lunch’ for the importing government. In fact, adding offsets to an arms trade typically increases basic program costs and pricing beyond simply adding the standalone costs for offsets. In other words, it would be cheaper in many cases to buy weapons in one finished package and to purchase offset projects separately. Combining the two frequently increases the cost beyond simply adding together prices for both packages (Anicetti 2024, 14; Balakrishnan 2018, 12; Hartley 2004, 122, 131; Markowski and Hall 1996, 67–68; Petty 1999, 11; Struys 1996, 86; Brauer and Dunne 2004, 2).

Beyond not being a gift, offsets are also not inherently a form of bribery nor are they universally positive:

“Offsets are neither good nor bad, but there are good and bad offsets” (U.S. House of Representatives 2004b, sec. Statement of Dr. Charles W. Wessner, 15).

Just like other government policies, offsets can be designed for national interests and the greater good, or become captured and twisted by politicians and special interests (Colegrove 2023, 3). Offsets can increase corruption risks in some countries by influencing a contract award while covering bribes. Some governments do in fact claim the most important factor in procurement is the offset package. However, instead of being a globally corrupt channel for extracting benefits, offsets can appear as one of the many stages in international procurement where bribery might occur, similar to corruption risks in other business activities (Anicetti 2024, 11–12). Furthermore, if offsets are universally corrupt, then policies requiring industrial participation and indigenous production as part of an arms trade deal are also inherently immoral and unethical.

Even if not called a policy on offsets, this would frame Buy American Act local production requirements as fundamentally dishonest, regardless of how they are processed or implemented. Saying this is not intended to portray the Buy American Act as a form of corruption. Instead, highlighting where characteristics overlap for offsets and ‘Buy American’ demonstrates that not all forms of ‘buy local’ requirements, industrial participation obligations, or offsets can be labeled as universally moral or immoral.

Furthermore, U.S. companies are subject to the Foreign Corrupt Practices Act (FCPA), which prohibits U.S. entities and citizens from bribing foreign officials to promote business (U.S. Department of Justice, Criminal Division 2015). Since offsets appear in policy and regular business practice, and facilitate the arms trade as a foreign policy tool, the FCPA does not prohibit offsets. Although not a guarantee for preventing corruption, there is a measure of oversight with U.S. firms required to report annually to the Department of Commerce on their offset agreements of \$5 million or more, and also on each individual transaction claiming over \$250,000 of offset credits from a foreign entity (U.S. Congress 1992, §123 4208; U.S. Department of Commerce, Bureau of Export Administration 1996b, 2).

The FCPA looks at bribery, inflated commissions, payments to third parties, undocumented charitable contributions, expensive gifts, travel, and entertainment to include meals and hotel stays (U.S. Department of Justice, Criminal Division 2015, 14–23). For example, bribes made to secure government action that prevent competitors from even being considered for a defense sale, to obtain favorable tax treatment, or to avoid a permit or licensing requirement – these meet the FCPA definition for corruption (Ibid). For offsets to adhere to FCPA rules, they must serve the purpose of an in-country contractual obligation for offsets,

where offsets must also be legal under the written regulations and laws of the importing country (Ibid, 23–24).

Offset practices are typically regulated by institutionalized procurement policies in importing countries (Anicetti 2024, 12; Balakrishnan 2018, 122; Matthews 2014, 32–33). They are not particularly better nor worse than other economic policy tools such as free trade agreements, quotas, tariffs, special economic zones, or domestic set-asides for regional and demographic reasons (Colegrove 2023, 1–2, 44; U.S. House of Representatives 2004a, 37). If, however, U.S. defense industry practices with offsets cross the line into bribery, the corrupt acts can be prosecuted under the FCPA.

The practice is a trade-off for companies, bureaucrats, elected leaders, and for U.S. security policy, with benefits balanced against shortcomings. Defense industry exporters often view offsets as a burden they would rather do without (Dehoff, Dowdy, and O 2014). However, firms and states must pursue a “satisficing” strategy by balancing risks and rewards to achieve the greater good of both national security and private revenues (Gilpin 1981, 20; Tucker 1991, 87, 87n18). Landing offset deals for U.S. companies can mean economic growth and survival (Weida 1986, 16). Offsets can enrich constituents, helping domestic political leaders get elected or re-elected (Colegrove 2023, 22, 131). They can promote bureaucratic organizational interests for the Departments of State, Commerce, and Defense where offsets and arms trades create interoperable military forces, produce economies of scale that bring down the price of weaponry for U.S. Forces, strengthen bilateral ties, promote alliance building, and improve U.S. commercial opportunities.

However, the advantages also come with disadvantages, and where there are winners there can also be losers. Many offset projects transfer advanced technology and teach improved

methods for weapons production and employment, creating potential future competitors in business and on the battlefield (Petty 1999, 21; U.S. Department of Commerce, Bureau of Industry and Security 2024, 14). Transfer of Technology (ToT) to Brazil through offsets helped improve targeting capabilities in Iraqi Scud missiles (Keller 1997, sec. Carol Evans, 14). Brazil's Embraer and Italy's Alenia Aermacchi benefited from offsets, and gained manufacturing and technical expertise to emerge as competitors against global leaders in the aircraft market (Coleman et al. 2014, 4). However, overly restrictive policies against ToT can prevent arms transfers where the U.S. Government wants to establish state-to-state connections, by handing relationships over to other defense exporting states that are willing to release technology (Anonymous Interview A5901 2023; Anonymous Interview B7802 2023; Anonymous Interview G3807 2023; Anonymous Interview J7510 2023; Anonymous Interview L3812 2023; Anonymous Interview N9214 2023; Anonymous Interview Y7916 2023).

Although some U.S. businesses and constituencies will win jobs and preserve factories, not all will as a result of one major company winning an arms trade deal based on offsets (Colegrove 2023, 30–31). When international offset projects cause U.S. job losses, they can shift local power bases in defense industry communities and influence changes in domestic politics. Like other policies, an offset policy is just one more tool in a government's toolbox. Similar to monetary policies, offset policies “may work well or not at all” (Ibid, 57). Offsets are not inherently corrupt in policy and practice, and not universally good or bad. Instead, like other business practices, they can go in good or bad directions depending on practices and outcomes.

1.1.4 U.S. Offsets in Global Context

In U.S. Government policy, defense industry offsets emerged during the Cold War in the 1950s as a form of American state subsidy for allied military development and production,

changing in definition and growing in volume and variety during the 1970s and 1980s, and blossoming at the end of the Cold War. During the 1950s and 1960s, U.S. administrations employed subsidies known as “offsets” to promote U.S. national security through increasing weapons systems production and fostering post-World War II anti-Soviet Bloc reconstruction efforts among U.S. allies (Balakrishnan 2018, 37; Schaffer 1989, 53; U.S. House of Representatives 1999, 164; Weida 1986, 26–28). Arms industries in the West and Japan grew and developed with U.S. Government-endorsed support (U.S. General Accounting Office 1984, app. I, 2). Success in the industry led to business competition among exporters, and a greater desire for expensive technologies required for manufacturing advanced weapons.

From the 1970s, the concept for defense industry offsets shifted away from U.S. government subsidies to instead mean additional projects attached primarily to defense industry sales. In 1972, the U.S. Government accomplished its first consciously structured offset agreement to import Australian products up to 25% of the value of defense purchases (Schaffer 1989, 49–50). In 1973, offsets launched prominently in Western Europe when the Organization of the Petroleum Exporting Countries (OPEC) raised oil prices to protest support of Israel in the Yom Kippur War. From the U.S. perspective, formal offset agreements during the rest of the Cold War were accomplished for security interests, to help allies with their defense industries. At the same time, agreements proved to U.S. and European governments and electorates that the U.S. worked hard to support Europe by buying its products (Ibid, 50–51, 53).

At the end of the Cold War, dissolution of the Soviet Bloc during 1989-1991 produced rapid international structural changes and accelerated employment of offsets, with developing countries in Eastern Europe and elsewhere emulating Western practices by using offsets as a tool to improve economic and defense capabilities (Balakrishnan 2018, 37). As a result of the

post-Cold War peace dividend's worldwide drop in demand for advanced military equipment, industrial over-supply in the arms trade produced a very competitive commercial environment, tipping the advantage to importers in a 'buyer's market' (DiGiovanna and Markusen 2003, 254, 263; Dunne et al. 2007, 97–98; Hagelin 2004, 140; Lifshitz 2010, 270; Markusen 2004, 72; Matthews 2004, 93; Schoeni 2015, 382–84, 392; Wezeman 2010, 193). U.S. industry offered larger and more extensive offset projects, competing not only with foreign manufacturers, but also increasingly with each other. In 1991, a report by the U.S. Aerospace Industries Association (AIA) noted:

“The demands of the world marketplace mean there is often no alternative for U.S. firms other than participation in various types of international collaborative relationships. It is safe to say that only by forming international business relationships can U.S. manufacturers continue to compete” (Stokes 1989, 462; Tucker 1991, 84).

As with the end of the Cold War, each succeeding stage in global events influenced U.S. policy through changes in offset practices and foreign policy.

1.1.5 Offsets in the Literature

The volume and variety of worldwide publications on offsets largely parallels its increasing international practice, except with a notable temporary decrease in publication during the decade following the founding of the WTO. Literature on offsets emerged in the early 1970s and grew in the 1980s as an increasing number of advanced industrial countries expected more benefits from sellers. When the Cold War closed out around 1990, offset literature and practice blossomed, with global over-supply of advanced weapons compelling sellers to work harder on marketing to increasingly selective buyers. However, literature decreased with the 1995 founding of the WTO, when offsets were increasingly portrayed as distorting free trade. Although offsets were still widely practiced, literature decreased due to growing international opposition to state-sponsored market mechanisms. From around 2004, worldwide literature re-emerged as practicing

governments, interest groups, and the international business community returned to more openly acknowledging offsets in defense procurement (Balakrishnan 2018, 20–21).

Currently, only one periodical, the UK-based *Countertrade & Offset (CTO)* magazine, focuses exclusively on offsets, billing itself as “The only publication on countertrade and offset for defence professionals” (Cave 2025). Separately, *Janes*, also UK-based, covers a wide variety of global and regional defense industry topics, and occasionally addresses offsets with articles and tailored analytical products (Janes 2014; MacDonald and Grevatt 2021). Large consultancy companies such as Avascent (acquired by Oliver Wyman in 2022), KPMG, Lucintel, and PwC post their regional and country-specific market assessments online, sometimes with offsets as the primary topic, or by addressing offsets within regional market assessments (Jovovic and Barney 2016; Kanwar 2018; Mazumdar et al. 2016; Mason, Kenney, and Seear 2019, 4; Mehndiratta and Khanna 2021; Patil, Verma, and Narasimhamurthy 2020, 4–6). Among the world’s large defense firms, including in China and Europe, some touch on offsets briefly in their publicly available annual corporate reports. Among these companies, Lockheed Martin mentions offsets much more than others, although still not in much detail (Taiclet 2021; 2022; 2023; 2024; 2025). Beyond corporate annual reports, Lockheed Martin even posts its own offset credit training and reporting requirements online for suppliers (Lockheed Martin Corporation 2023, 2; 2024).

Literature rarely addresses the U.S. Government’s role with offsets, which seems counterintuitive. The U.S. defense industry is the largest in the world, meaning U.S. offset projects abroad are common (Ianakiev 2006, 303). Journal articles and thought pieces “produced by academic specialists in international business, marketing, and economics” on global offsets number “in the thousands of items” (Brauer and Dunne 2004, 2). Even so, most of the literature focuses heavily on the importer, and frequently downplays the exporter (Kim 2010, 2).

Scholarly book-length publications examining defense industry offsets specific to U.S. policy and practice are arguably limited to two 1976 Rand think tank studies on NATO procurement, two books from the 1980s addressing offsets more broadly, and two volumes of conference papers from the 1990s. The two Rand studies from 1976 each have a distinctly different approach, with the first recognizing challenges with offsets, and the second making policy recommendations. The first study covers broad concepts on offsets through a case study that is specific to AWACS aircraft – *“Offsets” for NATO Procurement of the Airborne Warning and Control System* (Wolf, Jr. et al. 1976). It highlights unexpected complexities with offsets in multilateral alliances and avoids making policy recommendations. The second study, *“Offsets,” Standardization, and Trade Liberalization in NATO*, recommends relaxation of both “Buy America” local production restrictions and European offset requirements (Wolf, Jr. 1976). By presenting U.S. policy alongside offsets, the study implicitly portrays “Buy America” as logically equivalent to offsets, whether intended or not. This is in contrast to U.S. policy that states the Buy American Act is not an import-related tool for U.S.-based offsets.

In 1986, Dr. William Weida published *Paying for Weapons: Politics and Economics of Countertrade and Offsets* as the “first comprehensive text on offsets,” assembling corporate knowledge learned when he worked at the Pentagon (Weida 1986, 2). He explains:

“Offsets are an exotic subset of an even more exotic part of international trade: the international arms market. They are poorly understood by most people, including many inside and outside of the U.S. government who comment regularly on their use and effects. As a result, offsets make an ideal political issue. They sound bad. They are associated with the sale of arms (which also sounds bad). They are not well-understood and are thus subject to being held responsible for all types of problems” (Ibid).

Weida does not attack or promote offsets. Instead, he observes U.S. policy “has generally been one of non-involvement since 1978” and “[a]ll attempts to develop a general U.S. government policy on offsets have failed” (Ibid, 6). Because of a lack of government support, he recommends

defense exporters operate proactively, with forethought about what they are getting into with offsets, to better serve themselves and the needs of the purchasing country (Ibid, 8).

In 1989, Matt Schaffer addressed offsets as a subset of broader trade concepts, in *Winning the Countertrade War: New Export Strategies for America*. In response to growing trade deficits with allies, his book advocates for a comprehensive national trade policy. He asserts that U.S. export policy and countertrade, including offsets, cannot be looked at as individual issues separated from each other, and therefore must be addressed together (Schaffer 1989, xvii).

In the late 1990s, the National Research Council held workshops on Science, Technology and Economic Policy (STEP), producing two edited volumes based on the White House National Economic Council (NEC) requesting workshops on the impact of offsets. The first workshop produced a collection of papers and presentations with differing participant views in *Policy Issues in Aerospace Offsets* (Wessner and Wolff 1997). The conference leader observed that consensus would be required from participants to achieve effective U.S. policy outcomes. Since that consensus was missing, it generated the next workshop in 1998. The second workshop produced *Trends and Challenges in Aerospace Offsets* (Wessner 1999), where discussion covered many more topics directly and tangentially related to offsets than the previous conference. Stakeholders from government, academia, industry, and organized labor presented their diverse perspectives, but again did not reach consensus. Even so, the editor claimed that participant willingness “to expand the framework of the discussion” beyond the 1997 workshop marked “a significant advance in the national dialogue” (Ibid, xiii).

Among other books and publications reviewing country cases for offsets worldwide, most cover political-economy perspectives, and some devote chapters or sections specifically to U.S.

policies and practices (Alexandrides and Bowers 1987; Brauer and Dunne 2004, chap. 5; Hammond 1987; Korth 1987; Laurance 1992, 176–77; S. Martin 1996, chaps. 12, 14; Srinivas 2010, chap. 6; Verzariu 1985). Furthermore, a limited number of specific book sections or chapters explicitly but briefly touch on the U.S. “hands off” policy or say that it is not “hands on” (Balakrishnan 2018, 13; Butler 2017, 417–20, 497; Markusen 2004, 87; Seyoum 2021, 286; Srinivas 2010, 120; Suman 2021, 283; Udis and Maskus 1996, 372; Weida 1986, 38, 109).

Other sources from news media, marketing materials, academic publications, theses, dissertations, journal articles, conference papers, and U.S. Government publications label the U.S. position on offsets specifically as the “hands off” policy:

(Aquino 1990, 3–12; Berry, Jr. 1988, 130; Bingaman 1997, 18; Butler, Bowsher, and Yukins 2022, 2; Crabb 1989, 63, 66, 71; “Export Opportunities for Virginia’s Defense Industry” 2013, 13; U.S. Department of Defense, Defense Procurement and Acquisition Policy 2010, 54; Gandolfos 2015, 17; Gessert, Glass, and Pettijohn 1987, 3–5; Goodman 2024, 7, 10, 33, 34, 39; Healey 1999, 223; Herrnstadt 2008b, 7; 2008a, 13; Ianakiev 2006, 312–13; Irwin, Jeydel, and Sylvain 2015, 4; Kane 2009, G-53; Kenlon 2020, 18; Kremer and Sain 1992, 3, 77; Lambrecht 2012, 29; Lardner 1990b, 1–2; 1990a, 8; Metzger 2014, 4; Milligan 2003, 2; Moore et al. 2007, 62; Petersen 2011, 486, 490–91; Petty 1999, 17; Romanoski, Jr. 2004, 7; Schoeni 2015, 387n116; 2016, 151n291; B. Singh 2014, 19; Suman 2011; Tenvik 2015, 11; U.S. House of Representatives 2004b, 12, 13, 30; U.S. General Accounting Office 1998, 3; 2000, 1; 2004, 2; Vittori 2019, 52; Wang and Shin 1997, 23, 25, 26; Welch 1994, 1, 30, 41; Zorluoglu, Cakir, and Tezcan 2008, 34; 장원준 [Jang, Won-Joon] and 김미정 [Kim, Mi-Jung] 2016, 51).

However, none of the literature explores the exception to policy, where the U.S. Government actively encourages offsets. Instead, scholars and practitioners assume that there is no exception, and that the U.S. Government strictly and scrupulously avoids any encouragement, advocacy, or intervention.

“Historically, the U.S. government has maintained a “hands off” policy toward defense offsets, viewing them as part of the transaction between the contracting parties. Since offsets are one of the many factors contributing to the globalization of the U.S. industrial base, studying offset transactions could provide insights into what is occurring in the industrial base and whether these transactions need to be considered on a policy level by the U.S. government” (U.S. General Accounting Office 2004, Statement of Katherine V. Schinasi, 2).

1.2 Evolution of U.S. Offset Policy

The following milestones shaped prominent characteristics for contemporary U.S. Government offset policy and practice. This, however, is not a fully comprehensive discussion of legislation, events, or trends. There are additional minor, complex, or more detailed facts and observations that exceed the scope of this study or simply add to milestones already covered here. There could also be more points that either add or detract from this explanation, yet arguably these milestones taken together illustrate characteristics and conditions for the ‘hands on’ exception.

1.2.1 1933 – Buy American: Not Defined as an Offset Tool

The Buy American Act of 1933 arguably institutionalized a form of U.S. Government offset policy long before offset terminology and concepts emerged in the 1960s and 1970s, even though U.S. Government policy denies that ‘Buy American’ is an offset tool for imports. During the Great Depression, the Buy American Act was enacted to create and preserve American jobs (Butler 2017, 340). It restricts U.S. Government purchases to 100% U.S.-based factories or production sources where end-use items contain a minimum percentage of U.S. parts and content. When foreign industries want to sell to the DoD, ‘Buy American’ frequently compels them to set up companies and production lines in the U.S. (Carpenter and Murrill 2022; Luckey 2012; Manuel 2016; Manuel et al. 2016).

Practitioners and national governments insist that ‘Buy American’ is a defense offset “import” policy (Balakrishnan 2018, 13, 19n21; Braz et al. 2019, 14; Georgariou 2008, 3; Hoyos, Tsar, and Amann 2013; Markusen 2004, 88; Matthews 2019, 154; Petty 1999, 17–18; République française, ministère des Armées [French Republic, Ministry of the Armed Forces] 2009, 12; S. Martin 1996, 13). Multiple U.S. Government sources also compare ‘Buy American’

to offsets, granting them logical equivalency, without explicitly saying that ‘Buy American’ is a form of offsets.

Discussion on leveraging relaxation in ‘Buy American’ restrictions to reduce offset obligations in foreign countries has taken place in the House Armed Services Committee (HASC) (Daggett and Belasco 2004, 5–6, 11, 33, 60). In testimony to Congress, experts in economics have stated:

“... when we want to buy something, a military system of some sort, what do we do? We say, you make the very best one and you have been selected and this is where the factory will be here in the United States, send it over, and we will pay you a license fee” (U.S. House of Representatives 2004b, sec. Statement of Dr. Charles W. Wessner, 68).

Further evidence appears in eight of the Department of Commerce “Offsets in Defense Trade” reports to Congress that draw parallels between ‘Buy American’ restrictions and foreign offset obligations (U.S. Department of Commerce, Bureau of Industry and Security 2008, 20; 2010, 22; 2011, 15; 2012, 15; 2013b, 15; 2013a, 16; 2015, 18; 2016a, 19). These examples from the Department of Commerce and Congress show the U.S. Government implicitly acknowledges ‘Buy American’ as an offset policy.

Regardless, the contest is beyond the scope of this study. U.S. Government officials deny assertions that ‘Buy American’ is an import offset policy (U.S. House of Representatives 2004a, sec. Statement of Rep. Duncan Hunter, R-California, 10, 53). They do so based on the official definition, where offsets are “required by *foreign governments*” (U.S. Department of Commerce, Bureau of Industry and Security 2024, ii). This brief highlight is intended only to point out the 1933 basis for a U.S. offset “import” policy and a lack of consensus between U.S. officials and other perspectives. Analysis in this paper will adhere to concepts in the Declaration of Offset Policy, where offsets by definition are associated only with U.S. “defense *export* sales.”

1.2.2 1975 – Switzerland’s F-5 Aircraft: Messy Offsets

The basis of formal U.S. offset policy began in 1975, when the Department of Defense (DoD) formally co-signed as guarantor on a deal for Switzerland purchasing F-5 fighter aircraft from Northrop and General Electric. At that time, the DoD did not yet have a formal policy against becoming directly involved in offsets, and a subcontractor under one of the large U.S. companies went bankrupt, putting the U.S. government into contractual default with the Government of Switzerland on the agreement (Marvel 1995, 4–5). U.S. industry eventually met offset obligations behind schedule. However, due to the official agreement with Switzerland, the DoD had to intervene early in the process by purchasing Swiss goods and encouraging other elements of the U.S. Government to do the same (Udis and Maskus 1996, 359). Results entangled the DoD in messy political and financial situations in commercial and foreign policy mission areas overlapping with other U.S. agencies, threatened to inject complications into future arms trade relationships, and put the DoD in awkward positions with U.S. businesses and political actors that opposed offsets in general or opposed this specific deal because they were in competition with Northrop and General Electric.

1.2.3 1978 – The Duncan Memorandum: Establishing DoD Policy

Although contradictory U.S. Government policy on offsets appeared during 1973-1977, more decisive policy emerged in 1978, during the Carter Administration. In 1973, the DoD’s *Military Assistance and Sales Manual* (MASM) stated it “prefers” sales without offsets (U.S. Department of Defense, Defense Security Assistance Agency 1973, F-7). In September 1976, Armed Services Procurement Regulations took a step away from clarity regarding the DoD preference against offsets:

“... the U.S. contractor involved in the FMS [Foreign Military Sale] and the foreign customer will make suitable arrangements to fulfill an offset agreement. Only if it is

determined that the offset agreement cannot be fulfilled in this fashion will the Department of Defense seek to fulfill the offset commitment” (Milligan 2003, 47).

Two months later, in November 1976, Deputy Secretary of Defense Wayne Clements issued a memo discouraging offsets (Milligan 2003, 42). Even so, in 1977, the DoD had an offset department “in the Pentagon Office of International Acquisitions” under “the Deputy Secretary of Defense for Procurement” to review offset proposals under negotiation by U.S. firms (Schaffer 1989, 51). Until 1978, the DoD conducted negotiations on offsets between U.S. defense firms and foreign governments when offsets were associated with U.S. Government-managed Foreign Military Sales (FMS) arms transfers, but not when arms transfers were between firms and foreign governments as Direct Commercial Sales (DCS) arrangements (Neuman 1985, 38). Preferences, vague regulations, and establishment of an offset review office failed to establish desired precedence.

In May 1978, “as a direct consequence of the Swiss F-5 program,” Deputy Secretary of Defense Charles Duncan issued the “Duncan Memorandum,” introducing an enduring foundation in U.S. offset policy (Keel 1985, 7–8; Udis and Maskus 1996, 359–60). Key text from the memo expresses overall intent:

[The] “DoD shall not normally enter into such agreements. An exception may be made only when there is no feasible alternative to ensure the successful completion of transactions considered to be of significant importance to United States national security interests (e.g., rationalization of mutual defense arrangements)” (Duncan 1978, 1; 1980, 27).

The Duncan Memorandum created structure in policy by introducing both a prohibitive norm and the basis for a national security exception. It ensured defense firms could continue making their own offset deals yet eliminated planning for potential government support or intervention. More importantly for the DoD, new policy resolved growing political criticism against offset activism (Ianakiev 2006, 312–13).

1.2.4 1984-1992 – Initial Reporting: Office of Management and Budget

The Office of Management and Budget (OMB), at the White House level, issued the first reports on defense industry offsets during 1986-1992 in response to Defense Production Act (DPA) Amendments of 1984 (U.S. Office of Management and Budget 1986, vii; 1987a; 1987b; 1988; 1989; 1990; 1991; 1992). The OMB also formed a staff-level action officer committee analyzing U.S. industry offset obligations back to 1980. The committee coordinated executive branch members representing the National Security Council (NSC) staff; the Departments of Commerce, Defense, Labor, State, and Treasury; the Arms Control and Disarmament Agency (ACDA); the Central Intelligence Agency (CIA); the Federal Emergency Management Agency (FEMA); and the United States Trade Representative (USTR) (U.S. Office of Management and Budget 1986, vii–viii).

The first OMB report on offsets noted:

“Offsets can be an effective foreign policy tool for both producing and purchasing nations. Consequently, the topic is both economically and politically sensitive” (Ibid, ix–x).

This OMB report also enumerated where offsets play an increasingly unavoidable factor in how well or poorly the U.S. Government can rely on the arms trade as a foreign policy tool. The report noted that even though many arms trades will not take place without offsets, the U.S. Government will not normally enter offset agreements because of prohibitions found in the 1978 Duncan Memorandum (Ibid, 23).

1.2.5 1984 & 1989 – Exceptions to Policy: The Netherlands & South Korea

During 1979-1989, as defense industry competition increased in the final decade of the Cold War, the DoD participated in two notable policy exceptions. In the first policy exception, the DoD entered an offset agreement with the Netherlands in 1984 to support Raytheon selling

Patriot air defense batteries (Milligan 2003, 53, 65). The second annual OMB report on offsets characterized this DoD involvement as both “unusual” and “not a standard practice.” While explicitly acknowledging the Duncan Memorandum norm and preference against involvement, the report also explained action based on “foreign policy and national security reasons” for a “priority requirement to increase NATO Europe’s air defense capabilities” (U.S. Office of Management and Budget 1987b, II-27).

In the second policy exception, the DoD advocated for U.S. industry in 1989 by engaging Republic of Korea (ROK) Government counterparts on behalf of the president. A heated fighter aircraft sales competition narrowed down to two U.S. contenders – the McDonnell-Douglas F/A-18 and the General Dynamics F-16. Initially, the ROK Government set offset obligations at 30% of the contract value. However, sensing a great opportunity to optimize extraction from two intensely competing U.S. firms, ROK officials raised selection criteria to a 60% obligation (Udis and Maskus 1996, 363, 377n15). Both the Secretary of Commerce and the Secretary of Defense engaged Korean officials directly to address the issue of dramatically surging offset obligations (Hammond 1992, 217).

In August 1989, the U.S. Defense Security Assistance Agency (DSAA) responded by placing a one-time limit on how much the ROK could extract. DSAA issued a letter to both U.S. companies, but not to Korea, capping offsets at 30%. The DSAA letter stated:

“... we are not prepared to support a sale which includes an offset offer which exceeds the amount determined after final discussions between our two governments” (1996, 363–64, 377n15). [italics and underline added here]

The letter also explicitly linked the government discussion text to the “National Defense Authorization Act (NDAA), Fiscal Year 1989.” The 1989 NDAA directed the president to “enter into negotiations with foreign countries” to “limit the adverse effects” of offsets (U.S. Congress

1988, §2505(c) 2021). In sum, DSAA and the Secretaries of Commerce and Defense acted on behalf of the president, advocating for U.S. industry offsets with international counterparts.

1.2.6 1990 – The President’s Policy: Executive Branch Preference

Before 1990, the Department of Defense co-signed for responsibility with U.S. industry offset obligations in some key international arms sales. The purpose was to increase Cold War alliance behavior, build capabilities among allies, and support the U.S. defense industry base by obtaining buy-in abroad for U.S. weapon systems. In August 1989, the same month DSAA issued the letter capping offsets to Korea, President G.H.W. Bush established an NSC ad hoc interagency offset working group similar to the 1984 OMB committee, but replaced CIA representation with the White House Council of Economic Advisers. Seven months later, in March 1990, the working group made recommendations that became presidential policy in April 1990 (Hammond 1992, 217). Prompted by Congress through the 1989 NDAA and based on recommendation from the NSC ad hoc group, President Bush issued “The US Government Policy on Offsets in Military Exports” (Eisenhour 1989, 1; Fitzwater 1990; Hammond 1992, 217; Ianakiev 2006, 313).

Policy continued on the basis of the 1978 Duncan Memorandum approach (Udis and Maskus 1996, 383). However, the president dropped the Duncan Memo’s explanation that “An exception may be made” based on “significant importance to United States national security interests.” News media addressed this intentionally excluded clause by reporting that no such explanation was needed. Instead, “If the President wants to get involved [in a particular offset agreement], he will” (Lardner 1990b, 2). Although establishing the new policy satisfied a congressional requirement levied on the president through the 1989 NDAA, some members of Congress reinforced assumptions that the U.S. Government does not address offsets at all. They

protested in disappointment that a non-involvement policy was simply a “non-policy” (Ianakiev 2006, 313; Milligan 2003, 65–66; U.S. House of Representatives 1999, iii, 23, 46).

Raising offset policy to the president’s level applied coverage to the entire executive branch, expanding scope beyond the military and defense establishment, and injected the president’s discretion in determining exceptions “*through* the National Security Council” – a group of people appointed to their positions by the president. Additional changes included the president directing “the Secretary of Defense, in coordination with the Secretary of State, to lead an interagency team to *consult* with foreign nations” – rather than “negotiate,” in contrast to what was written in the 1989 NDAA – and for the interagency team to forward reports and recommendations to the NSC (Fitzwater 1990).

1.2.7 1992 – National Policy: Congress and the Declaration

In October 1992, two-and-a-half years after the president’s 1990 policy response to the 1989 NDAA, President G.H.W. Bush signed Senate bill 347 into law, institutionalizing both the prohibitive norm and its exception as an amendment to the Defense Production Act (DPA) of 1950 (U.S. Congress 1992, §123 4206-4208). The new “Declaration of Offset Policy” repeated most of the previous policy but expanded jurisdiction beyond the executive branch to all agencies of the U.S. Federal Government. Changes included the following – a requirement for the Department of Commerce to collect reports on offset obligations from U.S. industry for future reporting to Congress (U.S. Department of Commerce, Bureau of Industry and Security 2016c, CFR 2016, Title 15, Vol 2:123); and Congress recognizing that the president may approve exception to policy “*after* receiving the recommendation of the National Security Council” (U.S. Congress 1992, §123 4207). Even through these changes, the Duncan

Memorandum remained as the foundation for U.S. policy on defense industry offsets (Ianakiev 2006, 303; Marvel 1995, 5; U.S. House of Representatives 1999, 21n50–22n50).

1.2.8 1993-1998 – Post-Cold War: Last Supper Era & Feingold Amendment

From July 1993, in the first year of the Clinton Administration, the U.S. Government significantly reduced purchase orders and subsidies to arms manufacturers, which increased pressure on U.S. firms to expand overseas for economic survival. This made offsets an even more important marketing factor for U.S. defense exporters. Secretary of Defense Les Aspin invited 15 executives from the largest U.S. defense firms for a dinner at the Pentagon at which Deputy Secretary of Defense William Perry gave a presentation. Perry informed guests they could no longer depend on Cold War-level procurement, and said at least half of the U.S. defense industry would not be needed in the future. Recognizing the significance, Norm Augustine, then Chief Executive Officer (CEO) for Martin Marietta and later CEO for a merged Lockheed Martin, called the event “The Last Supper” (Augustine 2006; *Innovation with Purpose: Lockheed Martin’s First 100 Years* 2013, 190).

Over the next few years, over 100 U.S. companies rapidly merged and consolidated down to five major defense firms – Lockheed Martin, Boeing, Raytheon, Northrop Grumman, and General Dynamics – increasing overseas competition to compensate for decreasing domestic procurement (Diaz 2020, 12; Watts 2008). This international shift strengthened importers in a ‘buyer’s market,’ making offsets a much more prominent competitive factor for corporate survival in the arms trade. However, the Clinton Administration began a policy rebound to pump the brakes on defense industry mergers as soon as 1995 that became even more pronounced during 1997-1998.

In April 1994, President Clinton signed the Fiscal Year 1994-1995 Foreign Relations Authorization Act, which included the Feingold Amendment – a small section inserted by Congress to protect small- and medium-sized businesses by eliminating a big-business practice of using “incentive payments” to buy offset credits (U.S. Congress 1994; Russin 1994, 79–80; Udis and Maskus 1996, 366). As part of selling 64 F/A-18 aircraft to Finland, Northrop Corporation subsidized the introduction of Finnish paper-making machinery into the U.S. market to fulfill offset obligations. Because the Finnish equipment arrived at lower costs, the Beloit Corporation of Wisconsin was forced to drop prices on similar equipment to remain competitive. This caught the attention of Senator Russ Feingold (D-Wisconsin) as a possible act of domestic bribery through a practice not covered by the Anti-Kickback Act or the Foreign Corrupt Practices Act (Feingold 1999, 70–71).

Using the 1994 Feingold Amendment, and with President Clinton’s signature, Congress added an activity to the State Department’s arms exports monitoring role. New legislation prohibited U.S. companies from paying other Americans to satisfy offset obligations in defense exports to foreign countries, with violations punishable by fines, possible criminal penalties, and administrative sanctions (Russin 1994, 80; U.S. Congress 1994). This did not prohibit offset practices overall, but instead banned only a single popular tool for addressing obligations, with no record of any violations since the Feingold Amendment became law (Nackman 2011, 524n86).

Starting with the Pentagon-hosted “Last Supper” in 1993, the Clinton Administration decreased weapons procurement and exposed the U.S. defense industry to post-Cold War market conditions. However, the Clinton Administration began adjusting policy soon afterward. In February 1995, President Clinton signed “Presidential Decision Directive/NSC-34: U.S. Policy

on Conventional Arms Transfer,” a classified document also known as PDD-34 (Clinton 1995). Unlike more restrictive policy starting with the Carter Administration in 1979, PDD-34 encouraged government participation and “support for U.S. defense exports” through tasking U.S. personnel at embassies and consulates to support overseas marketing and actively involving “senior government officials in promoting arms sales of particular importance to” U.S. national security, regional interests, and the U.S. defense industrial base (Ibid, 7).

In 1998, the Clinton Administration employed the Department of Justice to block a merger between Lockheed Martin and Northrop Corporation that would have created a domestic monopoly. While sending a message that further mergers were considered a threat to national security, federal legal action made it more difficult for domestic firms to continue adjusting to dynamic market forces in play since withdrawal of Cold War-era subsidies. As a result of new legal obstacles against finding domestic market efficiencies, companies sought more opportunities abroad (Lorell et al. 2002, 7; Sapolsky and Gholz 1999, 41). Even with U.S. Government marketing assistance, American industry faced stronger competition, with increasing pressure to offer more attractive offset packages. As a result of post-Cold War political, economic, and security “peace dividend” factors highlighted by the Clinton Administration’s Last Supper era, offsets became more important for business survival in the international ‘buyer’s market.’

1.2.9 1994-2018 – Policy Changes for Offset Costs

In September 1994, during the Clinton Administration, the DoD placed restrictions against the use of “non-repayable” Foreign Military Financing (FMF) grant aid from the U.S. Government, preventing its use for subsidizing offsets. FMF subsidizes foreign policy through the arms trade by using a system of credits where recipients rarely see U.S. money, but instead

the U.S. Government procures equipment and services from U.S. companies and provides them to recipient countries. FMF happens in two ways – grant aid or loans. The most widely recognized role for FMF is as grant aid – essentially a gift from the U.S. taxpayer, also known as “*non-repayable* FMF credits” (U.S. Department of Defense, Defense Security Cooperation Agency 2021b, sec. C6.3.9). Separately, the U.S. Government also sometimes awards FMF as a loan, with the recipient country obligated to pay back the debt over time – also known as “*repayable* foreign military finance [FMF] credits” (U.S. Department of Defense, Defense Federal Acquisition Regulation System, sec. 225.7303-2(a)(3)(ii)).

In the past, the U.S. Government highlighted Israel, Egypt, Turkey, and Greece for imposing billions of dollars of offset obligations against U.S. companies even while subsidized by FMF grant aid at U.S. taxpayer expense (U.S. Department of Commerce, Bureau of Export Administration 1998b, 56; U.S. General Accounting Office 1994, 1; U.S. House of Representatives 1994, 2). In 1994, the DoD implemented regulations that prohibited offset obligations on *non-repayable* grant aid (Russin 1994, 75n25(E)). On the other hand, recipients of *repayable* FMF – a loan – were still allowed to apply offset obligations, since any additional expenses in the loan would be reimbursed to the U.S. Government.

Although prohibiting offset obligations on FMF *non-repayable* grant aid programs, the DoD also liberalized rules for reimbursing an increasingly wider variety of offset costs incurred by U.S. companies involved in U.S. Government-managed cash-based Foreign Military Sales (FMS) and *repayable* FMF loans to foreign governments. FMS is different from both FMF (grants or loans) and Direct Commercial Sales (DCS), although all of these practices share similarities. FMS is when the U.S. Government manages the arms transfer process, but the importing country pays with its own money, also known as using ‘national funds,’ without

relying on a repayable loan from the U.S. Government. Separately, DCS is a direct transaction between a foreign government importer and a U.S. firm, without the U.S. Government serving in a funding or management role.

Even when the recipient country uses its own national funds for either FMS or DCS, choosing an option can be limited by export restrictions in the International Traffic in Arms Regulations (ITAR). An importer might prefer either FMS or DCS based on comparative advantages and disadvantages in either path (U.S. Department of Defense, Defense Security Cooperation University 2022b). However, within the ITAR, the U.S. Munitions List (USML) specifies what products, technologies, and services require additional government oversight for international sales, frequently compelling transfers such as munitions and highly classified systems or components to take place through FMS rather than DCS. Regardless of whether the path is through the U.S. Government in FMS, or directly from U.S. industry through DCS, either way requires U.S. Government approval, and most importers expect offsets from manufacturers even when conducting FMS procurement.

The DoD also assists industry as a matter of standard practice by retrieving funds from the importer to reimburse U.S. companies for expenses spent on offset projects associated with FMS and *repayable* FMF arms transfers. According to a policy letter from the Defense Security Cooperation Agency (DSCA), in 1995 the DoD changed Defense Federal Acquisition Regulation Supplement (DFARS) rule 225.7303-2 “Cost of Doing Business with a Foreign Government or an International Organization” to begin reimbursing companies for “all costs of implementing an offset agreement” in FMF loan and FMS national-fund programs. Due to a lack of understanding for what qualified as “reasonable” costs, many reimbursement requests were not processed properly (Spector 1999). In other words, when offset obligations

were placed on U.S. defense industry sales to foreign governments, DoD procurement officials would determine “reasonable” costs and bill them to the importing government, then reimburse the U.S. company for those expenses. However, interpretations for “reasonable” and “unreasonable” costs created confusion, leading to repeated clarification of what “reasonable” and “all costs” meant.

Two notable milestones highlight increasing importance for using offsets. In September 1999, DSCA issued a policy letter clarifying that all costs for both *direct* and *indirect* offsets in U.S. government-managed FMS national fund and *repayable* FMF loan programs are “allowable” to U.S. industry (U.S. Department of Defense, Defense Security Cooperation Agency 2000a; 2000b). The letter reinforced a U.S. Government burden for retrieving offset expenses from importers. Clarification provided U.S. firms with advantages when competing in developing overseas markets as a U.S. foreign policy tool, increasing appeal for using official government-managed paths for weapons exports. In June 2018, during the first Trump Administration, the DoD passed a final procurement rule, offering further clarification that all *direct* and *indirect* offset-associated costs are reimbursable (Censer 2018; Williams 2018).

This same DoD assistance for reimbursing costs on behalf of exporting companies is unavailable through DCS exchanges, where firms sell to foreign importers without a U.S. Government intermediary. This does not mean that DCS deals are ineligible for reimbursement. Instead, the government does not collect offset expenses on behalf of companies, but firms selling to importers are not restricted by U.S. law from recovering offset costs as a standard business practice, directly and on their own. However, the U.S. Government does not advocate as much for DCS weapons as it does for weapons already on contract with foreign importers

through an established FMS government-to-government relationship (Anonymous Interview Y7916 2023).

Although being an FMS national fund or FMF loan program does not automatically guarantee offset support beyond cost reimbursement, the difference in U.S. Government reimbursement practices between those programs and DCS highlights businesses selling through the government-run system as candidates for additional official support. Providing a U.S. Government-endorsed FMF loan could qualify as a form of encouragement for offsets, where offsets are critical to completing an arms deal. However, unlike the overall FMF loan, offset-cost reimbursement is not considered “encouragement.” Reimbursement is instead a standard business practice that is not an exception to policy. FMS and FMF deals are “fundamental” tools of foreign policy, institutionalized as state-to-state “Security Assistance” activities. In FMS and FMF, the executive branch is a primary stakeholder, with the Department of State determining which countries may obtain what items and services, and the DoD conducting the bulk of the work by implementing and managing those programs (U.S. Department of Defense, Defense Security Cooperation Agency 2021c).

Increasing official acknowledgement of offset costs since 1995 does not mean that the U.S. Government invests the same level of attention in every FMS and FMF activity, but does highlight these channels for additional U.S. Government support. Not all arms trade exchanges are connected to offsets, and a tremendous number of sub-components, shop tools, technical manuals, maintenance parts, and even routine training programs regularly flow through government processing without receiving much attention. Even so, at the policy level, increasing government insistence since 1995 that all offset costs with government-run programs are “reasonable” demonstrates the importance of industry participation in official state-to-state

security programs. It also indicates that excluding offset cost reimbursement repels industry. In turn, this undermines the arms trade as a foreign policy tool. Increasing acknowledgment highlights offsets as vital to foreign policy, and indicates greater odds that offset projects associated with government-run programs, unlike DCS programs, will receive encouragement as an exception to the ‘hands off’ policy.

1.2.10 1999-2001 – The Commission Is the Council

While the Clinton Administration was increasingly concerned about preserving and re-energizing the national defense industrial base, Senator Feingold introduced the “Defense Offsets Disclosure Act of 1999” to increase monitoring the impact of offsets and produce recommendations promoting small- and mid-sized suppliers and organized labor. Feingold’s amendment was incorporated as a rider in an appropriations bill approved by Congress, creating a “National Commission on the Use of Offsets in Defense Trade.” In parallel, President Clinton issued an Executive Order creating the “President’s Council on Offsets in Commercial Trade” – co-opting Feingold’s National Commission with the same membership from both government and industry, now owned by the president rather than by Congress. The Commission/Council was chartered to issue a final report by October 2001 (U.S. Department of Commerce, Bureau of Export Administration 2001b, viii; U.S. General Accounting Office 2003, sec. Highlights).

President George W. Bush assumed office in January 2001 and the Council submitted an interim report in February. President Bush did not re-appoint anyone, and the Council did not reconvene or submit a final report (U.S. General Accounting Office 2003, sec. Highlights). The report due date, in October 2001, was eclipsed by September 2001 terrorist attacks on New York City and the Pentagon.

In 2003, the U.S. General Accounting Office (GAO), the “think tank” for Congress, published “Defense Trade: Report and Recommendations of the Defense Offsets Commission Still Pending,” reminding Congress about the missing final report from the absent national-level Council (U.S. General Accounting Office 2003). The following year, in 2004, the GAO submitted a report to Congress highlighting previous GAO publications and recommendations on offsets from 1990 up to that point in time (U.S. General Accounting Office 2004). However, the GAO has not issued another report on offsets since renaming and reorganizing from the “General Accounting Office” to the “Government Accountability Office” in 2004 (U.S. Government Accountability Office 2019, 1).

1.2.11 2003-2013 – Post-9/11 Reports: Transparency Changes

After September 2001 terrorist attacks on New York City and Washington, DC, offset data and depictions of the Declaration of Offset Policy went through different transparency phases in “Offsets in Defense Trade” annual reports to Congress (see *Annex B* on Changes in Annual Reports to Congress). Immediately following 9/11, Department of Commerce personnel addressed new and emerging threats, and “also carefully evaluated recommendations made by other agencies and outside organizations, including the GAO, to respond to the changed world situation” (U.S. Government Accountability Office 2006). “Offsets in Defense Trade” annual reports prior to 9/11 had been produced since 1996 by the Bureau of Export Administration (BEA) within Commerce. Publication paused during 2002 while the G.W. Bush Administration and Congress focused on events unfolding since 9/11. In April 2002, due to re-orienting missions based on the new security environment, Commerce renamed the BEA as the Bureau of Industry and Security (BIS) (Juster 2002).

When resuming publication in 2003, BIS reports to Congress offered more insight on the Declaration of Offset Policy, but less insight on offset data than previous BEA reports provided. During 2003-2007, BIS Reports 6-12 printed the Declaration of Offset Policy, including the exception clause that states the president's role in approving U.S. Government support for offsets (2003b, 6; 2003a, 2; 2004, 2; 2005, 1-2; 2006, I-2; 2007a, I-2; 2007b, I-2). Simultaneous to offering more transparency on the Declaration, Reports 1-5 were found to release too much information in their original versions (U.S. Department of Commerce, Bureau of Export Administration 1996b; 1997b; 1998b; 1999b; 2001b). Therefore, Reports 1-5 were converted – to bury data – into “Executive Summaries,” as they currently appear on the Department of Commerce website (1996a; 1997a; 1998a; 1999a; 2001a).

Reports to Congress since 2008 omit even more data and cut out an important aspect of the Declaration of Offset Policy, entrenching an already inaccurate widespread perspective of the U.S. Government offset policy as universally ‘hands off,’ without exception. Defense companies complained for years that importing countries capitalized on proprietary data published openly by the U.S. Government in annual offset reports to Congress (Marshall 2009, 552; Vaccaro 2008, 1). More specifically, industry representatives said that importers used these reports as how-to-guides or a “cookbook” to extract increasingly larger offsets from U.S. companies (Gordon 1985, 115, 117; U.S. House of Representatives 1999, 75, 152). Even a decade earlier, in 1999 testimony before the House of Representatives, U.S. defense exporters said:

“... we don't have a problem ... sharing with our own government ... What we dislike is ... having the U.S. Government help escalate the demands ... for offsets, which is essentially what publishing this kind of information does” (U.S. House of Representatives 1999, 152).

Continuing transparency from 2003 exacerbated this pre-existing concern with advertising details on U.S. industry business deals.

In December 2008, in the last full month of the G.W. Bush Administration, many details disappeared, bringing annual reports down “to one-third the length of the 2007 edition.” New reports no longer disclosed top offset recipients, regional distributions or values, or offset percentages (Marshall 2009, 552). Many of the details previously available to the public were shifted to “Not for Public Release” masked annexes, available only to relevant personnel in congressional committees and the executive branch (Vaccaro 2008, 2; Wall 2008, 2).

Changes in 2008 as well as in 2013 decreased public awareness and created misperceptions about prohibitions and international engagement. The 2008 reduction in reporting also substituted paraphrasing – in place of verbatim re-printing – of offset policy. The title “Declaration of Offset Policy” that appears in federal statute was removed from reports, and new text portrayed only prohibitions specifically excluding the clause that states, “the President may approve an exception to the policy” (U.S. Department of Commerce, Bureau of Industry and Security 2008, i; 2010, i; 2011, 1; 2012, 1; 2013b, 1; 2013a, 1; 2015, 1; 2016a, 1; 2016b, 1; 2018, 1; 2019, 1; 2020, 1; 2021, 1; 2022, 1; 2023, 3; 2024, 1). Omitting the presidential clause from the world’s most widely reviewed report on offsets created a misperception among practitioners and researchers that there is no exception to the prohibitive norm against encouraging offsets. Furthermore, a section titled “Interagency Team Progress Report on Consultation with Foreign Nations on Limiting the Adverse Effects of Offsets in Defense Procurement” was available until Report 16 (2012), but dropped from Report 17 (2013) during the Obama Administration (2012; 2013b, sec. Table of Contents). This decrease in policy transparency obscured public knowledge of U.S. Government practice with offsets (see *Annex B* on Changes in Annual Reports to Congress).

1.2.12 2018-2023 – Policy Veered Toward ‘Hands On’

In April 2018, President Trump issued NSPM-10, the “National Security Presidential Memorandum Regarding U.S. Conventional Arms Transfer Policy.” It stated, “the executive branch will advocate strongly on behalf of United States companies” (Trump 2018). This aligned with policy initiated by Bill Clinton through PDD-34, “Presidential Decision Directive/NSC-34: U.S. Policy on Conventional Arms Transfer,” where it promoted:

“Active participation by the U.S. government in supporting or promoting U.S. arms sales” for “U.S. national security, defense industrial, or regional interests” (Clinton 1995, 7).

This support for U.S. arms exporters also continued through the Obama Administration in “Presidential Policy Directive/PPD-27: United States Conventional Arms Transfer Policy” (Obama 2014). A new Trump policy became more proactive and purposeful than Clinton and Obama policies, adding a proposal for a comprehensive whole-of-government “action plan” to National Security Strategy, integrated across federal agencies with a “roadmap” for arms transfers (Trump 2018).

In July 2018, in response to Trump’s NSPM-10, Secretary of State Mike Pompeo issued the “Implementation Plan for the Conventional Arms Transfer (CAT) Policy” to the president, to increase alignment between conventional arms transfers, national security, and economic interests. Included in the plan, the administration initiated an effort to “organize for success” (“US – State Updates Conventional Arms Transfer (CAT) Policy Implementation Plan” 2018). That effort included reviewing offset policy, and creating conducive environments by engaging U.S. defense firms on “systemic offset issues” (Cooper 2019). The State Department noted in a Fact Sheet that it would work with partners to ensure that importer “policies such as offset requirements do not imperil American jobs or reduce our technological edge” (U.S. Department

of State, Office of the Spokesperson 2019). However, none of the policy statements indicated efforts to eliminate offsets where advantageous to U.S. industry, or that the State Department would avoid encouraging importer offset obligations that enhanced or increased American job opportunities.

Developments in Trump Administration changes for offset policy were only partially successful, and the Biden Administration did away with the integrated whole-of-government “roadmap” proposal by issuing “National Security Memorandum/NSM-18: Memorandum on United States Conventional Arms Transfer Policy” (Biden Jr. 2023). This new policy stripped out text promoting U.S. exporters, found previously in each new policy implemented since the Clinton Administration. Biden policy did not erect any legal barriers for U.S. industry continuing to employ offsets, or prevent U.S. agencies from continuing any of their standard practices in support of U.S. industry. Instead, the Biden Administration removed all Trump policy changes associated with offsets. This reinforced the published norm for prohibitions in the Declaration of Offset Policy, and in the exception clause that requires NSC recommendation for presidential approval.

1.3 Conclusion

Sparse accounts of U.S. Government encouragement for offsets, primarily in the news media, do not articulate connections between advocacy and the president, do not link practice with the Declaration of Offset Policy, and do not associate U.S. Government activities with “Offsets in Defense Trade” reports to Congress. Executive branch reporting, consumed by the public in the U.S. and the entire world, creates doubt that decision makers give any thought to ‘hands on’ activities supporting offsets. In other words, even in rare cases where the U.S. Government encourages and intervenes for offsets, the president’s fingerprints are missing.

Although widely employed by countries that import military equipment, offsets are not widely understood. The lack of understanding is especially true regarding U.S. policy. The executive branch preference for avoiding offsets became established as the norm, along with exceptions granted for national security reasons, through the 1978 Duncan Memorandum. Since implemented in 1992 through federal statute as the “Declaration of Offset Policy,” and more so since 2008 changes to “Offsets in Defense Trade” reports, executive branch publications promote an impression of an extremist policy that always withholds government support and encouragement. Furthermore, publications gloss over the president’s legislated role in enabling, authorizing, and even directing government participation.

This study is among the first to explore U.S. Government offsets encouragement, highlighting a topic that continues to generate controversy between supporters and detractors. Research results add to the body of knowledge and limited literature on U.S. offset policy. Understanding the causes and constraints for this unique and little-known U.S. Government practice builds understanding of national interests, the defense industrial base, the arms trade, domestic political constituency issues, and foreign policy interests shared with international security partners.

The following chapters will look at theory, describe research methods, and review cases with the United Arab Emirates, Poland, and India to show that prohibitions against government support for offsets are neither universal nor ironclad. Although some government activities might be performed by independent policy entrepreneurs, the president sometimes endorses exceptions to the ‘hands off’ policy.’ Creating awareness beyond prohibitive assumptions will enable foreign policy leaders to expand their knowledge and perceptions of diplomatic alternatives, creating opportunities for success that most practitioners do not consider or acknowledge.

Chapter 2. Theory and Method

This chapter addresses when it is in the national interest to encourage offsets, what constrains or facilitates encouragement, and how we know causal factors are active. These questions can be answered by exploring a theoretical structure for government action that starts with international causation, flows through domestic alignment, and happens because of an executive decision. This process unfolds through Putnam's two-level game, with international counterparts at one level and domestic stakeholders at the other. Problematic issues with offsets for proposed or established arms trade exchanges in government-managed Foreign Military Sales (FMS) and *repayable* Foreign Military Finance (FMF) loan programs motivate U.S. defense firms to lobby directly and indirectly to the U.S. president. When alignment occurs among industry, Congress, and the executive branch, the president can make a national security-based decision to encourage offsets as an exception to policy. Based on the president's decision, executive branch actors engage their international counterparts to address problems with offsets, to help U.S. industry become a more competitive and effective foreign policy tool for the U.S. Government.

Because policy discourages active government intervention, encouragement beyond standard practice highlights alignment of international and domestic factors causing or enabling the 'hands on' exception to policy. Since government encouragement for offsets is rare, and because the U.S. Government does not typically encourage offsets even when causal factors are present, this study begins with finding examples in practice – the dependent variable – and process tracing to identify causing and enabling factors – the independent variables. From there, analysis tests evidence to validate levels of confidence or uncertainty in claims about encouragement for offsets.

2.1 Defining “Encouragement”

Because the Declaration of Offset Policy says that no U.S. agency shall “encourage” U.S. firms in offsets without a presidential exception, this raises a question about what constitutes or defines “encouragement.” Although the Declaration highlights chief executive authority in either adhering to the prohibitive norm or encouraging offsets by exception, it is not clear about what criteria leads to government intervention. Instead, encouragement for offsets is obliquely recognized elsewhere as involvement that is “unusual” and “not a standard practice” (U.S. Office of Management and Budget 1987b, II–27).

Because the Declaration emerged from various federal statutes, it is useful to look at other areas of law outside of the arms trade that employ concepts for encouragement. The first example comes from constitutional law, which explains the “encouragement standard” as federal funding attached to individual U.S. state cooperation with federal laws and policies (“Encouragement Standard” 2025; Yeh 2017). For example, the federal government uses subsidies for highway maintenance to encourage compliance from individual American states on national immigration laws.

Based on this principle, *repayable* FMF loans and *non-repayable* FMF grant aid to foreign countries serve as examples of encouragement, as influence through U.S. military equipment deliveries to induce and incentivize alignment with U.S. policy. However, *non-repayable* FMF is basically a “gift” where U.S. law prohibits recipients from using offset obligations. Therefore, between *non-repayable* FMF and *repayable* FMF, only *repayable* FMF – with reimbursement due from the recipient to the U.S. Government, and which allows offset obligations – could serve as encouragement for offsets. However, an FMF funding proposal for a specific country is typically allocated by Congress without much White House attention. Within

the executive branch, the Department of State then determines which countries may obtain what items and services, and the DoD conducts the bulk of the work by implementing and managing those programs (U.S. Department of Defense, Defense Security Cooperation Agency 2021c). Typical institutionalized FMF processing would not count as an exception to the standard and the norm for prohibitions against encouragement. However, in contrast, if the White House steps in as an exception to initiate or endorse a *repayable* FMF proposal, then it qualifies as encouragement for this study. It is especially remarkable as an exception because *repayable* FMF signifies a distinct departure from the norm where FMF “is discouraged for purchases containing offset provisions” (Eisenhour 1989, 29)

In the second definition for encouragement, criminal law portrays private citizens instigating, advising, inciting to action, assisting, enabling, counseling, or commanding a person to an unlawful act (“Encourage Law and Legal Definition” 2025; U.S. Court of Appeals Ninth Circuit 1959). Although based on criminal activities, this type of encouragement would not make offsets illegal – offsets are lawful for U.S. industry where legal in importing countries. Even so, the principles for encouragement can sometimes appear when U.S. Government officials work in cooperation with foreign importers and U.S. arms exporters to facilitate, influence, induce, and incentivize outcomes where discouraged by legal prohibitions in the Declaration of Offset Policy. Encouragement could include offering one’s office – physical office space, or “office” as a role, mission, or institutional organization, to include public affairs announcements – for offset discussions, to facilitate offset agreements, or to convey messages promoting offsets. Agency-level praise and positive observations for past offset achievements can serve as encouragement for similar practices in the future. Furthermore, when U.S. officials seek U.S. company insight to influence foreign counterparts regarding offsets, they are engaging in encouragement.

Reviewing the Declaration of Offset Policy, it vaguely reads as if encouragement is tied to specific projects more than to importer policy. However, the Declaration also broadens the scope by using the word “any,” which could extend to prohibiting encouragement for *any* arrangement at all, whether as a specific project, a group of projects, or as arranged in a country’s policy:

“... no agency of the United States Government shall encourage ... United States firms to *any offset arrangement*” (U.S. Congress 1992, §123 4207).

For the purposes of this study, encouragement can take place for a specific offset project or a group of offset projects, whether proposed or established, or address an importer’s offset policies and practices in general. Encouragement includes the U.S. Government lobbying and advocating to change foreign importer policies that might be restricted only to *direct* offsets (immediately associated with the military system on the primary contract), to expand and also accept *indirect* offsets (where projects are not associated with military systems on the primary contract). Encouragement can mean advocating for a limited reduction in offsets as well, to make U.S. industry more competitive in the market space, rather than seeking complete elimination of offsets as a market-distorting mechanism.

Defining encouragement also benefits from defining what it is not. Encouragement is not absence or abstention and is not a standard procedure available to importers or U.S. industry on a regular basis. Even if completely abstaining from engagement might demonstrate assent through silence, quietly allowing offsets by not getting involved is not encouragement. Encouragement is active through practice, although the absence of resistance or opposition from key stakeholders is a form of alignment that can enable encouragement. Furthermore, reimbursement of all *direct* and *indirect* offset costs incurred by U.S. industry in government-managed arms trades is a

standard practice, not encouragement. In summary, encouragement is both an active practice and an exception to the norm, although alignment can permit, enable, or cause encouragement.

2.2 Offsets Can Cause Foreign Policy

While offsets serve as a vehicle for economic achievement employed by industry, they also serve as an unofficial security-based foreign policy tool for the U.S. Government. Although portraying offsets as a market distortion, the Declaration of Offset Policy recognizes that government interference, as in blocking American industry from using offsets, will undermine U.S. industry's ability to export arms. Even though not mentioned in the Declaration, the U.S. Government-managed FMS/FMF system is based on arms exports as a means for conducting foreign policy. Since FMS and FMF rely on U.S. industry exports, and many defense industry exports are contingent upon offsets, American foreign policy frequently relies on offsets.

U.S. Government arms trade objectives include initiating, improving, and reinforcing state-to-state relations and regional security, with offsets frequently emerging *as the result of* state-to-state FMS national fund and repayable FMF loan deals. The U.S. Government-run system typically avoids association with offsets because the basis of the system is the FMS or FMF program, not the offset project. The division between government-run programs on one hand, and industry-managed offsets on the other hand, means that most FMS and FMF programs continue to successfully achieve U.S. foreign policy objectives even when offsets experience complications. Moreover, most FMS- and FMF-associated offset projects happen due to government-run arms trade deals, and the offset obligation is typically expressed as a percentage of the main contract for a weapon system, even when the offset obligation is valued at 100% or more due to multipliers

However, sometimes offsets cause government-run arms transfers and foreign policy rather than the other way around [Figure 2.1]. This is not obvious when arms trade situations enable positive outcomes regardless of offset complications. Yet causation becomes

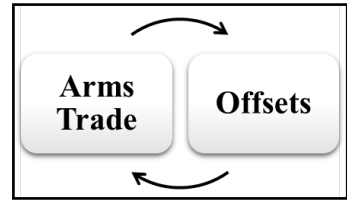


Figure 2.1. When Offsets Cause Foreign Policy

clearer when offset complications grow large enough to undermine foreign policy goals. As a feature in the arms trade, even only as a ‘side deal,’ offsets can sometimes become the decisive procurement factor (Anicetti 2024, 47; Balakrishnan 2017, 268; U.S. General Accounting Office 1984, 5). Even with a causal reversal, where government-run arms trades happen because of offsets, if offset projects come together smoothly and policy objectives can be achieved through standard procedures, there is no need for the president to invoke the exception in order to offer encouragement. On the other hand, invoking the exception highlights offsets that are problematic beyond the norm, and more importantly, when offsets become the key to achieving or retaining foreign policy goals. Stated in another way, government encouragement as an exception to policy demonstrates that offsets, on occasion, cause the arms trade rather than the other way around. The exception to the Declaration, therefore, indicates that offsets are sometimes the cause, not the result, of foreign policy actions carried out by the president and the executive branch.

2.3 Offsets Encouragement in Three Steps

A basic explanation for government involvement with offsets takes place in three steps with international causation, domestic alignment, and an executive decision [Figure 2.2].



Figure 2.2. Offsets Encouragement in Three Steps

2.3.1 (1) International Causation

Causation starts abroad, with complications in established or proposed defense industry offsets between importing governments and U.S. exporters. The U.S. Government relies on large defense firms to provide advanced weapon systems for arms trade transfers to security partners with the U.S. foreign policy goal of promoting and sustaining national security interests (U.S. Department of State 2021). An arms trade relationship indicates strategic alignment between a producer and recipient, highlighting “a gesture of Washington’s commitment to” recipient security beyond the immediate weapon system capability (Yousif 2023, 10). When problematic offsets put corporate financial goals at risk, they cause large U.S. defense firms to look after their interests outside of standard practice.

Where industry interests merge or overlap with U.S. national security concerns through the arms trade, international causation begins building the foundation for government support to offsets as an exception to policy. International causation highlights elevated security concerns where offsets receive support beyond policy norms,

converting entanglement avoidance into engagement seeking [Figure 2.3]. The Declaration of Offset Policy asserts an overall preference for avoidance, stating that U.S. firms incur all responsibility for offsets, and the U.S. Government will not actively encourage offset practices. On the other hand, the Declaration also offers an alternate path, where “the President may approve an exception to” policy

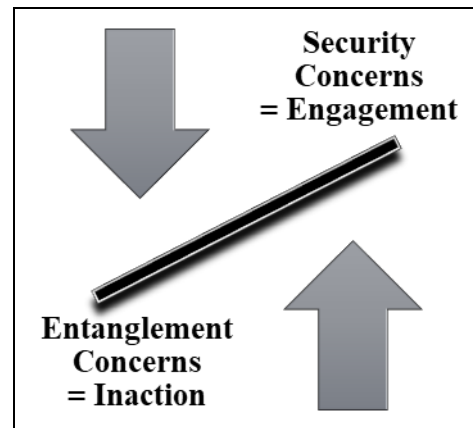


Figure 2.3. Security Concerns Lead to Engagement

based on “the recommendation of the National Security Council” (U.S. Congress 1992, §123 4207). When offset issues threaten to interfere with arms trade-based foreign policy goals,

elevated security concerns convert entanglement concerns into engaging international counterparts for offset resolution. The U.S. Government typically does not pay attention to offset outcomes, but this can change when offset problems threaten to undermine arms trade-based national security goals.

2.3.2 (2) Domestic Alignment

Domestic actors can constrain offset support by opposing government involvement, or U.S. industry can align domestic actors by lobbying directly to the president and indirectly through Congress and the executive branch. Offset advocacy typically encounters resistance from labor unions, small- and medium-suppliers, other large U.S. companies offering similar weapon systems, members of Congress with constituents in these groups, and executive branch actors that seek to avoid entanglement. Because domestic actors usually do not achieve alignment, the typical result is continuation of government inaction. However, sufficient alignment among key domestic actors enables a president’s decision to support offsets.

2.3.3 (3) Executive Decision

When key domestic actors align, the president can make a national security-based decision to support offsets as an exception to policy [Figure 2.4]. However, the president is unlikely to engage in the low politics of resolving offset issues, and delegates actions to executive branch actors. Even though difficult to predict, finding executive branch members encouraging offsets to international counterparts verifies international causation and

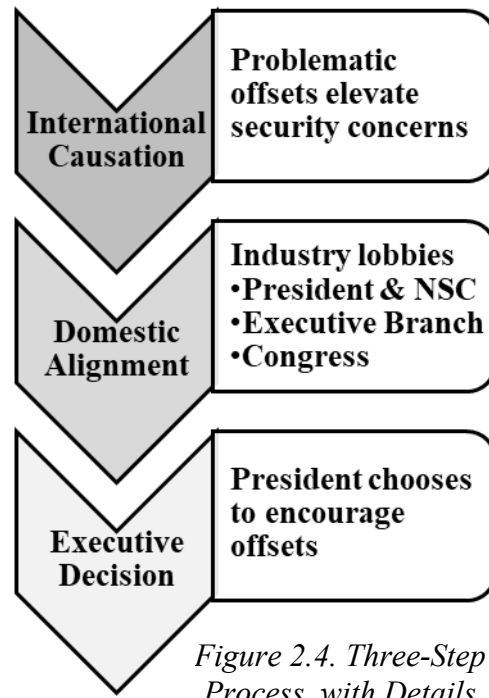


Figure 2.4. Three-Step Process, with Details

domestic alignment, and implicates the executive decision. Domestic alignment is fickle, however, making it easier to identify offset support in outcomes rather than identifying the process midstream or by making a prediction before causal factors appear. Enabling the decision and causing the decision are not the same, since U.S. Government stakeholders typically do not encourage offsets, even when conditions might be favorable for doing so.

2.4 Testable Claims

Discussion so far leads to a more detailed causal process that supports and illustrates testable *claims* [C] [Figure 2.5]. [C1] National security-based relative gains concerns based in problematic offsets produce international causation. [C2] Because of problematic offset issues, industry lobbies directly to the president, and lobbies indirectly to the president through Congress and the executive branch, producing domestic alignment in support of resolving issues with offsets. [C3] The president holds the key through executive decision, typically sticking with the prohibitive status quo, but sometimes choosing the ‘hands on’ exception.

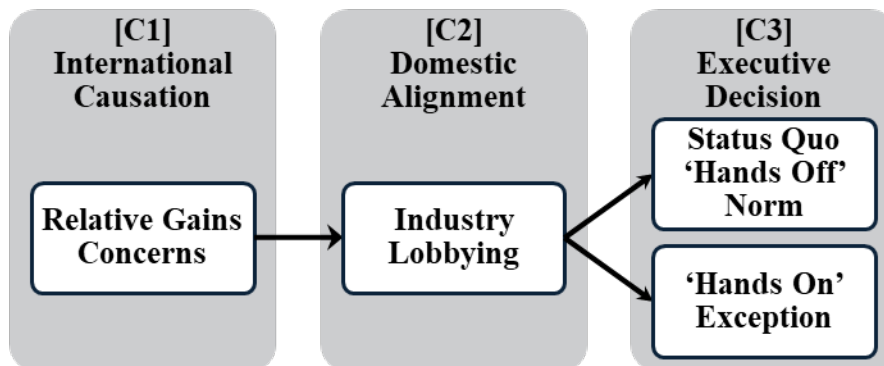


Figure 2.5. Testable Claims

2.4.1 [C1] International Causation – Relative Gains Concerns

I argue that two international security-based variables, alone or together, cause relative gains concerns with U.S. leaders that enable government encouragement for offsets as an exception to policy. [C1.1] Competition in the international arms trade produces relative gains

concerns about losing proposed or established exclusive state-to-state relationship channels. [C1.2] A weak security partner that shifts the security burden to other partners, even when it can afford its own defense, also generates relative gains concerns. Both concerns start abroad, demonstrating international origins that eventually produce government support for offsets.

2.4.1.1 [C1.1] International Competition

[C1.1 Hypothesis]: Potential loss of a proposed or established exclusive state-to-state arms-trade relationship produces constant relative gains concerns.

Although great power competition with China and Russia produces more acute relative gains concerns than commercial and industrial competition with friends and allies, any zero-sum loss of a defense industry connection to another country can resonate with national security. Because only a few countries can meet their defense needs independently, most states must turn to larger states and manufacturers for defense items and services (Yousif 2023, 5). In defense-industry collaboration where only one company can become the “prime” contractor in a large procurement, only one state can extend or maintain its national security to the importer through that relationship. The U.S. seeks bilateral state-to-state cooperation through offsets not just because potential partner countries want to cooperate, but also to intentionally shut all others out of the same exclusive relationship. Losing the deal means another state gaining a large-scale arms trade connection and promoting its own state-to-state foreign policy, expanding its military’s own interoperable weapon system inventory, and strengthening its own national defense industry base. The concern about relative gains remains active whether competing companies come from friendly or adversarial states.

Even where U.S. interests in the importing state and its region remain strong, decreasing interoperability for U.S. Forces due to increasingly diverse weapon systems among allies tips the

security scorecard over time in the favor of adversaries. If U.S. forces must intervene or operate in a coalition environment, interoperable equipment and sufficient supply chains are a force multiplier. On the other hand, excessive diversity undermines interoperability and creates weakness. Depending on allies that use alternative suppliers could jeopardize the potential for combined operations (Yousif 2023, 8). In this situation, security pressure in the arms trade comes not only from Russia and China, but also from friendly exporting states seeking the same opportunities, such as the United Kingdom, France, Germany, India, South Korea, and Brazil (Center for Strategic & International Studies 2013; Holtom and Bromley 2010, 10; U.S. Department of Defense, Defense Security Cooperation Agency 2013).

[C1.1 Proof]: Results of interviews, literature research, and reviewing news media for historical event will demonstrate constant relative gains concerns by showing U.S. encouragement for offsets where industry competition comes only from friendly and allied countries.

2.4.1.2 [C1.2] Weak Security Partners

[C1.2 Hypothesis]: Weak security partners generate relative gains concerns by buck-passing, free-riding, and chain-ganging on their own security, and this motivates the U.S. Government to increase burden sharing by encouraging U.S. industry where it participates in offsets.

Chain-ganging takes place when reckless allies drag other states into their conflicts, and buck-passing takes place when states shift their security burdens to other partners (Morrow 1993, 207). The U.S. does not want to unconditionally chain itself to weak and reckless allies that appear to be indispensable to U.S. security interests (Christensen and Snyder 1990, 138). Furthermore, by free-riding on security as a public good subsidized heavily by the U.S., some

allies generate relative gains concerns by maintaining weaker militaries than their regional adversaries (Mastanduno 1991, 81–82). Without attractive offsets from U.S. producers, importers might choose other suppliers, or simply not upgrade their forces, adversely impacting capabilities among allies and increasing the U.S. defense burden (Neuman 1985, 39). Outdated and insufficient military capabilities generate weakness that invites instability through offense-defense imbalance (Jervis 1978; Mearsheimer 1994, 20, 20n68; Quester 1977; Snyder 1989; Van Evera 1998, 16–18). Addressing these issues, the U.S. promotes arms trade relationships to build military strength in partners that increase burden sharing with regional security, to resolve relative gains concerns with buck-passing, free-riding, and chain ganging. When problematic offset issues exacerbate concerns with these issues, they begin producing U.S. government interest in addressing offsets beyond policy norms.

[C1.2 Proof]: Public records, the literature, and news media will confirm that U.S. officials, while encouraging offsets, simultaneously criticize security partners as buck-passers and free-riders while promoting alliance building and burden sharing.

2.4.2 [C2] Domestic Alignment – Industry Lobbying

In response to problematic offset issues that challenge arms trade deals, industry will lobby the president directly, and lobby indirectly through Congress and the executive branch. This produces two claims. [C2.1] Domestic anti-offset actors produce and sustain a prohibitive norm so strong that it creates a near-complete lack of awareness about the president’s role in authorizing an exception to policy. [C2.2] Industry achieving pro-offset alignment among key actors facilitates the president’s decision to support offsets as an exception to policy.

2.4.2.1 [C2.1] The Status Quo – Opposition & Lack of Awareness

[C2.1 Hypothesis]: Anti-offset actors succeed in portraying a completely prohibitive ‘hands off’ norm, creating a status quo where most stakeholders are unaware of the exception to policy.

Anti-offset influence is strong enough to produce executive branch practices that prevent most politicians, policy entrepreneurs, and industry representatives from even considering an offset-based appeal to the president. The Department of Commerce excludes references to the president’s role from its “Offsets in Defense Trade” annual reports to Congress. Moreover, the Department of Defense forbids its procurement officials from promoting offsets through the legally binding “Defense Federal Acquisition Regulation” (U.S. Department of Defense, Defense Federal Acquisition Regulation System 2025). This preference combination produces a status quo in the prohibitive norm where most actors are unaware of the president’s role with offsets.

[C2.1 Proof]: Literature, news media, and public records will confirm opposition where domestic groups and politicians specifically criticize and seek active restrictions against offsets to prevent U.S. jobs and technology from moving overseas. Interview and survey data will show that most participants are unaware of the exception to policy, even among those who have observed or participated in executive branch support for offsets. Furthermore, among the interview and survey participants, all with arms trade expertise in policy and practice, some will sincerely and honestly say they have no awareness of the U.S. Government providing any support beyond the standard practice of reimbursing offset expenses through FMS and repayable FMF cases. They will instead attribute any lack of awareness to their belief that U.S. law and policy completely forbids U.S. Government encouragement for offsets.

2.4.2.2 [C2.2] U.S. Industry Promotes Domestic Alignment

[C2.2 Hypothesis]: When problematic offset issues threaten to undermine large FMS programs, defense firms will lobby the government for support.

Problems with proposed or established offset projects cause industry to lobby directly to the president and indirectly through executive branch actors and Congress. Comprehensively these actors comprise the Security Cooperation Enterprise, using the arms trade as a tool to promote U.S. interests in building partner capacity and state-to-state relations [Table 2.1] (U.S. Department of Defense, Defense Security Cooperation Agency 2021d; U.S. Joint Chiefs of Staff 2017, v).

Table 2.1. Security Cooperation Enterprise

- U.S. Defense Industry
- Congress
- Executive Branch
 - The President & National Security Council
 - Departments of:
 - Commerce
 - Defense
 - State

Successful conditions for encouragement, based on the president aligning with Congress, parallel a U.S. Supreme Court opinion when President Harry Truman considered options for the U.S. Government taking over defense industry production during the Korean War:

“When the President acts pursuant to an express or implied authorization of Congress, his authority is at its maximum, for it include all that he possesses in his own right plus all that Congress can delegate” (U.S. Supreme Court 1952).

Although the default setting for inaction with offsets is found for both Congress and the president in the Declaration of Offset Policy, both sides can overcome the checks, balances, prohibitions, and norms when they agree on encouragement as the path forward. This alignment in domestic politics can happen when business interests for constituents and the national interest merge.

[C2.2 Proof]: Interviews, surveys, and news media reports will confirm that defense firms lobby and cooperate with Congress and the executive branch to produce alignment for government support with problematic offset issues.

2.4.3 [C3] Executive Decision – ‘Hands On’ Exception

When confronting security problems with offsets, the president has the choice of relying on the ‘hands off’ status quo norm, producing no change, or working through the ‘hands on’ exception to seek solutions for offset problems. However, anti-offset actors in government and the private sector can create problems for the president as a political actor when the president does not consider their needs, interests, and preferences. The exception to the norm is rare, meaning government support is neither consistent nor proactive. The president’s usual response is sticking with the status quo. Typically, even when accompanied by relative gains concerns related to international competition from other defense exporters and an ally buck-passing on its own burden-sharing responsibilities, industry cannot produce domestic alignment. Yet achieving domestic alignment does not guarantee generating a decision from the president to encourage offsets. Even so, very infrequently, the president makes a security-based decision for the ‘hands on’ exception to policy, authorizing government encouragement to address problems with offsets.

[C3 Hypothesis] When choosing the exception, the president delegates actions to the executive branch.

In addition to sometimes engaging international counterparts directly, choosing the ‘hands on’ decision to encourage offsets includes delegating to actors whose organizations have membership in the interagency offset team, also known as the Interagency Offsets Working

Group, designated by Congress as the president’s representatives for addressing offsets (Coyne and Reid 2024; U.S. Congress 2003, §7(c) 2895; Vaccaro 2008).

In August 2004, President George W. Bush established the interagency offset team under the Secretary of Defense. Chairmanship was delegated to the Office of International Cooperation within the Office of the Under Secretary of Defense for Acquisition, Technology and Logistics (OUSD(AT&L)) (U.S. Department of Commerce, Bureau of Industry and Security 2011, 31; 2013b, 2). In February 2018, OUSD(AT&L)

reorganized to become OUSD Acquisition and Sustainment (OUSD(A&S)) and the Trump Administration changed the team’s leadership [Table 2.2]. The new team became co-chaired by

Table 2.2. Interagency Offset Team

- | |
|--|
| <ul style="list-style-type: none">• Executive Branch Agencies<ul style="list-style-type: none">• Department of State – co-lead• Department of Commerce – co-lead• Department of Defense – member• White House-Level<ul style="list-style-type: none">• U.S. Trade Representative – member |
|--|

the Departments of State and Commerce, retaining the DoD and U.S. Trade Representative (USTR) as members, but dropping the Department of Labor (U.S. Department of Commerce, Bureau of Industry and Security 2024, 26).

Because the interagency offset team operates as a working-level steering group, not all offset engagements with international counterparts take place through personnel directly assigned to the team. Interaction with foreign counterparts can also take place through other levels and channels in organizations represented by team membership, such as agency heads and deputies, or where other working level officials from these organizations have international missions and foreign counterparts. However, the president does not have the expertise or the time to exercise policymaking in detail and delegates most actions to executive branch actors (Marcella 2008, 20). Furthermore, the president usually delegates actions verbally, without any

documentation that would trace actions back to the president (Whittaker, Smith, and McKune 2008, 107, 118).

[The team] “is tasked with working with industry to develop recommendations on actions that could be taken to minimize the adverse effects of offsets in defense trade while not hindering the flexibility of U.S. industry as it competes in the global defense market” (U.S. Department of Commerce, Bureau of Industry and Security 2024, 26).

Based on this tasking, interagency offset team members from the executive branch Security Cooperation Enterprise and the White House-level USTR act together, advocating for U.S. Government interests that converge with U.S. industry interests, on behalf of the president,.

[C3 Proof]: Finding and identifying executive branch encouragement for offsets in the news media, and through interviews and surveys, demonstrates the president’s decision.

2.5 Alternatives

Claims and hypotheses discussed so far offer a contrast to the following alternative explanations. The most prominent alternative is elite theory, where the public is exploited (Mills 1956) by narrow privileged interests in the Military-Industrial Complex (MIC) (Eisenhower 1961) and in the defense “Iron Triangle” (Adams 1981). In conflicts between special and general interests, collective action theories also suggest that concentrated groups, among captains of large industries, have advantages over diffuse and distributed groups (Moravcsik 1993, 135; Olson 1971). However, these theories cannot explain the predominant status quo, where other authors describe how large defense corporations and the MIC typically do not receive the support they desire (DeVore and Weiss 2014, 526n36; Krasner 1978, 331).

Instead, the president is at the center of decision making, reflecting on political reactions from other elites and an attentive small segment of the public without catering to them (Saunders 2012). This reflects the decision structure stated in the Declaration of Offset Policy, where it is the president who approves exception to policy. It also reflects the salience of relative gains with

any country, including allies, where states are predisposed to seek “relative advantage against like entities” (Mastanduno 1991, 108–9). Presidents have the discretion to make decisions for or against supporting offsets based on national security, and not accomplished solely for business interests – even when supporting offsets might benefit defense firms.

Although the president has choices, the president’s autonomy is constrained when adjudicating disputes between domestic and international imperatives with the arms trade (Moravcsik 1993, 160). Promoting offsets can invite strong, organized, and influential negative reactions from those who miss out on benefits, which discourages the president from openly supporting offsets. When large U.S. defense firms send production and technology overseas as offset projects, the move can displace U.S. domestic subcontractors and suppliers (Markusen 2004, 76; Nackman 2011, 522; Nugent 1985, 866; Petty 1999, 9). In addition to opportunity losses by small- and medium-sized companies, many American labor unions also oppose offsets for the same reasons (Petty 1999, 9). Workers and firms can put pressure on the government through electoral mobilization, labor protests, campaign contributions, and elite networks that take a stand against collaborative international projects, even when not connected to offsets (Krasner 1978, 349; Moravcsik 1993, 136). Large defense industries can also take a stand against U.S. Government support for U.S. businesses competing in the same overseas markets. For all these reasons, the president is constrained in arms trade collaboration where “international outcomes must be negotiated and amended in such a manner as to retain the support of domestic actors” (DeVore 2014, 421).

The ability of the president and elements of the executive branch, as relative gains proponents, are significantly influenced by how much they can mobilize, or are mobilized by, members of Congress (Mastanduno 1991, 112). In this case, large weapon system export

programs spread across factories in many congressional districts produce a “distributive” effect for broader support from Congress than from programs limited in geography (Shepsle and Weingast 1981, 96). Furthermore, members of congressional committees that cover the armed services, foreign relations, and appropriations are in a better position to address issues emerging in their districts (Lowi 1964, 693). While claiming success for high-profile projects that retain and create jobs, legislators can also benefit from increasing campaign contributions from successful contractors and increasing state revenue through local taxes (Hartung 1999, 20, 21). Regardless of political party, more members of Congress will find common cause with lobbyists and corporate leaders from large companies that manufacture products across a geographically widespread collection of like-minded voting constituents. This is especially true when including organized labor, and suppliers in small- and medium-sized companies, whether the financial source is U.S. Government defense spending or foreign spending invested in U.S. manufacturers.

Executive branch agencies in the Security Cooperation Enterprise such as State, Defense, and Commerce, will also advocate for U.S. industry within organizational and legal bounds, when recovery from weak and problematic offset issues will produce positive outcomes for their FMS-based security cooperation goals. However, in contrast, publications from the Departments of Defense and Commerce show abridged and paraphrased versions of policy that exclude acknowledgement of the presidential exception and promote their preferences in the prohibitive norm. Miles’ Law, coined in 1949, explains this conflicting aspect of bureaucratic politics as “where you stand depends on where you sit” (Miles 1978, 399). In this case, Miles’ Law explains positions for or against offsets based on each organization’s own unique interests that are supported or undermined by offsets. Bureaucratic politics can also explain offset policy emerging from the “pulling and hauling among” government actors “with differing perceptions

and stakes. These arise not only from differing conceptions of national security interest but also from differing domestic, organizational and personal interests” (Allison and Halperin 1972, 57). Given interagency divisions and preferences, international structural forces do not translate automatically or easily into policy outcomes. Instead, proponents of an exception to policy based on relative gains strategies struggle with agencies or officials that have competing concerns (Mastanduno 1991, 110). Moreover, even government agencies supporting offsets promote assumptions that prevent most politicians, policy entrepreneurs, and industry representatives from considering an offset-based appeal to the president.

Instead of relying only on U.S. military intervention to resolve international problems, the president seeks as many policy tools available as possible (Milner and Tingley 2015, 16). In combination with the other policy tools, *direct* offsets, contributing to cooperative weapons and technology programs, give “partners the necessary defense base to provide an equitable share of the defense of the alliance to which all are members” (Weida 1985, 68). *Indirect* offsets as well, which might be more commercial in nature, thicken the bond between importers and U.S. companies, enticing buck-passing partners into looking after their own security. Even offset projects consummated in preparation for contracts that never materialize have been known to transform into strategic partnerships (Anicetti 2024, 138).

However, the U.S. Government is a weak state in relation to American society, unable to make many domestic political changes by fiat, frequently requiring convergence of private interests and public policy aims to act in the strategic arena (Krasner 1978, 70, 89). As stated in expert witness testimony to Congress about offsets:

“... there are places where the interests of the government and the companies converge, and there are places where the interests of the government and the companies diverge” (U.S. House of Representatives 2004b, sec. Statement of Katherine V. Schinasi, 28).

Yet without a salient external event to mobilize an issue, the side opposed to any policy change generally holds the power (Moravcsik 1993, 135; Wilson 1995). This is where relative gains concerns about competition with other defense exporters and burden sharing problems with friends and allies that buck-pass on their own security begin shifting policy from anti-offsets to pro-offsets. In this case, where an international event highlights relative gains concerns, the president can achieve public gains from arms trade collaboration for large industries and their stakeholders in ways that cannot be achieved unless the defense industry anticipates gains as well (Moravcsik 1993, 155).

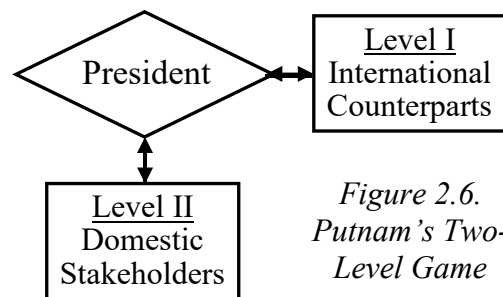
The exception to the prohibitive norm is rare, meaning government support is neither consistent nor proactive. The founding of offset policy in the Duncan Memorandum, reinforced by presidential policy and in statute by Congress, eliminates planning for potential government support or intervention with offsets as a going-in plan for new market access (Ianakiev 2006, 312–13). Furthermore, presidents often react to opportunities, knowing from experience that politics can be unpredictable, with success coming mostly from dealing with the unexpected (Sapolsky, Gholz, and Talmadge 2020, 221).

Encouraging offsets too early, without knowing and verifying the surrounding issues and identifying alignment or opposition, can damage the president. Any presidential decision hinges on the ability to obtain transaction benefits – rewards not only to the U.S. for the national interest, but also for the president as a political actor (Putnam 1988, 452). However, America's domestic black ball political system enables actors such as competing companies, Congress, and other organized opponents to block and defeat policy exceptions (Krasner 1978, 89). As arms collaboration issues mature, the details associated with projects become more precise, alignment emerges, and the domestic implications for collaboration becomes clearer (Moravcsik 1993,

135). Therefore, before the president can act, relative gains concerns associated with offsets – such as competition among defense exporters and an imbalance in burden sharing – must achieve a level of issue salience significant enough over time to overcome opposition and the status quo, and achieve transaction benefits for the president as a political actor. It is through struggles like this, in the domestic arena, where relative gains in the arms trade translate into policy (Mastanduno 1991, 75).

2.6 Two-Level Game – Encouraging Offsets

Discussion to this point, with the president as a decision-maker and offset advocate situated between international causation and domestic actors, suggests outcomes involving Putnam’s two-level game (1988)



*Figure 2.6.
Putnam’s Two-
Level Game*

[Figure 2.6]. The two-level structure shows the Chief of Government (as the president) situated between Level I *international counterparts* (in importing governments) and Level II *domestic stakeholders* (in the Security Cooperation Enterprise), where the president seeks and shapes successfully overlapping win-sets ratified by parties at both levels in accordance with claims for [C1] international causation, [C2] domestic alignment, and [C3] government encouragement for offsets.

2.6.1 [C1] International Causation & Relative Gains Concerns

The causal origin for offsets encouragement begins abroad, between a Level I importer and a Level II U.S. defense firm. The ‘offsets problem’ demonstrates a mismatch between respective win-sets for the buyer state and the arms supplier (Anicetti 2024, 47). Putnam defines “the “win-set” for a given Level II constituency as the set of all possible Level I agreements that would “win” – that is, gain the necessary majority among the constituents” (Putnam 1988, 437).

Here, a problematic Level I offset project, a group of projects, or a policy, whether proposed or established, is a mismatch with what the Level II U.S. defense firm is capable or willing to achieve, hindering FMS- and FMF-based U.S. foreign policy goals.

2.6.2 [C2] Domestic Alignment

In response to the problematic offset project or policy, the U.S. defense firm works through Level II domestic Security Cooperation Enterprise stakeholders, advocating for alignment by lobbying directly to the president, and lobbying indirectly to the president through Congress and the executive branch [Figure 2.7].

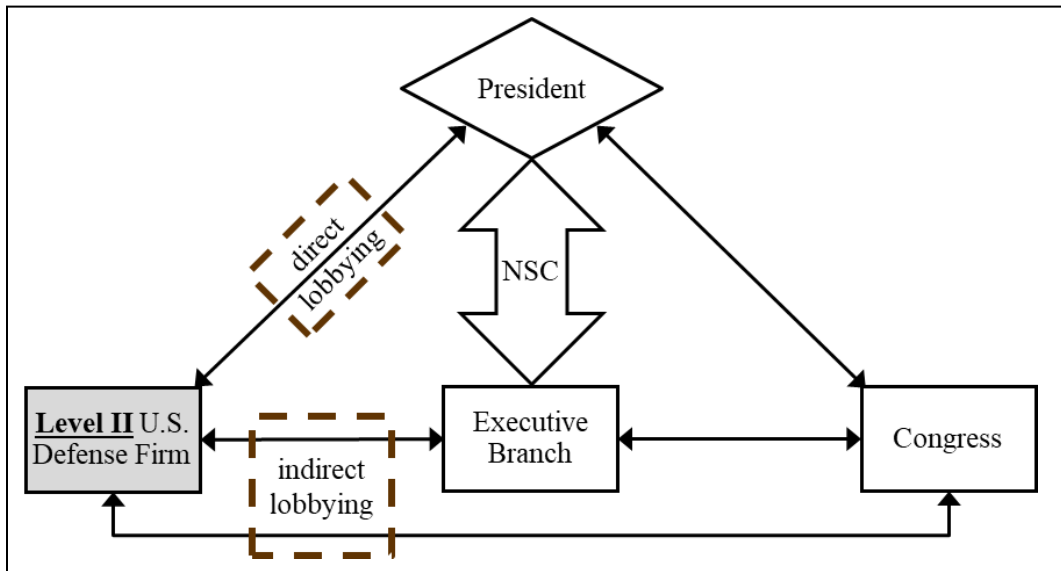


Figure 2.7. Level II – U.S. Defense Firm Lobbies for Domestic Alignment

When lobbying key elected, appointed, and career officials, communication and feedback also flows between each of the elements and back to industry, with industry and government stakeholders facilitating alignment among dispersed officials and offices in the Level II Security Cooperation Enterprise. Congressional support is vital, and more likely where offsets promote or ensure American jobs distributed across jurisdictions represented by key elected officials. Furthermore, as part of industry lobbying indirectly to the president for alignment, and as

described in the Declaration of Offset Policy, executive branch organizations with members in the interagency offset team – comprised of the Departments of State and Commerce as co-leads, the DoD, plus the U.S. Trade Representative – make recommendations to the president through the NSC. Typically, however, status quo inertia and opposition from one or more key stakeholders in Congress, the executive branch, or within White House offices prevents domestic alignment, leading to government inaction.

2.6.3 [C3] Executive Decision – ‘Hands On’ Exception

Achieving U.S. industry-led alignment with and through the Security Cooperation Enterprise enables the president to consider engaging Level I international counterparts directly, and also to delegate to executive branch actors represented by organizational membership in the interagency offset team [Figure 2.8].

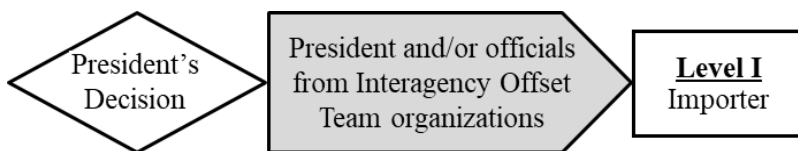


Figure 2.8. Level I – U.S. Government Engages International Counterparts

Simultaneously with, or instead of the president’s engagement, executive branch officials then conduct outreach with Level I international counterparts in the importing country. Furthermore, executive branch personnel working in the importing country, especially U.S. ambassadors, consular officers, and other executive branch members working for the chief of mission in embassy-based country teams, are especially well placed for international engagement (Dorman 2011, 69–70). Their duties also place them in contact with U.S. exporters (U.S. Department of Defense, Defense Security Cooperation University 2022a, 4–14 to 4–16).

Beyond State Department representatives, many country teams also have Department of Commerce personnel conducting official in-country advocacy to facilitate U.S. exports, and uniformed U.S. military members dedicated to Security Cooperation and defense trade (Donnelly and Crocker 2019; Karas 2020; McDaniel 2023; U.S. Department of Defense, Defense Security Cooperation University 2022a; U.S. Joint Chiefs of Staff 2017, ix, II-4–5, A-12). Moreover, the uniformed military Security Cooperation Office in each embassy’s country team also works for the DoD’s Geographic Combatant Command (GCC) (U.S. Department of Defense, Defense Security Cooperation Agency 2021a, sec. C2.1.1.1, C2.1.2.2). This puts Department of State, Commerce, and Defense personnel in a unique interagency position to cooperate with each other under the U.S. Ambassador and to communicate with in-country U.S. industry representatives and foreign government counterparts about U.S. policy.

2.6.4 Two-Level Game Summary

Although organizational structures and processes that illustrate engagement do not guarantee successful resolution, Putnam’s two-level game explains sources and channels producing government encouragement for offsets. Before entering the two-level game, a three-step process begins at [C1] international causation, where a Level I importer’s problematic offset project or policy is a mismatch with Level II U.S. exporters, and hinders arms trade-based U.S. security goals. As a result, [C2] a Level II U.S. exporter seeks support by lobbying directly to the president and indirectly through Congress and the executive branch. If industry-led lobbying produces alignment among key stakeholders in the Level II Security Cooperation Enterprise, [C3] the president can then employ personal discretion. If deciding to encourage offsets, the president engages Level I international counterparts directly, or delegates interagency offset team organizations to engage their Level I counterparts along with or instead of the president.

2.7 Case Selection and Claims Testing

Government encouragement for offsets rarely takes place even under favorable conditions, which drives case selection to where encouragement can be found, in practice. This means selecting on the dependent variable, where the results are. Tracing from incidents to identify causal or enabling factors is appropriate where events, outcomes, and practices differ significantly from normal conditions (Van Evera 1997, 46–47). The widely assumed universal condition for offsets is “no encouragement,” without exception. Therefore, in contrast, case selection will begin in the exception, by looking for examples of encouragement for offsets, and exploring the causal factors [Table 2.3].

Table 2.3. *When Encouragement is Possible or Most Likely*

[C3] <i>Encouragement for Offsets</i>		[C1] <i>International Causation – Relative Gains Concerns</i>				
		[C1.1] Foreign Industry Competition		[C1.2] Burden Sharing Concerns		Both [C1.1] & [C1.2]
		No	Yes	No	Yes	Yes
[C2] <i>Domestic Alignment</i>	No	Impossible	Impossible	Impossible	Impossible	Impossible
	Yes	Impossible	Possible	Impossible	Possible	More Likely

This model graphically depicts selecting cases based on [C3] encouragement for offsets (at the upper lefthand corner) and looking for [C1] international causation (shown at the top), divided into two relative gains categories – [C1.1] foreign industry competition -and- [C1.2] burden sharing concerns. Following theoretical claims, [C2] domestic alignment (shown at the bottom left) is also a necessary condition. Each of the individual [C1] international causal factors, when merging with [C2] domestic alignment, can individually create conditions *possible* for enabling encouragement, but are *more likely* to enable encouragement when both [C1.1] foreign industry competition -and- [C1.2] burden sharing concerns are active. Yet even when one

or both [C1] international factors are active, a lack of [C2] domestic alignment is the bottleneck that makes encouragement *impossible* most of the time. Furthermore, outcomes for this model demonstrate that even when all causal factors are active, they do not compel encouragement. However, because of selecting on the dependent variable, where [C3] encouragement for offsets is already taking place, this assumes that some combination of [C1] and [C2] variables are already present in cases under review. It also enables falsifiability, so that an absence of either [C1] international causation or [C2] domestic alignment, or the absence of both [C1] and [C2] factors, will disprove theoretical claims and suggest analysis for alternative causes.

Because the preceding chart highlights where causal factors intersect to produce *possible* and *most likely* outcomes, evidence-based claims testing can focus on the following specific areas [Table 2.4]. The dependent variable, encouragement for offsets, will be rated on two types of criteria – a discrete rating for observed White House involvement, and an aggregate number for [C3] reflecting all of the independent variables to indicate how much causation enables or does not enable encouragement based on theoretical claims.

Table 2.4. Assigning Numerical Values to Assess Confidence in Claims

<i>Encouragement for Offsets</i> Observed White House encouragement: <u>0-4</u>	[C1] <i>International Causation</i> – <i>Relative Gains Concerns</i>	
	[C1.1] Foreign Industry Competition <u>0-4</u>	[C1.2] Burden Sharing Concerns <u>0-4</u>
[C3] = (C1.1 + C1.2 + C2) / 3 = <u>0-4</u>		
[C2] <i>Domestic Alignment</i> <u>0-4</u>	If (C1.1 x C2) > 0, then (C1.1 + C2) / 2 =	If (C1.2 x C2) > 0, then (C1.2 + C2) / 2 =
	<u>0-4</u>	<u>0-4</u>

Each variable will be rated as **0-4**, with **0** representing no evidence or indicators and **1-4** representing increasing strength for evidence based on confidence measuring tests [Table 2.5].

Table 2.5. Confidence Tests & Claims

<u>1</u>	<i>Straw-in-the-Wind Test</i> – weakest evidence
	<ul style="list-style-type: none"> - Foreign Industry Competition – Only adversary countries compete for an arms export - Burden Sharing Concerns – U.S. officials address shared regional security interests - Domestic Alignment – Congress or executive branch stress importance of arms trade - White House – The president issues a pro-export Conventional Arms Transfer Policy
<u>2</u>	<i>Hoop Test</i>
	<ul style="list-style-type: none"> - Foreign Industry Competition – Adversaries & friends/allies compete for an arms export - Burden Sharing Concerns – U.S. officials positively address burden sharing and emphasize interoperability - Domestic Alignment – The executive branch and Congress separately address offsets - White House – The president or vice president actively promotes an arms export
<u>3</u>	<i>Smoking-Gun Test</i>
	<ul style="list-style-type: none"> - Foreign Industry Competition – Only friendly/allied countries compete for arms export - Burden Sharing Concerns – U.S. officials address shared regional security interests, and discuss burden sharing negatively as buck-passing and free-riding - Domestic Alignment – Congress and executive branch officials interact about offsets - White House – White House-level officials and U.S. ambassadors, but not the president or vice president, engage importers and U.S. industry about offsets
<u>4</u>	<i>Doubly-Decisive Test</i> – strongest evidence
	<ul style="list-style-type: none"> - Foreign Industry Competition – Only one competitor, a friendly/allied country - Burden Sharing Concerns – Officials blame friends/allies for poor interoperability - Domestic Alignment – Congress and executive branch officials interact, and engage U.S. industry and foreign government officials about offsets - White House – The White House endorses FMF loans where importers require offsets, or endorses pro-industry policy conducive to working with offsets

A score of **1** represents the weakest evidence, for the “straw-in-the-wind test” – events or issues are uncertain, and analysis produces indecisive findings. A score of **2** represents a bit more confidence through the “hoop test” – negative results fail because they cannot jump through the “hoop,” but positive results that pass the test do not prove claims. A score of **3** passes the “smoking-gun test” – evidence proves some claims but does not exclude others. This level of confidence is typically accepted as “proof,” although there is one more level. The number **4** shows the strongest evidence through the “doubly-decisive test” – evidence confirms one claim through the “smoking-gun” test while eliminating all other alternatives through the “hoop test.” Although not entirely discrete categories, concrete examples in the different confidence testing

categories provide a means for measuring and assessing research-based evidence against theoretical claims (Collier 2011, 826–28; Van Evera 1997, 31–32).

Beyond demonstrating the presence or absence of individual factors, applying scores to evidence and creating scores where factors interact enables understanding how [C1] relative gains concerns and [C2] domestic alignment combine to contribute to [C3] encouragement as an outcome. Also, separately assigning a number to [C3] encouragement based on evidence just for that one factor, as well as applying an aggregate number based on the average of independent variables, enables comparing observed evidence for the White House with the strength of causal factors. When the two figures align, it will lend more confidence to theoretical claims. Where there might be significant discrepancies between the number assigned for evidence of [C3] encouragement and the weighted cumulative number for [C1] and [C2] independent variables, it will suggest evidence is missing somewhere in research, or falsification of the theory because of poor structure or inaccurate descriptions for variables and claims. Furthermore, if there is strong evidence for [C3] encouragement, but evidence is unavailable for one of the variables, it logically highlights looking for additional factors not depicted in the theoretical framework, or looking harder for evidence that was claimed in the framework but might be challenging to find.

The Declaration of Offset Policy says that only the president can approve government encouragement for offsets. Therefore, if practice works as legislated, the Declaration automatically puts a smoking gun in the president's hand, passes the hoop test by eliminating other actors performing without authorization, and therefore passes the doubly-decisive test. If practice does not work as advertised, it means the smoking gun might instead be in the hands of policy entrepreneurs who encourage offsets without White House awareness, or with awareness but without explicit authorization, or with awareness but obtaining authorization after-the-fact.

Even in the absence of clearly demonstrating the president’s hand in authorizing encouragement for offsets, this study can still assess independent variables and their likely contribution to outcomes.

2.8 Empirical Analysis

This study uses the process tracing method, relying on data collection through interviews; reviewing literature; combing news media and public affairs releases; reading government publications, legislation, congressional testimony, biographies, and autobiographies; seeking insight through Freedom of Information Act (FOIA) requests; researching archives, libraries, and the internet; and looking at academic and think tank publications, conference reports, and meeting transcripts. Finding offset policies and activities through the internet, databases, libraries, archives, and within the literature relies on using a broad array of key words which were also entered into Google Alerts (“Google Alerts,” n.d.) and Google Scholar (“Google Scholar,” n.d.) for daily notification about news stories and emerging scholarship [see *Annex C* for Keywords – Google Alerts & Google Scholar]. Research-based evidence offers direct and indirect insight on who accomplishes what kinds of encouragement for U.S. industry with offsets, and who opposes encouragement. Because single datapoints and lone pieces of evidence rarely demonstrate claims on their own, iterative reviews of research and reevaluating analysis increases confidence in claims testing.

Interviews with U.S. Government and U.S. industry subject matter experts highlight where government encouragement is impossible or unlikely under most conditions, yet possible under the right conditions. Because subject matter experts are difficult to find, and many do not want to discuss their relationship with offsets, the interview population starts with a small number of willing participants and grows through “snowball sampling” – by asking initial

interview participants to recommend other candidates, and building up a larger number of interviews (Beckmann and Hall 2013; Bleich and Pekkanen 2013, 87, 96–97; Lynch 2013, 41–42; Parker, Scott, and Geddes 2019). Interviews produce some evidence, but the most important role is pointing to country-specific cases and where to consider looking within those cases.

Based on interviews, case selection turns to India, Poland, and the United Arab Emirates – all countries that have offset policies in law or formal policy. Before interviews, initial research indicated other potential cases, but they turned out to have weak examples for first-ever research into encouragement for offsets. This does not eliminate the other cases as options for future study. Instead, access to richer data through initial cases enables better process tracing (Van Evera 1997, 47). After developing theories and analytical methods for measuring claims, the process can be applied with more confidence where countries obscure offsets in policy, practice, and organizational names by labeling them as “industrial participation” or “industrial cooperation,” and where countries employ offsets without explicitly stating their requirements in law or policy.

While focusing on U.S. policy and practice, process tracing identifies U.S. security partner national policies and practices for initial cases to develop analytical methods and theories that can be used after this study to look at other country-based case studies on offsets with weaker evidence than cases reviewed here. Because U.S. government encouragement is a response to international offset issues, country-specific cases will involve some research in non-English language publications. Where foreign language documents serve as important sources for evidence, target language speakers will translate or verify translation accuracy. Even so, reliance on foreign language resources will be limited. Although importer policies and

perspectives are important at some points, the primary focus is on U.S. policy and the U.S. Government role, found primarily in English language sources.

2.9 Conclusion

This chapter addresses claims, theoretical frameworks, and testing to identify when it is in the national interest to encourage offsets, what constrains or facilitates encouragement, and how we know causal factors are active. Offsets are vehicles for economic achievement employed by industry that also serve a foreign policy role for the U.S. Government. Although government-managed programs such as FMS and FMF loans will deliver the products and services, sometimes offsets cause U.S. Government policy and practices rather than the U.S. Government leading the process. In response to complications with offsets, the Declaration of Offset Policy explicitly authorizes the president to seek remedies through approving encouragement for U.S. industry, but only by exception.

A detailed process supports and illustrates testable *claims* [C] operating in a three-step process and Putnam's two-level game. Before playing out in the two-level game, [C1] international causation leads to relative gains concerns, and [C2] industry lobbies the president directly and indirectly for domestic alignment, enabling or causing [C3] government encouragement. The president's situation between international and domestic stakeholders highlights Putnam's two-level game where the head of state or his representatives align win-sets between both Level I international counterparts and Level II domestic stakeholders.

The three-step process can show problems with offsets that produce relative gains concerns where international competition threatens to interrupt or replace the U.S. Government in an exclusive state-to-state arms-trade relationship, or where weak security partners chain-gang and buck-pass on their own security. When offsets produce these problems, industry lobbies

directly to the president and indirectly through Congress and the executive branch for domestic alignment. Even before lobbying starts, domestic anti-offset actors produce and sustain a prohibitive norm against encouragement so strong that it creates a near-complete lack of awareness about the president's role in authorizing an exception to policy. Even so, pro-offset alignment among key actors sometimes takes place, enabling or causing the president's decision to support offsets as an exception to policy. When confronting security problems with offsets, the president has the choice of relying on the 'hands off' status quo norm, producing no change, or authorizing the 'hands on' exception to seek solutions for offset problems. Very infrequently, the president makes a security-based decision for government encouragement to address problems with offsets, and delegates actions to organizations in the interagency offset team.

Claims and hypotheses offer a contrast to alternative explanations, such as "elite theory" and "collective action theory" where the public is exploited by concentrated and narrow privileged interests in the Military-Industrial Complex (MIC). These theories cannot explain the prohibitive status quo, where other authors describe how large defense corporations and the MIC typically do not receive the support they desire. Instead, the president is at the center of decision making, reflecting on political reactions from other elites and an attentive small segment of the public without catering to them. This matches the decision structure in the Declaration of Offset Policy, which legislates presidential approval only as an exception. However, before the president can act, offset-based relative gains concerns with competing defense exporters and buck-passing security partners must rise to a level of issue salience significant enough over time to overcome opposition in the status quo, and achieve transaction benefits for the president as a political actor.

Creating a chart that graphically displays *claims* [C] for the independent variables in [C1] international causation and [C2] domestic alignment that produce [C3] encouragement enables validating research findings with increasing fidelity and confidence. A chart depicting variables visibly illustrates that encouragement conditions are typically impossible to achieve and also how unlikely it is for the president to make a positive decision. Because obstacles against encouragement are so high, finding and analyzing activities in practice becomes even more interesting.

The primary purpose of analysis is to validate the nature and degree of government encouragement and the president's role. Based on interviews, country-specific case selection looks at India, Poland, and the United Arab Emirates. While addressing U.S. policy and practice, process tracing also identifies security partner countries and their policies and practices for offsets. Although importer perspectives are important at some points, the primary point is analyzing how the U.S. Government deals with offsets, to show encouragement found in practice that demonstrates 'hands on' exceptions to the 'hands off' policy.

Chapter 3. United Arab Emirates

During 1997-2000, offsets occupied a small percentage of the Lockheed Martin F-16 competition against France for sales to the United Arab Emirates (UAE), yet commanded outsized attention due to several political, strategic, economic, and military reasons attached to the \$8 billion deal. Encouragement for offsets took place through Department of Commerce publications where positive comments aligned with White House regional policy. Looking at claims demonstrates characteristics for each step in the three-step process, but not in the same order. There is moderate confidence for international causation, and some evidence for domestic alignment among industry, the White House, other executive branch actors, and key stakeholders in Congress. Although not fully demonstrating the three-step process, evidence demonstrates Putnam's two-level game where executive branch senior leaders, including the president and vice president, bridged gaps in win-sets between U.S. domestic stakeholders and UAE counterparts. However, research does not provide strong evidence to show the president's direct role in authorizing encouragement for offsets, nor does it indicate other members of the executive branch intervened for offsets either. Instead, the UAE case passes the straw-in-the-wind test. Even so, the case is a very interesting study of how offsets worked with America's relative gains concerns about industry competition and burden sharing when selling F-16s to the UAE.

3.1 History & Background

The UAE is an oil-rich Middle Eastern country and 1981 Gulf Cooperation Council (GCC) founding member consisting of a federation of seven emirates, financially well off but small and in a high-risk region that is important to American strategic interests. In 1971, it formed as a country when the British withdrew, and in 1996 adopted a constitution (Foley 1999).

The UAE borders Saudi Arabia and Oman, situated across the Strait of Hormuz from Iran to the north, and between the Persian Gulf to the west and the Gulf of Oman (and the Indian Ocean) to the east. It possesses large oil and natural gas reserves, and produced 10% of the world's oil supply in the 1990s (Foley 2002, 35). UAE stability is critical for the defense of GCC countries from Iranian provocations, and has been key to hosting military forces that prevented Iraq's territorial expansion. Continuing freedom of navigation through the Strait of Hormuz is important not only for trading UAE petroleum products, but also for Persian Gulf countries in general, and for countries throughout the world that depend on Gulf oil production (Foley 2002, 35).

Iraq's invasion of neighboring Kuwait in 1990, and expulsion in 1991 with a large international force, demonstrated that defense alone, or only in alliance with GCC forces, was impossible for small Middle Eastern countries such as the UAE. With an expatriate workforce comprising 90% of its population, only a small number of citizens are available for national defense, with many in the labor force expected to leave if the country is attacked (Sim and Fulton 2022, 125). Iraq, however, at the northwestern end of the Persian Gulf, was not the main concern at the UAE's southeastern end of the Gulf. Instead, Iraq's invasion of Kuwait served as a larger lesson for UAE vulnerabilities with its own neighboring security threat, Iran (Foley 2002, 33; Katzman and Grimmett 2000, 2; Squeo and Pearl 2000). A UAE Ambassador in Washington, DC once reportedly said:

“Our military wake up, dream, breathe, eat, sleep the Iranian threat. It's the only conventional military threat our military plans for, trains for, equips for” (Sim 2012, 88).

In fact, the UAE looked to Iraq at the other end of the Gulf as a useful tool for checking Iran's ambitions, and therefore UAE leadership did not always favor Iraqi regime change (Foley 2002, 43). Even so, Iraq's activities opened a sense of vulnerability that the UAE continued to feel with

Iran, and more so as Iran grew stronger while Iraq was simultaneously marginalized and weakened by Western embargoes in the 1990s.

The UAE began developing a functional military and deploying troops to active conflict areas while other Gulf countries also increased defense spending, partly to secure protection through the militaries of arms exporting countries. As early as 1991, the UAE took part in U.S.-led aerial operations against Iraqi forces in Kuwait and contributed ground troops to liberating Kuwait City. Emirati forces were involved in operations in Somalia in the early 1990s and in Kosovo in 1999. Consequently, they gained a reputation as ranking highly among GCC militaries for training and capabilities (Salisbury 2020, 10–11). Even so, earlier UAE active military participation in the Gulf War was limited, with the biggest contributions coming from access to its air bases and ports, importantly at Jebel Ali, the only Persian Gulf harbor deep enough for an aircraft carrier. However, the UAE's most notable contribution to the Gulf War was paying approximately \$6.5 billion to cover U.S. wartime expenses (Foley 2002, 35, 49–50).

Security concerns in the 1980s and 1990s led to increased UAE defense spending distributed thinly across numerous international suppliers for two primary reasons. First, each of the individual seven emirates that could afford military equipment pursued their own procurement. Second, even when centralized, the purpose was not only to obtain weapons, but also to secure a variety of international relationships that specifically prevented over-reliance on any one country as a supply source or state policy influence. Unfortunately, the dispersed spending pattern also meant the UAE maintained a mismatched inventory from a dozen countries (Foley 2002, 51, 54–55).

The strategy of balancing international political influence through procurement undermined the UAE's security with excessive diversity and did not produce any particular

alliance that could replace reliance on the United States. Sharing the same weapon system types with security guarantors enables interoperability that increases combat effectiveness and enhances deterrence (Grossman 1996, 16). However, France, the UK, and Türkiye could not provide the UAE with effective deterrence against Iran on their own because they lacked Gulf power projection capabilities, especially without America's assistance. France promised to send an aircraft carrier and associated battle group, 130 combat aircraft, and 85,000 personnel if the UAE were ever invaded. In contrast, however, this pledge followed France's struggle to provide 15,000 troops for Desert Storm during 1990-1991. Moreover, in an interview with UAE news media in March 1999, the French Army chief of staff stated, "the United States is the number one guarantor of the stability of the Arab part of the Gulf region" (Foley 2002, 51, 54).

Following the first Gulf War in 1991, after the UAE provided territorial access and financial support to dislodge Iraq from Kuwait, U.S. security interests overlapped increasingly with UAE concerns about its primary adversary, Iran. At that time, the UAE addressed its vulnerabilities by seeking advanced fighter aircraft. Because of reduced post-Cold War domestic military equipment procurement, U.S. defense companies were planning to shut down factories and cut thousands of jobs, also gaining the attention of American politicians at risk of losing their own constituent support. This raised questions about burden sharing and free-riding when the UAE relied heavily on the U.S. as a security guarantor, with U.S. politicians and defense workers on the edge of keeping or losing their jobs based on UAE choices.

3.2 Foundation For U.S.-UAE Relations

UAE military numbers, capabilities, and geography put it at a disadvantage when facing Iran, and the checkbook approach to paying in larger wars and obtaining a wide combination of weaponry for short-term international relations increased its vulnerability over the long term.

Americans in the early 1990s expressed concern about the mercenary nature of Gulf countries paying for defense rather than physically committing national forces to active burden sharing. Put in more blunt terms, U.S. public opinion increasingly asserted regional actors “must be prepared to die defending their countries before the U.S. public will accept risking its sons’ and daughters’ lives” in defense of oil-producing states (Clawson 1995).

In July 1994, three years after the 1991 Gulf War, negotiations produced a U.S.-UAE defense cooperation agreement for prepositioning of U.S. military equipment, joint military exercises and training, and discussions on procurement (Katzman and Grimmett 2000, 3). The resulting defense agreement coincided with and facilitated the UAE considering new fighter aircraft, with discussion focusing on the Lockheed Corporation F-16 and the McDonnell Douglas F-15. UAE officials understood the post-Cold War buyer’s market put importers in an excellent position, and they encouraged a rigorous contest to extract optimum benefits (Grazier 2016). This exacerbated relative gains concerns among U.S. foreign policy actors related to both foreign industry competition and interoperability-related burden sharing.

Shortly after the July 1994 U.S.-UAE defense cooperation agreement, McDonnell Douglas and Lockheed Corporation (prior to merging with Martin Marietta in March 1995 to become Lockheed Martin) were prepared to discuss their proposed offset packages with UAE representatives at February 1995 meetings in Washington, DC (Isby 1995, 16). Over a year-and-a-half later, in September 1996, the UAE officially notified Lockheed Martin that its F-16 and the Rafale, from France’s Dassault, were the only candidates remaining from a pool of contenders that previously included the Eurofighter Typhoon, and Russian and Swedish fighters (“F-16 and Rafale in Dog Fight for UAE Strike Force Order” 1996; Grazier 2016; Squeo and Pearl 2000; Wortman 1999, 9).

3.3 1993-1995 – The Last Supper, then Policy Changes

In 1993, the U.S. Government significantly reduced purchase orders and subsidies to arms manufacturers, increasing pressure on U.S. firms to expand into foreign markets for economic survival. In July of that year, Secretary of Defense Les Aspin invited 15 executives from the largest U.S. defense firms for a dinner at the Pentagon. Deputy Secretary of Defense William Perry gave a presentation informing guests they could no longer depend on Cold War-level procurement, and said at least half of the U.S. defense industry would not be needed in the future. Recognizing the significance, Norm Augustine, then CEO for Martin Marietta and later CEO for a merged Lockheed Martin, called the event “The Last Supper” (Augustine 2006; *Innovation with Purpose: Lockheed Martin’s First 100 Years* 2013, 190).

During the next few years, over 100 U.S. companies rapidly merged and consolidated down to five major defense firms – Lockheed Martin, Boeing, Raytheon, Northrop Grumman, and General Dynamics – and these companies increased their competition overseas to compensate for decreasing domestic procurement (Diaz 2020, 12; Watts 2008). This international shift strengthened importers in a buyer’s market, making offsets a much more prominent factor in the arms trade. However, a pronounced policy rebound from the ‘Last Supper’ started as early as 1995, becoming more pronounced during 1997-1998.

In February 1995, President Clinton signed “Presidential Decision Directive/NSC-34: U.S. Policy on Conventional Arms Transfer,” a classified document simply known as PDD-34. In 2010, this document was declassified and made available to the public, without redaction. In summary:

“The United States transfers conventional arms to support U.S. national security and foreign policy goals, including helping friends and allies deter aggression, promoting regional security goals, and gaining interoperability with friendly forces. Arms sales also contribute to maintaining the U.S. defense industrial base” (Clinton 1995, 2).

PDD-34 observed a sharp overall decline in the arms trade following the Soviet Union's dissolution. After a brief spike in post-Gulf War sales, weapons manufacturers experienced shrinking national defense budgets and corresponding overcapacity in production. This led to a smaller number of major suppliers in a shrinking market faced with increasing competition where arms importers gained increasing leverage. The U.S. would look at each opportunity for an export sale on a case-by-case basis, avoiding "policies of unilateral restraint except in certain narrow areas" where new weapons would give importers capability advantages over U.S. forces, or lead to "human rights issues or indiscriminate casualties" (Ibid, 2-6).

Unlike more restrictive presidential arms transfer policy on fighter aircraft since 1979, starting in the Carter Administration, the U.S. government would "provide support for U.S. defense exports." New policy involved tasking U.S. personnel at embassies and consulates to participate in support for overseas marketing, actively involving "senior government officials in promoting arms sales of particular importance to" U.S. national security, regional interests, and the U.S. defense industrial base (Ibid, 7). Although PDD-34 did not specifically mention offsets, increasingly promoting U.S. arms exports included addressing obstacles to competitiveness for U.S. exporters. This meant that offsets interfering with implementation of the president's foreign policy would also receive Clinton Administration attention. Simultaneously, in 1995, the DoD changed Defense Federal Acquisition Regulation Supplement (DFARS) rule 225.7303-2 "Cost of Doing Business with a Foreign Government or an International Organization" to begin reimbursing companies for "all costs of implementing an offset agreement" in FMS national fund and *repayable* FMF programs (Spector 1999). This increased benefits for arms exporters using the government-managed arms trade system.

Although primarily promoting the U.S. national defense industry base through defense exports, the policy also served as a tool for addressing burden sharing concerns. Kay Bailey Hutchison, senator (R-Texas) and later U.S. Ambassador to NATO, observed from direct experience that complaints about friends and allies buck-passing and free-riding “started with Clinton” and continued afterwards with other presidents (“Episode 74. The Power of Two: US Engagement with NATO” 2022). By promoting U.S. conventional arms sales, this new policy encouraged friends and allies to alleviate burden sharing concerns by promoting interoperability and procuring weapons from the U.S. as a significant regional security guarantor.

3.4 1995 – Stakeholders at Fighter Pre-Selection

In 1995, during the initial phase of UAE fighter aircraft procurement competition, the U.S. Air Force indicated strong interest in supporting both the McDonnell Douglas F-15 and the Lockheed Martin F-16 for production funded by a UAE purchase. At that time, the Air Force foresaw production lines closing in the year 2000 due to a lack of domestic orders. The Air Force also understood that UAE funding could underwrite U.S. technology developments. An export sale could enable achieving better capabilities through new aircraft variants funded by foreign governments such as the UAE, therefore freeing up domestic spending for other competing procurement priorities. However, export-led improvement ideas clashed with policy restrictions levied against providing export customers with more advanced capabilities than the U.S. military, which also prevented sending military equipment to a region where only Israel possessed the most advanced capabilities (Isby 1995, 14, 16). This conflict in U.S. military interests vs. foreign policy goals set up contests in bureaucratic politics, resolved later through domestic political alignment in favor of exports.

In 1996, controversy over export approval meant a real likelihood of not obtaining unanimous backing from all U.S. Government federal agencies required for arms trades. At that time, the U.S. defense industry was under intense pressure to make up for a significant gap in domestic production, which placed similar pressure on federal agencies and politicians. The large amount of money – and its potential for employment, political credibility, campaign funding, and votes – provided the Clinton Administration with an interesting dilemma in an election year. The administration’s own “Presidential Advisory Board on Arms Proliferation Policy” specifically recommended the White House widely advertise national security and foreign policy as executive branch priorities, to eliminate any impression that jobs and domestic politics were instead the primary reasons when considering the release of restricted technologies and advanced military capabilities to foreign customers:

[We do] “not believe that arms sales that would be rejected on the basis of foreign policy and national security considerations should be approved simply to preserve jobs or keep a production line open. The Board believes it is essential that the U.S. government take steps to make this policy clear *at home and abroad*” (Grossman 1996, 16).

By saying “*at home and abroad*,” the Board was serving the president in delivering a message for both Level II domestic stakeholders and Level I international counterparts. Although jobs and domestic politics might grab the president’s attention, the Board’s recommendation punctuated that arms trade-based foreign policy at the president’s level should be based on national security, not on domestic politics. The Board’s recommendation aligned with PDD-34, emphasizing reviewing each arms deal to prevent regional destabilization, while promoting America’s security interests by providing weapons with capabilities similar to those offered by foreign exporters.

Emphasizing UAE mission requirements for national defense from Iran, retired Air Force General (4-star) Charles Horner, the 1991 Gulf War joint force air component commander,

represented Lockheed Martin in 1996 F-16 negotiations. He advocated for U.S. government export approval, promoting alignment among domestic stakeholders for future U.S. military capabilities – based on the UAE financing a more advanced F-16 than what was in the U.S. Air Force inventory at the time (Ibid, 1, 14–16). Similarly, Lockheed lobbying promoted retaining thousands of jobs, a potential source of political support for the Clinton Administration and members of Congress.

Increasing the pressure to consummate the deal, in December 1997, while continuing the competition between Lockheed Martin’s F-16 and Dassault’s Rafale, the UAE signed a separate \$3.2 billion contract with France’s Dassault – not for the Rafale – but for new Mirage fighters and upgrades on older Mirage fighters already in the UAE inventory (Boese 1998, 34). The UAE move with the Mirage heightened competition between the F-16 and Rafale, giving the UAE more leverage to demand “pre-offsets” before even selecting a contract winner, and to increase pressure on easing U.S. Government arms export restrictions. If federal agencies could not find a way to meet expectations, the UAE could simply default to the French option for its fighter aircraft, as it often did in the 1980s (Grossman 1996, 1, 14; Misheloff 1999, 36–37). This trend was not entirely due to UAE preferences, but instead was also largely the result of U.S. policy on fighter aircraft exports. In 1979, the Carter Administration actively withheld advanced capabilities from non-NATO allies, with notable regional exceptions for Israel, Egypt, and Pakistan. Portraying other security partners as beneath NATO standards produced a loss in trust and influence, and handed UAE business over to European exporters – because they did not have the same self-imposed export restrictions as the U.S. (al Tahan 1986, 72, 76–78).

3.5 UAE Offsets – Origin & Development

Establishment of the UAE Offsets Group (UOG) took place in 1992 (Sim 2012, 89). At this point, at the end of the Cold War, many countries cut back on large-scale military procurement, and importers leveraged struggling defense manufacturers to extract optimum benefits in the worldwide buyer's market (Grazier 2016). Although the 1973 oil shock produced a leap in oil revenues for the primary emirate in Abu Dhabi, global recession and inflation soon afterward highlighted the vulnerability of having an economy based mostly on exporting crude oil (Rossiter and Yates 2025, 5). According to, Dr. Amin Badr El-Din, then-chairman of the UAE Offsets Group (UOG):

“The UAE offsets program was devised to take advantage of stiff competition within the defense industry to ... restructure its armed forces and establish an offsets program consistent with the government's overall economic strategy. This strategy utilizes the positive attributes of the UAE – its geographic location, its infrastructure, its liquid capital markets and its vast oil and gas reserves to redistribute wealth to the citizens of the UAE, create added value for the economy, enhance competitiveness and encourage strategic alliances with multinational corporations” (El-Din 1997, 120–21).

The UOG specified offset obligations as 60% of the value of supply contracts over a \$10 million threshold and required that UAE citizens hold at least a 51% financial stake in any project. Furthermore, “value” meant “output-based” offset credits and obligation fulfilment, assessed on profits or losses (Ibid, 120–22). In other words, output-based offsets meant evaluation at project milestones, with congratulations when flourishing, or financial penalties when falling short (U.S. General Accounting Office 1996, 11, 34). Interim assessments typically occurred at three and five years, with the full period of performance at seven years. Failure to perform by each milestone resulted in cash penalties worth 8.5% of the unfulfilled obligation. This assessment method is unique, unlike most offsets assessed at their initial investment point. According to UAE officials, output-based evaluation with periodic assessments encouraged more

serious commitment from arms producers who might otherwise provide unsustainable projects just to make a sale (El-Din 1997, 121–22).

Outside of the UAE, the output-based practice raised concerns from some suppliers and external observers that offset credits based on profits rather than investments were impractical and potentially very costly (U.S. General Accounting Office 1996, 11). On the other hand, others at the time also indicated the practice was less demanding than the financial penalty for not fulfilling a project or simply not offering one at all (Pearl 2000a). Even though assessment took place at the back end, and it might have been cheaper to just absorb a penalty rather than offer a project, the UAE still required suppliers to provide offsets in advance. The pre-offset practice meant every candidate “short-listed for a particular procurement” had to show commitment by investing or forming a joint venture “in anticipation of a final award of the contract” (El-Din 1997, 121).

UAE requirements created a number of *indirect* offsets, leading to most projects having no material connection with the military equipment on the primary weapon system contract. The broad range of ventures and investments ensured multinational defense firms could enter domestic business partnerships with access to infrastructure and capital. This also enabled firms to solidify relationships with UAE elites and senior decision-makers who could highlight recipients for future defense contracts (Marshall 2012, 26).

Projects included technology services, solar energy, health care, commercial aircraft leasing, ship building, manufacturing of fire-fighting materials, luxury real estate development, waste management services, and a world-class horse racing and polo facility hosting international events (El-Din 1997, 121; Ghanem 2001, 272; Marshall 2012, 23; U.S. Department of Commerce, Bureau of Export Administration 2001b, 35–36). The UAE also worked with

Chase Manhattan, establishing an offshore investment fund for international contractors to use when satisfying their offset obligations (U.S. General Accounting Office 1996, 10–11).

Several French firms also successfully satisfied their offset obligations by establishing investments and manufacturing facilities in the UAE. France's Thomson-CSF created an Abu Dhabi garment manufacturing enterprise as an offset project for a contract on audio systems and tactical transceivers. As part of a contract for French tanks, Giat Industries created the UAE Tabreed engineering firm, specializing in air conditioning (Ghanem 2001, 272; U.S. General Accounting Office 1996, 10). Beyond conventional companies creating products, the UOG encouraged foreign partners to launch Initial Public Offerings (IPOs) as offsets and to raise money beyond initial offset obligations for other offset projects. Dassault and other foreign partners formed a joint venture, the Asmak International Fish Farming Company, based on a combination of 55% public and IPO funding and 45% capital investment, for aquaculture projects including shrimp farms, hatcheries, and processing plants (Aspinall 2001, 289; U.S. Department of Commerce, Bureau of Export Administration 2001b, 35–36).

McDonnell Douglas, absorbed by Boeing in 1997, entered several joint ventures with UAE firms to satisfy offset obligations when selling AH-64 Apache attack helicopters. Projects included setting up manufacturing for oil spill clean-up equipment and establishing used printer cartridge recycling facilities. The company also paid an American legal firm to author the UAE's first environmental laws (U.S. General Accounting Office 1996, 10–11). Separately, Boeing joined local investors through Berlitz International to set up a language education center in the UAE (U.S. Department of Commerce, Bureau of Export Administration 2001b, 36).

3.6 1997-1999 – Offsets for the F-16

Lockheed Martin pursued various successful pre-offsets in competition against Dassault’s Rafale. Lockheed initially collaborated with Ross Perot Jr., a famous Texas businessman and former presidential candidate’s son, proposing a cargo airport and free-trade zone similar to another successful project already initiated by Mr. Perot Jr. in the UAE emirate of Abu Dhabi. However, the UOG rejected that plan, instead offering the option of investing \$160 million in the UOG petroleum portfolio, which led to two different projects. One project involved the “Dolphin” consortium, an ambitious \$8 billion plan for the region’s first and largest cross-border gas supply project – an underwater pipeline planned from Qatar to UAE, and above ground to Oman [Figure 3.1] (Collins 2018, 64; Sim 2012, 89; Squeo and Pearl 2000).

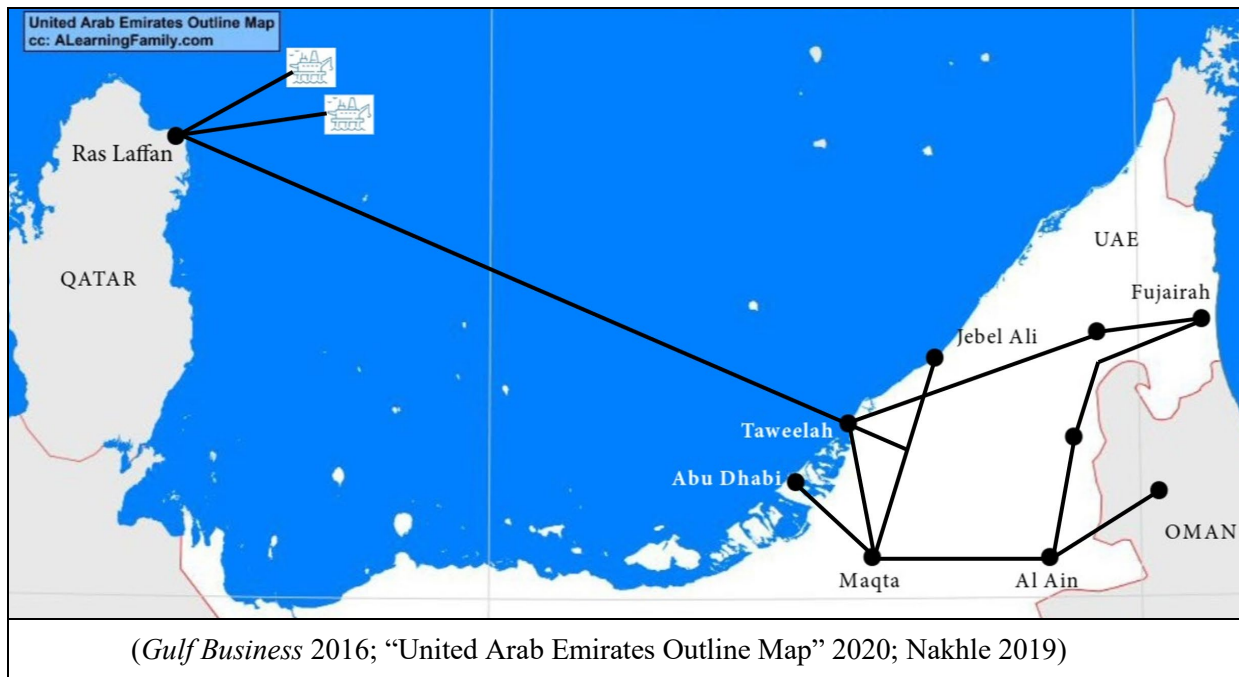


Figure 3.1. UAE Dolphin Project Development

Although initially facing challenges securing outside financing, the UOG successfully launched the Dolphin project in March of 1999 (Kumar 2022, 202; Offshore 2000). Following the UOG shareholder structure for joint ventures in offsets, from October 2002 the Mubadala

Development Company (UAE) took over the UOG 51% share of Dolphin Energy, Occidental Petroleum (USA) owned 24.5%, and Total Fina (France) owned 24.5% (Butt 2001, 245; Dargin 2008, 34; Finn and Gamal 2017; Kumar 2022, 199; Sim 2012, 89). Besides generating power, the UOG hoped to line up energy supply for ammonia, fertilizers, and other regional industrial producers awaiting natural gas for their own projects (Butt 2001, 245–46).

In parallel with Lockheed Martin investment through the petroleum portfolio and into the Dolphin project, a separate chain of financial dealings also helped Lockheed fulfill F-16 pre-offset obligations, also through the petroleum portfolio [Figure 3.2].

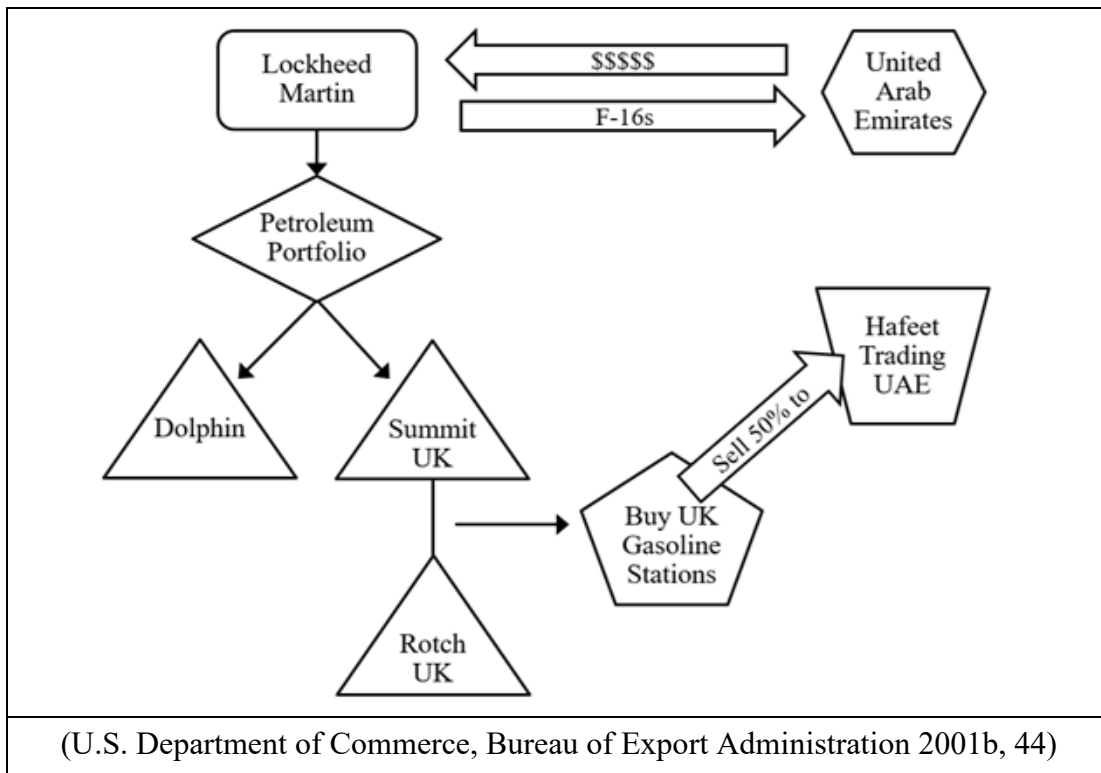


Figure 3.2. Lockheed Martin F-16 Offset Structure with the UAE

The complex UOG plan with Lockheed Martin branched out to Summit Corporate Services, a UK company, acquiring oil tankers and gasoline stations. Summit partnered with Rotch Property Group, also a UK firm, purchasing 180 UK-based Shell gasoline stations.

Summit then planned to sell 50% of its stake in the \$475 million for the Shell stations to Hafeet Trading in the UAE (Pearl 2000a; U.S. Department of Commerce, Bureau of Export Administration 2001b, 42–43). According to UAE policy, offset obligations could be satisfied by providing an investment or creating third party joint ventures. This enabled trade expansion through a greater variety of firms entering into newer and increasingly diverse markets (El-Din 1997, 121; Pearl 2000b).

3.7 Praise and Alignment for Offsets

U.S. Government positive recognition for the UAE offset program, where officials would otherwise abstain or oppose, highlights alignment in the executive branch and a form of encouragement for Lockheed Martin’s role. An “Offsets in Defense Trade” report four years after the start of the Dolphin project explained petroleum portfolio investment as “a prime example of a developing country using defense procurements to benefit other aspects of its economy” (U.S. Department of Commerce, Bureau of Export Administration 2001b, 35).

The UAE leveraged offsets for broad national goals, extending beyond the economy. According to Dr. El-Din, then head of the UOG:

“... by getting suppliers to become involved in local joint ventures, the program has caused a number of global corporations to gain a *vested interest* in the *security and stability* of the UAE” (El-Din 1997, 122).

The “*vested interest*” strategy extended leverage beyond the commercial interests of industry, with even the White House using the same phrasing in 1998 to describe how an F-16 sale to the UAE would:

“... make a tremendous contribution to preserving the *security and stability* of the *Arabian Gulf* region” (The White House 1998).

Of note, instead of stating the “*Persian* Gulf,” the official map name used in English and associating the Gulf’s “Persian” basis with Iran, the White House announcement used “*Arabian*

Gulf’ for diplomatic appeal with the UAE. The geopolitical place name deviating from American official conventions and overlapping use of “*security and stability*” punctuated messaging employed by the Clinton Administration to highlight U.S. fighter aircraft importance in the context of an international security relationship extending beyond the scope of financial transactions.

While receiving a mix of both support and opposition from Congress and different elements of the executive branch, the White House quietly supported the project and registered no opposition to Lockheed’s petroleum investments as offsets. President Clinton did not openly promote and encourage offsets as a stand-alone element of foreign policy or the arms trade. However, according to news media sources, Clinton Administration officials were eager to support new Middle Eastern energy projects such as the Dolphin project because they specifically excluded Iran (Squeo and Pearl 2000). When coupled with any problems for Lockheed Martin with UAE offset projects, this strategic foreign policy calculus increased White House direct involvement in the F-16 deal.

Outside of the White House, executive branch responses to Lockheed investment in the UAE petroleum portfolio were mixed, but provided enough alignment for the Department of Commerce to offer positive recognition for UOG offset programs while Lockheed Martin was making them happen. Despite an official perspective that offsets are market-distorting trade barriers, the International Trade Administration in the Department of Commerce issued a 1997 paper suggesting investment funds as a “convenient vehicle” for satisfying offset obligations (Marshall 2012, 24–25; Pearl 2000a).

Positive recognition through this 1997 Commerce report and through its “Offsets in Defense Trade” report in 2001 contradicted the overall prohibitive norm against framing offsets

as anything other than market distortions. These comments conformed with PDD-34 support for U.S. arms exporters, and promoted U.S. policy for the UAE and against Iran. Furthermore, publication highlighted alignment, where opposition from the White House would have otherwise discouraged subordinate agencies in the executive branch from publicly recognizing any offset arrangements for their positive attributes and benefits to U.S. industry.

3.8 Offset Multipliers, Banking, and Credit Transfers

Multipliers made a huge difference in translating a \$160 million up-front investment into a 60% final valuation for what turned out to be a \$8 billion aircraft deal. For example, 60% of \$8 billion is \$4.8 *billion* – a huge distance from \$160 *million*. As stated by Dr. Amin Bader El-Din, the head of the UOG in 1997, credited with establishing “UAE Offset Guidelines,” the output-based assessment formula incorporates “certain multipliers” to calculate how offsets add value to the national economy (El-Din 1997, 120–21). If based only on investment of \$160 million, the multipliers would be as large as 30 to meet the \$4.8 billion obligation, as shown in this equation: [30 x \$160 million = \$4.8 billion]. Because back-end profits from investments in the petroleum portfolio satisfied such a large obligation, it highlights very successful outcomes resulting from investments that required smaller overall multipliers, perhaps in the 10-15 range.

In addition to multipliers, the UAE allowed the banking and transfer of offset credits (Ibid, 121). Therefore, while benefiting from multipliers, Lockheed also likely applied additional credits “banked” from other pre-offsets initiated for contracts that Lockheed did not win. In addition, Lockheed likely obtained “transfer” credits through trades and purchasing from other multinational firms in the UAE market. However, when accumulating banked and transferred credits, the UAE expected Lockheed to initiate pre-offsets, showing commitment that exceeded a one-time straightforward transactional exchange of credits and weapons for cash.

Extending past the F-16 deal, Lockheed could have earned excess credits from over-performance in the petroleum portfolio. Surplus credits would have become available for application on future UAE projects, enabling an improved position for new opportunities in the same market. Moreover, surplus credits would also enable Lockheed to sell or trade with other multinational firms when their own projects fell short of output-based assessments.

Continuing review of the overall F-16 deal, beyond pre-offsets, provides more insight on how the U.S. Security Cooperation Enterprise – the defense industry, the president and the NSC, executive branch agencies, and Congress – promote exceptions to policy norms in the arms trade. In this case, during the phase in the fighter aircraft competition when it appeared the Lockheed Martin F-16 was the stand-alone candidate, the importance of offsets appeared to drop from the foreground. However, moving to the background did not mean elimination. Instead, it meant pre-offsets created multiple candidates for major arms sales on continuous standby, ready to pop back up and re-energize relative gains concerns related to the international competition among defense exporters and the UAE passing the buck on its own security.

3.9 1996-1998 – F-16 Pre-Start: Negotiations & Politics

In the post-Cold War buyer's market for weapons, the UAE was in a position to pivot between the U.S. and France, or any other manufacturer. In the run-up to fighter aircraft selection, U.S. officials reported the UAE optimizing competition among desperate sellers by squeezing their zero-sum relative gains concerns – about competing defense exporters and exclusive state-to-state relationship channels – for maximum benefits. One U.S. official said that UAE counterparts repeatedly introduced “salami tactics” – after resolving one ‘make or break’ issue, another equally difficult demand would take its place (Grossman 1996, 15–16). Moreover, other U.S. officials commented that Emirati counterparts would change requirements based on

every gadget and capability they saw in trade journals (Anonymous Interview C2403 2024; Squeo and Pearl 2000).

At this point, the executive branch began addressing how to sort through the bureaucratic interagency process involved in screening export license requests from Lockheed Martin for advanced munitions and capabilities. The UAE pressured the U.S. arms export system into alignment, while Lockheed Martin, politicians, and key stakeholders in the federal government feared missing an opportunity that could make or break corporate survival. Where a sale is competitive, potential importers can play exporters against each other. By demanding increasingly better technology and capabilities, the importer works through U.S. industry, seeking relaxation of U.S. Government export restrictions. Acceding to these situations sets the stage in each new round of competition, within individual sales to a single importer, and more broadly as other importers seek the same new choices (Cevasco 2009, 250).

This was a small taste of what was in store as the UAE wheeled its procurement process into position and took aim at Lockheed's desperation in competition with Dassault. Among only one of many sensitive capabilities, inclusion of the AIM-120 beyond-visual-range Advanced Medium Range Air-to-Air Missile (AMRAAM) became a central point in the deal. The UAE expected AMRAAM releasability before deciding on an F-16 purchase. Simultaneously, U.S. policy makers expected exactly the opposite – that the UAE would select the F-16 before federal agencies would start considering the AMRAAM for potential export approval (Boese 1998, 34).

The absence of an official demand signal, because the UAE had not yet officially selected the F-16, created significant bureaucratic headaches, while also repeatedly providing some benefits to U.S. officials and Lockheed Martin negotiators. U.S. interagency efforts could have been a waste of time and resources if the UAE switched to the French option, and export

approval would have opened up demands from other Middle Eastern countries where the U.S. was trying to restrain exports. Although the F-16 was already employed in the same region by such countries as Israel, Bahrain, and Egypt, the only AMRAAM-approved Middle Eastern country was Israel (Boese 1998, 34; Katzman and Grimmatt 2000, 4). On the other hand, in this case, export officials looked at Qatar, which in 1994 obtained the French Mica, an air-to-air missile with capabilities similar to the AMRAAM, as potential justification for releasing the AIM-120 for export to the UAE (Boese 1999). However, each export is a case-by-case scenario, and these issues contributed to decision making but were not the primary drivers for the overall F-16 sale and AMRAAM approval.

The U.S. interagency struggle to reach consensus on each new UAE export request highlighted domestic barriers and opposition compelling key UAE stakeholders to make decisions about what they really wanted, and simultaneously what Lockheed could do in cooperation with the U.S. Government to satisfy UAE expectations. In this case, a strong desire for AMRAAM capabilities helped the U.S. side leverage the UAE into being more decisive about F-16 selection over the French Rafale. However, repeatedly relying on the small benefit of producing decisiveness paled in comparison to the fatigue and expense of continuing engagement with UAE counterparts, and what appeared to U.S. government and industry representatives as a combination of feckless indecisiveness and intentional gouging that might result in the UAE buying the Dassault Rafale anyway.

While frustrating to UAE-facing U.S. negotiators, domestic agency officials, and Lockheed Martin representatives, UAE behavior was grounded not only in optimizing capabilities and performance, but also in guaranteeing delivery. One motivating factor came from UAE officials ensuring they were not subject to the same kind of embargo the U.S.

Government imposed by blocking delivery of F-16s already purchased by Pakistan, in response to Pakistan's 1989 nuclear testing (Squeo and Pearl 2000). Furthermore, the broader UAE structure for fighter aircraft procurement followed a similar structure as its offset program. For example, like offsets, the overall procurement took advantage of "stiff competition within the defense industry to" restructure armed forces, "enhance competitiveness and encourage strategic alliances with multinational corporations" (El-Din 1997, 120–21). Also similar to offsets, output-based evaluations for weapon system capabilities determined congratulations for success or financial penalties for non-performance at certain milestones. This encouraged more serious commitment from arms producers who might otherwise make hollow promises just to pull off a sale. However, unlike the smaller percentage and side-deal nature of offsets, the penalties for unfulfilled obligation on an actual fighter aircraft delivery, including all of its guaranteed capabilities, carried a much steeper price than Lockheed Martin and U.S. officials could dismiss or push aside.

In order to ensure timely delivery of all capabilities on a contract, the UAE pressed for a "performance bond" worth \$2 billion from Lockheed Martin, to be held by a third party, and available for drawdown if the company fell short on commitments (Grazier 2016). Whether based on the U.S. Government withholding export approvals or any other possible reasons for delivery shortfalls, fully exercising the performance bond could have driven Lockheed Martin into bankruptcy with far reaching consequences (Squeo and Pearl 2000). It would have closed out U.S. Government financial, political, and military operational reliance on the largest defense manufacturing company in the world, vaporized tens of thousands of defense industry jobs (including but not limited to Lockheed Martin), undermined the economic base for entire

communities providing services and support to defense industry workers, and negatively energized key stakeholders in both houses of Congress against the Clinton Administration.

The performance bond issue was in contrast to the other evil, which carried less extreme versions of similar consequences, where the U.S. Government might simply not give Lockheed enough support to export the F-16 sale in the first place. In this latter case, if not approaching the opportunity to promote the deal, Lockheed would not even be under consideration for a punitive performance bond, but would still have to close down the F-16 production line due to a complete lack of sales. Whether failing to compete against the French Rafale from the beginning or failing to deliver an aircraft with capabilities promised in a contract, either outcome was potentially dismal. This generated the same mix of U.S. domestic arms trade support and controversy surrounding rare cases where the U.S. Government provides U.S. industry with “encouragement” for offsets. In this case, a lack of U.S. Government support would guarantee failure. Therefore, the classified PDD-34 policy document, signed under President Clinton’s name and mandating support for defense industry marketing, ensured the White House and the executive branch would intervene.

3.10 1998 – Vice President Gore’s False Start in the Rose Garden

On May 12, 1998, during President Clinton’s second term, Vice President Al Gore hosted a White House ceremony with the UAE’s Sheik Mohammed bin Zayed al Nahyan and his half-brother, the Crown Prince of Abu Dhabi, Khalifa bin Zayed al Nahyan. Appearing in the Rose Garden with these two UAE leaders, the vice president held a formal event prematurely announcing the UAE would commit to a nearly \$8 billion sale for 80 F-16 fighters, including the AMRAAM (Boese 1998, 34; Squeo and Pearl 2000). Unfortunately, the White House misread the situation and significantly over-estimated UAE agreement with U.S. Government official

terms for the sale (Anonymous Interview C2403 2024). The vice president over-claim put the White House in a situation where it appeared that not saying anything might have been better than disappointing stakeholders and fueling opponents with inflated claims.

Conditions at the time suggest multiple reasons for the vice president serving as the face of the White House instead of the president for the UAE F-16 effort. They include building Vice President Gore's credentials as a future presidential candidate during Clinton's second and final term, and bridging relations with UAE senior leaders in case Gore followed Clinton as the next president. Other reasons include President Clinton being too occupied with a wide range of domestic and international issues, plus distractions building since facts surfaced in January 1988 regarding the president's relations with Monica Lewinsky (Anonymous Interview C2403 2024).

An \$8 billion arms deal is always a significant financial value, yet it was even more meaningful during 'slow sales' in the 1990s. There were fewer major weapons purchases due to constricting defense budgets resulting from the post-Cold War peace dividend, highlighted by the Pentagon's "Last Supper" in 1993. In 1998 alone, the total estimated amount of the global arms trade came up to \$23 billion, meaning the UAE's proposed \$8 billion F-16 deal would cover more than a third of the world's arms trade by value (Katzman and Grimmert 2000, 4). Although America's pro-Israel lobbyists could have raised protests against an F-16 sale in the Middle East, Lockheed Martin alerted them early in the process. Objection was mute, achieving one significant aspect of domestic alignment through the U.S. Qualitative Military Edge (QME) review process, because Israel viewed the possibility of UAE F-16s as less of a threat than F-16s already found in Egypt's inventory (Squeo and Pearl 2000). In March 1998, only two months before the Rose Garden signing ceremony, the Department of Justice sued to block Lockheed Martin's acquisition of Northrop Grumman. It was the largest merger ever challenged by the

Justice Department up to that time (U.S. Department of Justice 1998). Although preventing a monopoly within the defense industry, this move complicated efforts by Lockheed and Northrop when seeking resolution for their own economic challenges within the U.S. market. As a result, it increased pressure on the Clinton Administration to support expansion overseas.

In a press release accompanying the May 1988 Rose Garden ceremony, the White House said a UAE F-16 sale would create about 15,000 new jobs in Texas and 30,000 nationwide, with Al Gore emphasizing, “that’s good news for Texas and good news for America.” Additional details in the announcement covered F-16 qualities, and highlighted UAE relevance to U.S. security:

“... the UAE’s decision to enter into a partnership with the United States underscores its strategic interest in developing and maintaining a relationship with this nation. The UAE has been an ally during and since the Gulf War, and provided essential support for U.S. Forces deployed to the Gulf region” (The White House 1998).

The press release ended on a high note, emphasizing a measure of economic recovery from the 1993 “Last Supper” industry crash that emerged early in President Clinton’s first term as a result of the post-Cold War peace dividend:

“This sale builds on the Administration’s successful efforts to expand economic opportunity for Texas. Since 1993, unemployment has fallen from 7.6 to 4.6 percent. To date, 1,422,600 new jobs have been created in Texas since President Clinton and Vice President Gore took office” (Ibid).

Vice President Gore celebrated the beginning of a new “strategic relationship” and traveled with Crown Prince Khalifa and Sheikh Mohammed to Fort Worth, Texas to visit the Lockheed Martin F-16 factory, where the Emiratis were such frequent visitors that Lockheed built a prayer room for them (Squeo and Pearl 2000).

Although Crown Prince Khalifa was the most senior UAE representative to conduct an official visit to the United States since the country’s formation in 1971, Sheikh Mohammed, the

UAE armed forces chief of staff, led defense cooperation and arms purchases such as the F-16 (Katzman and Grimmett 2000, 1). Seven years earlier, when coalition forces assembled in 1991 to expel Iraqi forces from Kuwait, the younger Mohammed impressed the Pentagon with eagerness to participate in regional operations. From that point in time, U.S. military leaders cultivated a relationship with this emerging and capable military officer. In the early 1990s, Sheikh Mohammed reportedly informed then-Assistant Secretary of State Richard Clarke that he wanted newer model F-16s with advanced weapons and radar, saying he would cover research and development (R&D) expenses if the U.S. Government had not yet reached the technical level he desired. In 1995, during the Clinton Administration, Secretary of Defense William Perry continued cultivating the relationship with an invitation to the Pentagon, and a trip to Camp Lejeune in North Carolina to observe Marines conducting an amphibious exercise simulating an attack on Iraq or Iran (Worth 2020). Relationships built up over this time worked well for both sides.

However, the Rose Garden ceremony was a false start. Sheikh Mohammed was serious about obtaining capabilities that had not yet been developed, or that were restricted from export due to U.S. policy. Because these issues were not yet resolved, the White House overplayed its position by declaring victory before negotiations and procedures had reached their final conclusion (Anonymous Interview C2403 2024). Formally announcing a UAE F-16 deal in a very public ceremony tied the Clinton Administration to a more serious two-level game than if no claims for success had been announced. In order to make the deal happen, the White House now had to work with Lockheed Martin to achieve alignment among mismatched win-sets between Level I international counterparts in the UAE and among Level II domestic stakeholders in Congress and the executive branch.

Establishing ownership of the process, outcomes, and problems too early, without understanding the issues and identifying alignment or opposition, threatened political damage for the Clinton Administration and Vice President Al Gore. White House decisions hinge on obtaining transaction benefits – rewards for both the U.S. national interest and for the president as a political actor (Putnam 1988, 452). As arms trade issues mature and details emerge with clearer domestic implications, the office of the president can more easily navigate politics to produce alignment (Moravcsik 1993, 135). In this case, however, the White House embraced a message on Lockheed Martin F-16 success with the UAE to gain leverage over France, which was still positioning the Dassault Mirage. This threatened to create complications for American security goals with regional diplomatic and military access, and also with U.S. activities countering both Iraq and Iran. A new deal with the UAE would keep Lockheed Martin and the U.S. national defense industry base afloat. Therefore, Vice President Gore likely announced success earlier than warranted to insert leverage and lead U.S. options forward in alignment across the Security Cooperation Enterprise, rather than wait passively for issues to work their way up to the White House through a gradual and conflicted interagency process (Anonymous Interview C2403 2024).

3.11 1998 – Ambassador Kattouf

In July 1998, two months after the Rose Garden ceremony, Theodore Kattouf presented himself to Congress in a confirmation hearing as President Clinton’s nominee for Ambassador to the UAE. As a career diplomat, he held many State Department positions abroad and in Washington, DC prior to nomination, with a firm background in Middle East affairs. He served as the Deputy Chief of Mission – the second highest ranking in-country U.S. representative for the U.S. Government – during 1983-1988 to Iraq and Yemen (Reagan Administration) and

during 1992-1998 to Syria and Saudi Arabia (G.H.W. Bush and Clinton Administrations) (U.S. Department of State 1998). He understood how to convey messages effectively and diplomatically achieve win-sets abroad on behalf of the presidents he served.

In his confirmation hearing before Congress, Ambassador-designate Kattouf highlighted UAE support and participation “in Operation Desert Shield/Desert Storm to liberate Kuwait;” backing for “Security Council-mandated sanctions against Saddam’s regime;” security interest alignment based on UAE territorial disputes with Iran, and an extremely favorable economic situation with a U.S. “surplus of approximately 2 billion dollars” in trade with the UAE (Kattouf 1998). Although arms sales issues are not typically the primary point of confirmation hearings, Kattouf framed the purpose of his upcoming role in the context of F-16s for UAE military capabilities, and linked that issue to a White House jobs statistic:

“The U.A.E.’s Armed Forces would like to conclude a contract for 80 F-16 fighters that will allow it to better defend its territory and meet its regional obligations. I am told this deal, if concluded, will generate over 30,000 jobs for Americans” (Ibid).

Kattouf articulated the White House two-level message bundled in a succinct message to Congress. He expressed the Level I international counterpart win-set in terms of security through the arms trade as a foreign policy tool, and tied it to livelihoods for voters and their communities as a Level II domestic win-set.

Two decades earlier, in 1979, President Carter ordered U.S. embassy personnel not to assist the U.S. defense industry in making overseas sales (al Tahan 1986). In a clear reversal on that restrictive policy – in place through multiple presidents – Ambassador Kattouf told his staff to turn the F-16 deal into the embassy’s own “priorities one, two and three” (Squeo and Pearl 2000). Kattouf’s efforts exemplified Clinton Administration policy found in the classified “Presidential Decision Directive/NSC-34: U.S. Policy on Conventional Arms Transfer” – PDD-

34 – where “senior government officials” at U.S. embassies would actively market “arms sales of particular importance to” U.S. national security, regional interests, and the U.S. defense industrial base (Clinton 1995, 7).

According to the Washington Post, the U.S. Air Force planned to buy only one F-16 during the entirety of 1999, putting 11,000 Maryland-based Lockheed Martin jobs at risk of layoffs. During the same timeframe, the U.S. government and the UAE haggled over another issue – electronics technology – causing delays in UAE F-16 procurement, and contributing to Lockheed missing a 1998 end-of-year earnings estimate that dragged down company stock values. Defense industry trends at the time illustrated how a lack of exports put the U.S. national defense industry base and future U.S. military capabilities at risk. A Lockheed Martin executive made the following observation:

“Is the basis of our business going forward, international sales? The answer is yes, we’re not embarrassed about that” (Smart 1999, E-1, E-4).

3.12 Relative Gains Concerns, and Congress

At this point, offsets came back into play to exacerbate relative gains concerns about the competition with French industry and the UAE as a weak partner in burden sharing, injecting urgency for achieving Level II domestic alignment in the executive branch, and generating more interaction between U.S. senior leaders and their Level I international counterparts in the UAE. Because of pre-offsets accomplished by Dassault as a final-round candidate for fighter aircraft sales, the Rafale remained eligible for renewed consideration. The stalling F-16 effort was increasingly at risk of sacrificing the not-yet-realized jobs and economic opportunities that the White House had already taken credit for achieving.

During 1998 to February 2000, the likelihood of failure in the F-16 deal led to President Clinton phoning the UAE president, Sheik Zayed bin Sultan al Nahyan, at least twice, and

Defense Secretary William Cohen making five in-country stops (Squeo and Pearl 2000). During a March 1999 UAE trip, Cohen discussed Washington's refusal to release software source code that would enable the UAE to reprogram its own F-16 electronic warfare capabilities (Boese 1999; Petty 1999, 21).

Later in March 1999, Sheikh Mohammed informed reporters at the International Defence Exhibition (IDEX) trade show in Abu Dhabi that there were other options still on the table if the U.S. Government would not fulfill his country's requirements (Squeo and Pearl 2000). The threat of losing the F-16 sale to the French Rafale revived U.S. concerns with UAE buck-passing and free-riding on the U.S. as a security guarantor; produced domestic drama with elected politicians promoting their industry and labor constituent interests; and highlighted bureaucratic interests in the federal government pulling and hauling over what to promote or restrict for export to the UAE. From the outset, bureaucratic politics ensured a lack of initial alignment among the many federal agencies responsible for reviewing sensitive exports (Grossman 1996, 14).

While UAE negotiators continued haggling, Lockheed's financial performance fell further short of expectations (Schneider 2000). This increased pressure on industry, the federal government, and politicians to complete the deal. In Fort Worth, Texas, at the center for F-16 production, the potential for significant job losses or gains energized key members of Congress. Senator Kay Bailey Hutchison (R-Texas) and Representative Kay Granger (R-Texas) became active in promoting Lockheed Martin F-16s assembled and produced in their jurisdiction. Vice President Gore also advocated for F-16 exports to the UAE (Grazier 2016). Furthermore, the U.S. Air Force became increasingly interested in obtaining F-16 capabilities that the UAE would subsidize through R&D funding, and looked for ways to prevent the production line from closing down (Molloy 2000, 9–10).

3.13 More Negotiations – Ambassador Walker

Because of continuing delays, pressure grew on Lockheed Martin with key leaders leaving the company, stock value falling, and profits declining. The UAE side had an edge, with its negotiating team including three U.S. ex-government officials. The potential for looming failure clouded Lockheed's reputation and presented similar risks for the Clinton Administration, especially for Al Gore. U.S. officials stressed the importance of continuing discussions with UAE senior leaders while Ambassador Kattouf applied his diplomatic influence to bring everyone back together each time it appeared negotiations had failed (Squeo and Pearl 2000).

U.S. Government stakeholders were increasingly concerned not only about delays, but also about the punitive aspect of a \$2 billion performance bond if the agreement was finalized. Drawing down the bond would cripple Lockheed even if delays or delivery failures were due to U.S. government export restrictions. U.S. Air Force officials emphasized to Emirati counterparts that the deal should be accomplished in a way that would not gut the company. They also drew negotiations to a finale by declaring a 60-day deadline for contract completion and insisting the UAE submit a formal, stable, and final list of specific technical requirements (Ibid). In February 2000, while the clock was running out on the Air Force-imposed 60-day time limit, in one of the last U.S. official visits to iron out differences over F-16s, UAE leadership honored a meeting with Edward Walker, Assistant Secretary of State for Near Eastern Affairs and previous Ambassador to the UAE (1989-1992, during the G.H.W. Bush Administration) (Squeo and Pearl 2000; U.S. Department of State 2000). As a result of that meeting with an official diplomatic envoy from the Clinton Administration, trusted by the UAE, and who was not directly involved in negotiations, Emirati leadership said, "If doors are closed in our cooperation, we will knock them down" (Squeo and Pearl 2000).

3.14 2000 – The Final Announcement, Another Delay

In early March 2000, Lockheed officials were called to Abu Dhabi, where they received the final contract signed by Sheikh Khalifa on the first day of that year's IDEX trade show (Ibid). On the 5th of March, Vice President Gore congratulated the UAE and Lockheed Martin on concluding terms for 80 F-16s, while also acknowledging the previous announcement in May 1998, two years earlier. The White House message underscored previous UAE contributions to U.S. security interests, and increasing burden sharing:

“The sale is part of U.S. efforts to help Gulf allies defend their interests in the region. Just before Iraq invaded Kuwait in August of 1990, Saddam had threatened the UAE along with Kuwait for overproduction of petroleum. The UAE then played an integral role in the Allied coalition against Iraq” (The White House, Office of the Vice President 2000).

Also in the updated statement, Vice President Gore emphasized improved interoperability, political access, and other positive results for both the U.S. and UAE due to the exclusive arms trade relationship:

“The UAE will reap immense national security benefits from the F-16, and from the close relationships it will bring them with the finest Air Force and finest defense contractors in the world. The sale also advances U.S. interests by equipping an important Gulf ally with an advanced fighter jet that can help deter aggression in the region” (Ibid).

Even though announced again as a success after the 1998 false start, contract delays continued over price and technology release issues. Finally, on April 27, 2000, the State Department sent two formal notifications on behalf of President Clinton to Congress for 30-day statutory review – a Direct Commercial Sales (DCS) notification for advanced aircraft to be sold under export license from Lockheed Martin at a value of \$6.43 billion; and a Foreign Military Sales (FMS) notification for government-to-government transfer of munitions, weapons, and services at just over \$2 billion (Katzman and Grimmett 2000, 1, 5, 5n11). As a result, the UAE sealed a contract for the world's most advanced F-16s with the capabilities and price they were

quoted, and Lockheed Martin agreed to the \$2 billion performance bond (Grazier 2016). The sale also resulted in saving thousands of jobs that would have been lost, broadly impacting many political jurisdictions, with estimates for UAE F-16 production generating over “100,000 man-years of employment at U.S. companies across 40 states” (Dewitte 2000).

3.15 Conclusion

When offset practices with U.S. defense exporters undermine U.S. foreign policy goals, they generate relative gains concerns about competition in the international arms trade and burden sharing among buck-passing friends and allies that can lead to U.S. Government intervention. This case study on Lockheed Martin F-16 sales and associated offsets highlights these characteristics with varying levels of evidence based on interviews and extensive research of news media, government publications, academic pieces, and archives. Analysis shows activities in all three steps of the process – international causation, domestic alignment, and government encouragement – although not in the same order as predicted. Also, evidence here is not as strong for the president’s role as case studies for Poland and India, in the following chapters. Even so, analysis reveals characteristics shared across all cases playing out where U.S. officials interact with their Level I international counterparts and Level II domestic stakeholders in industry, Congress, and the executive branch.

The UAE F-16 case looks at evidence in examples at three points – two points before the sale, and at the point of the final announcement. At the first point, Lockheed Martin pre-offset investments in the UAE petroleum portfolio received positive recognition from the Department of Commerce. This satisfied Clinton Administration policy supporting new Middle Eastern energy projects that specifically excluded Iran (Squeo and Pearl 2000). However, simply providing positive recognition of a UAE offset project that took place in line with higher-level

policy does not constitute encouragement for the UAE F-16 program itself. Instead, current praise can be a form of encouragement for Lockheed Martin and other companies to enter into similar arrangements in the future, where the Declaration of Offset Policy says:

“... no agency of the United States Government shall encourage ... United States firms to any offset arrangement” (U.S. Congress 1992, §123 4207).

In the second example, a senior UAE official hinted late in negotiations that France’s Dassault was still eligible as a competitor, and the Rafale could be an option if the U.S. Government would not agree to F-16 exports (Squeo and Pearl 2000). This hint – based on Dassault successfully completing pre-offsets that kept the Rafale eligible for competition – played on U.S. relative gains concerns about competing for an exclusive relationship through the international arms trade and burden sharing with a weak security partner. Raising the option from the UAE side injected urgency into achieving domestic alignment on the U.S. side. It pointed to France, a NATO ally, as winning a stronger state-to-state relationship at the expense of American interoperability, while the UAE continued buck-passing and free-riding on the U.S. as its primary security guarantor. Furthermore, losing to Dassault would translate directly into opportunity losses for Lockheed Martin and its suppliers, tens of thousands of factory workers, their surrounding communities, and possibly also election losses for politicians representing those jurisdictions. The U.S. Air Force also risked multiple potential losses – F-16 upgrades subsidized by the UAE, continuing access to factory production lines that were already on the verge of shutting down, interoperability with the UAE Air Force, and greater access to UAE bases with shorter ranges to Iraq and Iran.

The potential economic, political, and security damage increased pressure felt more acutely by defense companies since the 1993 Last Supper at the Pentagon, and energized Security Cooperation Enterprise stakeholders to exercise their influence for relaxation of export

restrictions. Although the battle for export approval surged when Vice President Gore prematurely declared victory at the White House Rose Garden in 1998, the UAE hints about continuing access to France's Rafale, based on pre-offsets, increased the heat on achieving alignment where bureaucratic politics were still playing out.

In the third example, in the year 2000, Vice President Gore formally announced the F-16 sale based on multiple messages involving relative gains concerns. One message in this example addressed the UAE increasing burden sharing by looking after its own security, therefore decreasing free-riding and buck-passing. The second message covered security benefits resulting from an exclusive relationship. These messages reflected problems overcome by selling F-16s to the UAE, at risk if offset complications and a lack of U.S. domestic alignment for export approval were to hand the sale over to France. Furthermore, President Gore highlighted not only the U.S. Air Force, but also the "finest defense contractors in the world" (The White House, Office of the Vice President 2000). These promotional words emphasized the importance of Lockheed Martin and its suppliers as primary stakeholders in the broader Security Cooperation Enterprise, where industry is an arms trade tool of foreign policy.

Although this study's focus is on the president's role in authorizing U.S. Government encouragement in offset arrangements, there is no direct proof of presidential involvement with offsets related to UAE F-16s. President Clinton signed PDD-34, tasking senior U.S. officials to market weapons (Clinton 1995). However, PDD-34 does not explicitly mention offsets. During 1998-2000, the likelihood of failure in the F-16 deal led to President Clinton phoning the UAE president at least twice, and Secretary of Defense William Cohen making five in-country stops (Squeo and Pearl 2000). Furthermore, Ambassador Kattouf and Ambassador Walker engaged directly with UAE counterparts as well. However, research did not produce evidence of

discussion on offsets involving these senior U.S. representatives. Finally, there is no evidence Vice President Gore addressed offsets while serving as the face of the White House. Instead, evidence shows Department of Commerce praise for UAE F-16-associated offsets serving as encouragement for similar projects, in line with presidential policy for the UAE to exclude Iran, but without smoking gun proof of presidential authorization.

Evidence presented for the UAE F-16 case produces the following scores to measure against theoretical claims, with 0 representing no evidence, and 1-4 demonstrating evidence of increasing strength [Table 3.1]:

Table 3.1. UAE – Confidence Scores for Observed Evidence

Confidence	Evidence for Variables
4	[C1.1] Foreign Industry Competition – Only one competitor – France
2	[C1.2] Burden Sharing Concerns – Vice President Gore and Ambassador Kattouf addressed shared regional security interests
1	[C2] Domestic Alignment – Ambassador Kattouf emphasized arms trade relationship importance in confirmation hearing; Dept. of Commerce document praised investment in UAE petroleum-based offset projects as convenient
1	Observed White House Encouragement – Vice President Gore was directly involved in the sale; President Clinton called UAE leaders to promote the F-16; President Clinton issued PDD-34, a pro-industry conventional arms transfer policy

Scores above produce the following chart [Table 3.2].

Table 3.2. UAE – “Straw-in-the-Wind” Observation, “Hoop-Test” Claims

<i>Encouragement for Offsets</i> Observed White House encouragement: <u>1</u>	<i>[C1] International Causation – Relative Gains Concerns</i>	
	<i>[C1.1] Foreign Industry Competition</i>	<i>[C1.2] Burden Sharing Concerns</i>
$[C3] = (C1.1 + C1.2 + C2) / 3 = \underline{2.33}$	<u>4</u>	<u>2</u>
<i>[C2] Domestic Alignment</i> <u>1</u>	If $(C1.1 \times C2) > 0$, then $(C1.1 + C2) / 2 =$ <u>2.5</u>	If $(C1.2 \times C2) > 0$, then $(C1.2 + C2) / 2 =$ <u>1.5</u>

In sum, based on the numbers, the UAE F-16 case displays a weak likelihood of “encouragement” for offsets, with observed evidence of White House involvement passing the “straw-in-the wind test” at best, and theoretical claims passing a mildly stronger “hoop test.” Relative gains concerns with foreign industry are moderate-to-strong, and burden sharing concerns exist but are not a significant factor. There is some domestic alignment where Ambassador Kattouf spoke about the many important reasons for prioritizing both the sale and the U.S.-UAE relationship in his confirmation testimony before Congress, and where the Department of Commerce issued positive comments about investments in petroleum-based offsets that were not in conflict with the White House. The two numbers for White House encouragement show a moderate difference, but still on the weak side. The difference in theoretical claims and evidence suggests two alternatives. First, there might have been more White House involvement than what was revealed through research. Second, whether or not there is more evidence, there is still an overwhelming negative status quo that prohibits actors from considering support for offsets even when other variables are strong.

In addition to testing factors related to encouragement for offsets, research and analysis shows characteristics for each step in the three-step process, but not in the same causal order. Research does not reveal any conflict between the UOG and Lockheed Martin over pre-offsets. Rather, the opposite is true. The Dolphin natural gas and UK-based gasoline station projects did not become a problem for Lockheed Martin, and successful pre-offsets were accomplished with White House assent. Pre-offsets accomplished by competitors only became a problem when Sheik Mohammed claimed that other options were still on the table — meaning French fighter aircraft could be pulled back in to replace the F-16. Injecting the alternative fighter aircraft option for news media reporting at a prominent trade show meant inflating leverage in

negotiations through relative gains concerns for international competition and burden sharing. Therefore, offsets were not a barrier to the transaction, and relative gains concerns were the salient aspect of negotiations – not offsets. As a counterfactual to theory, this demonstrates relative gains concerns produced by competing against other defense exporters and trying to share the defense burden with weak security partners are important as factors in many arms trade deals, even without offsets. This means that relative gains concerns, where present, enable importers to influence and compel offset projects in advance. However, in contrast, where problems in offset projects arise and impede foreign policy goals, the offsets push relative gains concerns forward, amplifying and projecting those concerns with a louder voice.

Even though having challenges with the three-level process, this case illustrates the two-level game, where the president or his representatives seek overlapping win-sets for Level I international counterparts and Level II domestic stakeholders. Vice President Gore worked directly with UAE senior leaders on the F-16 deal. The vice president also worked with Lockheed Martin and Republican members of Congress from Texas, the jurisdiction covering Lockheed Martin's F-16 production facilities. Simultaneously, other executive branch senior leaders, including the president, reached out repeatedly to UAE leaders, seeking solutions where negotiations highlighted distance in win-sets between U.S. domestic stakeholders and UAE counterparts. Even so, evidence is weak at best for White House and executive branch direct involvement in encouraging U.S. industry when encountering offsets.

In the following chapters, analysis looks at encouragement for offsets in Poland and India. Evidence of the president's influence is stronger for Poland and India than in the UAE. These case studies continue testing the three-step process that enables and produces encouragement. Poland and India examples also demonstrate encouragement for offsets

involving the two-level game, where the president and the executive branch achieve U.S. foreign policy goals through the arms trade by producing win-set alignment between Level I international counterparts and Level II domestic stakeholders.

Chapter 4. Poland

As a rising post-Cold War ally in Central Eastern Europe, Poland's fighter aircraft procurement during 2001-2003 leveraged historically large offsets, pitting U.S. Government and industry against other international competitors and producing encouragement from the White House and U.S. Ambassador to Poland. Evidence demonstrates the three-step process with strong evidence for international causation based in relative gains concerns, U.S. domestic alignment, and presidential-level encouragement. Putnam's two-level game also plays out with the president and ambassadors aligning win-sets between international counterparts in Poland and domestic stakeholders in U.S. industry and Congress.

Relative gains concerns amplified along with growing concerns about offsets between Poland and Lockheed Martin. Allied national industries offered a competitive threat on behalf of their home governments through fighter aircraft sales at the potential expense of U.S. national security interests. Simultaneously, America's relative gains concerns about burden sharing across NATO, where some security partners underspent on their own defense, uniquely merged with Poland's own concerns about buck-passing and free-riding by other alliance members.

Research shows U.S. domestic alignment among industry, the White House, other executive branch actors, and key stakeholders in Congress to sell F-16s to Poland. Elected officials in Texas promoted alignment on behalf of industry interests in their jurisdictions. A uniformed military DoD official worked on producing alignment within the executive branch, and from the executive branch over to Congress. Congress supported a White House-endorsed \$3.8 billion *repayable* FMF loan to subsidize Poland's aircraft purchase. Doubly-decisive evidence for encouragement takes place through the White House proposing a *repayable* FMF loan, which stands out for several prominent reasons – the president only rarely makes

recommendations about FMF loans, meaning White House involvement was unusual; FMF loans were on a historically declining trend at the time, making any new FMF loan an exception; this FMF loan was exceedingly large in comparison to other FMF loans; and it went against policy to offer FMF loans for programs with offset requirements attached. Additional unusual encouragement for an offset-associated program included an F-16 ride for Poland's prime minister, explicitly acknowledged as an exception to policy by the DoD. Hints of additional encouragement appeared through the American ambassador holding telephone conversations with President G.W. Bush to promote F-16s to Poland, and the ambassador facilitating meetings in office space at U.S. Embassy Warsaw between Lockheed Martin and Government of Poland officials. Relative gains concerns about America's national interests – in securing an exclusive state-to-state relationship and improving NATO burden sharing – combined with domestic political alignment. These factors together shaped offset practices beyond typical constraints, enabling and producing presidential encouragement, and also generating authorization for senior officials representing the president.

4.1 Foundation for U.S.-Poland Relations

Because the international environment influences American society's prosperity, freedom, and national security, the U.S. expected backing as it supported Poland's development into a regional leader (Kugler 2020, 325; Zaborowski and Longhurst 2003, 1028). Even before the Berlin Wall fell in November 1989, the U.S. was a significant supporter for Poland's emergence from the Cold War. In July of that same year, President George H.W. Bush announced a proposal in a speech to Poland's parliament, the Sejm, for U.S. aid to Poland (Smura 2019, 102). Also preceding dissolution of the Soviet Union in December 1991, Poland demonstrated initial alignment with American security interests. When Iraq invaded Kuwait in

August 1990, Poland smuggled out U.S. intelligence agents by including them in a group of construction workers departing Iraq at that time. Poland then supplied detailed maps of Baghdad, previously designed by Polish map makers on Iraqi request, helping U.S. Forces and the coalition plan for operation Desert Storm in January 1991 (Kapiszewski 2004, 34). Poland participated in removing Iraq from Kuwait and provided medical staff and rescue ships. After the conflict, Poland served as a diplomatic go-between, representing U.S. interests in Baghdad (Ek 2005a, 2).

These events set precedence for Poland cooperating more closely with the U.S. in later years, even when other European countries opposed U.S. policy (Lubecki 2005, 71). Poland frequently adopted the American perspective and endorsed U.S. initiatives. This included issues such as promoting America's perspectives for North Atlantic Treaty Organization (NATO) expansion and European Union (EU) politics and economics, U.S. policy towards Eastern Europe, combating terrorism, out-of-area operations, and missile defense programs. Although the United Nations Security Council did not authorize 1999 combat in the former Yugoslavia region or 2003 intervention in Iraq, Poland supported the U.S. position in both operations (Kugler 2020, 324).

Even while aligning with the U.S. and focusing on a U.S.-centered NATO, however, Poland also showed itself capable of asserting national interests by articulating a distinctive position based on independent analysis of its own strategic situation (Rodkiewicz 2017, 139). The pursuit of independent interests was especially clear as Poland ran a competition for fighter aircraft selection, compelling U.S. Government and industry to increase their game in overcoming attractive European options. It is within this context that the U.S. Government

sought further alignment with Poland’s self-determined needs, showing how offsets worked as a tool for both Poland and the United States.

4.2 Poland Before Contemporary Offsets

After the Cold War, many Eastern European countries started putting their Communist past behind to establish political, economic, and security alignment with the West. In 1991, the neighboring countries of Poland, Hungary, and Czechoslovakia formed the Visegrád Group, working in parallel to enter NATO and the EU. Originally known as the ‘V3’ in 1991, the loose grouping became the ‘V4’ in 1993 when Czechoslovakia split into Slovakia and the Czech Republic (Lazar 2019, 284). Each country actively broke away from an Eastern Bloc mentality to construct their own independent and national strategic cultures, overcoming their previous roles as operational arms of Soviet strategy (Palczewska 2021, 81).

During this early post-Cold War period, these former Communist countries leveraged offsets associated with military modernization requirements to improve their economies, advance technological skills and capabilities, and promote national security (Lazar 2019, 283). As part of their turn to the West, and to distance themselves even further from Russia, they also worked on obtaining NATO and EU membership. As their efforts came closer to realization, U.S. administrations provided increasing support. In 1997, a small group within the U.S. Congress criticized moves to expand NATO, compelling a response from the Clinton Administration:

“... no NATO nation has ever been attacked, and during its half century of existence NATO has never once had to fire a shot in anger in order to fulfill the security guarantees in the Washington Treaty of 1949. Bringing Poland, Hungary and the Czech Republic into NATO will make it less likely, not more likely, that American troops might be drawn into another war in Europe” (“The Debate Over NATO Expansion: A Critique of the Clinton Administration’s Responses to Key Questions” 1997).

This perspective explained NATO expansion as decreasing alliance burden sharing costs on a macro-level, rather than increasing them, highlighting Poland's future membership as an American national security interest.

Despite Visegrád Group objectives to strengthen security and economic cooperation, member countries did not concentrate their efforts on collectively pursuing aircraft procurement. Although sharing common goals, nearly identical political-economic situations, and a similar approach to offsets, results were very different (Lazar 2019, 297). Poland, Hungary, and the Czech Republic searched for new fighter aircraft interoperable with NATO forces as a requirement for alliance membership. In the early 2000s Poland chose the U.S. F-16, and the Czech Republic and Hungary chose the joint Sweden/UK JAS-39 Gripen (Dyčka and Mareš 2012, 539; Pieciukiewicz et al. 2024, 2).

Poland's choice highlighted a focus on exports to the U.S., and arming its own military, while the other countries sought deeper European integration (Chovančík 2021, 167). Partially in response to Western Europe's initial lukewarm attitude about extending security guarantees to post-Soviet countries, Poland's security agenda tilted in America's direction (Kugler 2020, 323). Poland's foreign policy prioritized a transatlantic alliance with the U.S. and active NATO membership. Compared to this, EU membership was a lesser goal, although gaining importance and visibility over time (Palczewska 2021, 86). The contrast in outcomes between Poland and other Visegrád countries highlights differences not only among their security and economic priorities, but also the weight and priority of a post-Cold War U.S. Government policy focus on Poland over the other countries. America's focus also illustrates how offsets worked as a U.S. policy export tool and as an import tool – used by both sides to reinforce key state-to-state relationships and optimize security.

4.3 U.S.-Centered NATO Integration and Offsets

Although the U.S. Government clarified its negative perspective on defense industry offsets through the 1978 Duncan Memorandum, Poland during the Cold War used practices such as countertrade and barter with Soviet bloc partners, developing nations, and willing Western European countries. Despite the Iron Curtain separation from the West, Eastern European countries employed countertrade and barter practices, primarily in purely commercial deals not involving military assets, with limited technology transfer ‘bundled’ and linked with imports from Western countries as offsets (Sikora 2020, 21). In the 1980s, Soviet-led Council for Mutual Economic Assistance (COMECON) states such as Poland also employed international offset brokers for complex trades where currency exchanges between countries were difficult or impossible (Markowski and Hall 2004, 171, 174).

These transactions between Western Europe and countries on the edge of the Soviet Bloc provided exposure to international markets and trade networks, in line with U.S. government policy since 1949, enhancing both Polish and Western European economies without contributing to Soviet military potential (U.S. Department of State, Office of the Historian 1949). As a result, many Polish government procurement officials in the 1970s and 1980s gained experience with access to international markets, obtaining more confidence than their Western counterparts in working with contemporary offset issues (Lazar 2019, 285; Markowski and Hall 2004, 171). Because of that confidence and an American focus on burden sharing in NATO, Poland was able to use offsets to turn up the volume on U.S. Government and industry relative gains concerns about competition with other international defense exporters to obtain greater benefits.

Even before joining NATO, as early as 1997, Poland began looking for new fighter aircraft (Hehs 2012). When the Soviet Bloc dissolved in 1991, Poland had approximately 800

combat aircraft. This decreased to 300 by 1998, with a further reduction to about 100 planned by 2002. Of the fighters in Poland's 1990 inventory, only a few had modern combat capability. These aircraft lacked NATO interoperability and were too costly to continue operating. Beyond immediate inventory, indigenous aircraft production capacity was insufficient, compelling Poland to look abroad for fighter aircraft (Seguin 2007, 6–7). A significant aspect of that plan involved leveraging *direct* offset obligations placed on foreign companies to promote Poland's defense industry, while also using *indirect* offsets to promote commercial industries and scientific advancement outside of the defense sphere (Markowski and Hall 2004, 177).

Considering aircraft upgrades for NATO integration, any purchase of equipment to enhance Poland's military capabilities would also cement state-to-state partnerships with the exporting country, strengthen military-to-military relations, increase interoperability, and build links between national defense industries. Furthermore, new aircraft would also bring foreign military expertise to Poland, and send Polish personnel to work and train in the exporting country, enhancing Polish national security (Kugler 2020, 330). For similar reasons mirrored on the U.S. side, the U.S. Government also found a strong security interest in promoting U.S. fighter aircraft sales to Poland by bringing Polish personnel to the U.S. and putting Americans in Poland.

In March of 1999, Poland, Hungary, and the Czech Republic joined NATO, requiring adaptation to military standards for alliance missions and exercises. After NATO enlargement, the U.S. and Poland continued seeking stronger mutual ties due to a shared fear that other buck-passing and free-riding NATO members would potentially undermine burden sharing and collective defense (Kugler 2020, 324; Smura 2019, 105, 113). U.S. support for Poland's security as a new NATO ally meant a stronger NATO contributing directly to America's national security

and foreign policy objectives (Kugler 2020, 329). For these reasons, and as a growing U.S. partner and ally, Poland's developments and U.S. relations generated strong interest in Congress (Mix 2016, i, 1; 2023, i, 1).

4.4 September 1999 – Poland's Offset Act

In September 1999 Poland legislated its Offset Act, requiring foreign companies entering defense contracts over €5 million Euros (\$5.33 million) with Polish companies to provide offsets valued at 100% or more of the main contract value (Markowski and Hall 2004, 178; Wolosz 2004, 14). According to the 1999 Offset Act, a 100% obligation meant the overall offsets value had to meet or exceed the value specified in the primary military supply agreement. Explained in a different way, the assessed value of the obligation, including multipliers, must match the cost of the main project at a minimum (Otrębski and Jarosz 2009, 3, 15). The law also specified multipliers ranging between “0.5” (discouraging some offset project categories) and “5” (encouraging preferred offsets) where the following formula determined final valuation for obligations: [Nominal Value x Multiplier = Offset Value] (Markowski and Hall 2004, 171, 178; Otrębski and Jarosz 2009, 3; Seguin 2007, 19).

Poland envisioned developing its indigenous defense industry and deeper strategic partnerships with leading companies abroad. Beyond simply obtaining offsets from foreign providers, the new law also promoted justification for expensive national security improvements to key politicians, skeptical economists, and suspicious taxpayers (Lazar 2019, 283). Poland envisioned growing research centers and universities, targeting job growth specifically to areas suffering from high unemployment, integration into the West European and U.S. division of labor, and development of high-tech capabilities. The overall strategy could be called “offset-led industrial recovery” (Markowski and Hall 2004, 178).

Although Polish government officials might have been more comfortable than their Western counterparts with approaching offsets, military modernization was politically divisive and generated controversy. The size of impending procurement contracts, the impact of becoming a NATO member, and the intense fighter aircraft procurement competition put offsets under significant public scrutiny (Hehs 2012). False starts, favoritism, and finger-pointing surrounded fighter selection and offset implementation. Because Poland did not have an established military procurement process at the time, politicians heavily influenced many aspects of bidding from foreign governments and their companies, and tried to guide outcomes based on their own interests (Wolosz 2004, 18). Dynamic requirements, including an expanding number of stakeholders over time and a corruption incident in the Ministry of Defense extended initial procurement processes longer than expected. This is where negotiations began for Poland's new aircraft and associated offsets (Seguin 2007, 9, 10, 20).

4.5 1999-2000 – U.S. Policy Change

Separately, but also in September 1999, the same month that Poland legislated its Offset Act, the Defense Security Cooperation Agency issued a policy letter clarifying that all costs for both *direct* and *indirect* offsets in U.S. government-managed FMS national fund and repayable FMF loan programs are “allowable” and reimbursable to U.S. industry (U.S. Department of Defense, Defense Security Cooperation Agency 2000a; 2000b). The letter reinforced the U.S. Government burden for retrieving offset expenses from importers. Clarification provided Lockheed Martin and other U.S. firms with advantages when competing in developing overseas markets as a U.S. foreign policy tool, increasing the appeal for using official government-managed paths for weapons exports.

In May 2000, the year after Poland legislated its Offset Act, the Clinton Administration unveiled the “Defense Trade Security Initiative,” reducing bureaucratic processing in arms exports to improve interoperability and defense trade with allies. This move addressed complaints from both exporters and importers about bureaucratic barriers, and also engaged concerns about allies harming interoperability by increasingly considering suppliers from other countries (Boese 2000). The initiative highlighted growing Clinton Administration support for arms exports, including quietly facilitating offset providers (Anonymous Interview C2403 2024). It also aligned with PDD-34, President Clinton’s 1995 policy document endorsing official marketing for U.S. arms exporters (Clinton 1995). Overall, these moves during the Clinton Administration created an environment enabling continuing support for Lockheed Martin F-16s to Poland during the next administration, under President George W. Bush.

4.6 March 2001 – Fighter Aircraft Procurement, Phase 1

In March 2001, 18 months after implementation of the Offset Act, Poland’s Ministry of Defense established an interministerial committee to prepare for fighter aircraft selection. Polish officials insisted the process be credible, transparent, and comprehensively rigorous. Accordingly, despite Poland’s tendency to align with American security interests, Polish government officials emphasized that offset projects involving domestic factories – for in-country industrial participation – would be an important priority in the final choice (Seguin 2007, 8).

Also in March 2001, early in the Bush Administration, Deputy Secretary of Defense Paul Wolfowitz visited Warsaw. The Poles pitched their thoughts on obtaining F-16s while joining a consortium for the next generation F-35 Joint Strike Fighter. Unaware of the strategic regional importance, Wolfowitz pushed other U.S. priorities such as missile defense, while downplaying

the F-16 (Hill 2014, 184). Emphasizing missile defense was not entirely wrong. However, completely de-emphasizing the F-16 ignored Poland's priorities, potentially handing the competition to the Gripen or Mirage, and therefore undercutting America's growing security role with Poland as an ally both in NATO and in out-of-area operations. Undermining the F-16 would have also hurt American burden sharing goals for NATO countries beyond Poland.

Resorting to "damage control mode," the U.S. Ambassador to Poland, Christopher Hill, at one point asked President Bush to engage Poland's Prime Minister Miller in a future Oval Office discussion, to reinforce buying F-16s as a priority. In his memoir, the Ambassador recalls President Bush responding, "You want me to talk about airplanes in this meeting?" Ambassador Hill said:

"Sir, we need to show a level of effort. [The Prime Minister of the United Kingdom] Tony Blair talks airplanes when he meets the Poles, and I really can't stand the thought of them flying around in a Swedish-British thing called a 'Gripen.' Can you?" (Hill 2014, 185).

The Ambassador closed the loop in this discussion with President Bush about promoting F-16s. This reinforced initial executive branch alignment by obtaining a measure of buy-in all the way up to the chief executive on an overall coordinated approach for a package deal to Poland. It also simultaneously demonstrated Ambassador Hill continuing to employ President Clinton's classified Presidential Decision Directive-34 (PDD-34) of 1995.

Declassified in 2010, PDD-34 tasked U.S. Government senior personnel with marketing conventional weapons by encouraging government participation and "support for U.S. defense exports." Specifically, participation involved tasking U.S. personnel at embassies and consulates to support overseas marketing, and actively involved "senior government officials in promoting arms sales of particular importance to" U.S. national security, regional interests, and the U.S. defense industrial base (Clinton 1995, 7). National security and regional interests in PDD-34 also

meant promoting burden sharing, to reduce free-riding and buck-passing among allies. With Poland, however, this meant building up a new and rising NATO ally as a positive model in contrast to some other NATO members that were free-riding at the expense of the U.S. as a security guarantor.

The next month, in April 2001, Poland released its first phase request for proposals, making \$3.5 billion available with the goal of selecting aircraft by September 2001 (de France 2001). The initial bid request was issued to American, UK, Swedish and French governments, calling for 12 used and 24 new fighter aircraft in a two-phased procurement requiring 100% offsets, matching the aircraft program value. However, beyond the obligation percentage, directions were vague. Even though Polish officials did not provide much guidance, they described foreign responses as badly lacking. Their criticism masked Poland's own under-preparation for the scope, size, and variety found in multi-billion-dollar offset proposals. Even so, the U.S. team got the message, working hard over the next year in preparation for phase two (Seguin 2007, 20–21, 32).

When Poland's 1999 Offset Act merged with fighter aircraft sales in April 2001, it energized America's relative gains concerns in competing with allied national defense industries. It also highlighted America's persistent sensitivity with buck-passers and free-riders, sharing Poland's concerns with burden sharing among other NATO members. This generated stronger justification for the U.S. Government to work more closely with U.S. industry in promoting national interests through fighter aircraft sales, which included offsets, to Poland.

In addition to ongoing direct engagement with executive branch personnel in the Security Cooperation Enterprise, Lockheed Martin filed an official request for commercial advocacy with the U.S. Department of Commerce (Anonymous Interview Q4317 2024). The request initiated

formal coordination for U.S. Government support through multiple federal agencies, including the State Department and the DoD, and various executive branch officials in the Ambassador's country team at the in-country U.S. Embassy (Clayton 2006). When there is only one U.S. firm selling its unique product or service to the target market, the result of interagency coordination is a national security determination for "exclusive" or "sole" commercial advocacy. This is far better than the watered down "national" or "generic" advocacy provided when multiple U.S. firms compete for the same opportunity (Helfrich 2015). Because U.S. Government officials can be held legally accountable for favoritism when providing preferential treatment for one U.S. company over another, officials sometimes take a stronger 'hands off' perspective with offsets when one firm in a pool of competitors asks for individual consideration (Anonymous Interview G3807 2023). In this case, Lockheed achieved interagency alignment for "exclusive" advocacy since the F-16 was the only U.S. fighter under consideration by Poland.

Two months after issuing the phase one request for proposals, in June 2001 Poland's national assembly, the Sejm, passed a law updating requirements to 16 used fighters by 2003 and 44 new fighters by 2006. This new legislation required first signing a contract on the main procurement – but failing to achieve offset agreements would nullify the main contract. Also in June 2001, the U.S. Government initiated its first formal FMS offer to Poland, matching Poland's requirement for 44 new fighter aircraft with Lockheed Martin F-16s (Seguin 2007, 13). Separately, a joint Sweden/UK team offered the Saab/BAE JAS-39 Gripen, and France offered Dassault's Mirage 2000-5 (Bieszyński 2007; Pieciukiewicz et al. 2024, 3).

Poland's goals for selecting aircraft by September 2001 proved overly optimistic, with procurement changes and bureaucratic politics delaying selection by over a year (Seguin 2007, 9). During this timeframe, different factions in the Polish government promoted choices to serve

their own organizational or political purposes. The Ministry of Defense favored the F-16, and both the president and the majority SLD (Poland's Democratic Left Alliance political party) favored the Gripen (Wolosz 2004, 18–19). However, a unified champion with the power to overcome other bureaucratic stakeholders never emerged for the Mirage.

4.7 September 11, 2001 – U.S.-Poland Relations

After September 11, 2001 coordinated terrorist attacks against the U.S., Americans sought and welcomed international support in its newfound Global War on Terror. In response, Poland's foreign policy emerged as more strongly pro-American band-wagging than in multilateral relations with NATO (Palczewska 2021, 87). Operations in Afghanistan against Al Qaeda and the Taliban began the next month, in October 2001. Although NATO allies offered resources to fight terrorism within a coalition led by Americans, many of them also wanted a voice in decisions. That arrangement, however, was not a part of the U.S. unilateral agenda at the time. Even so, and consistent with its pro-U.S. foreign policy, Poland was among the first countries to recognize the U.S. position politically and militarily (Bielewicz 2005, 48–49). Although Poland's operational contributions were very much appreciated, political support mattered more (Kugler 2020, 326).

Some analysts concluded at that time that terrorist attacks on America made it quite clear that the age of territorial defense and mass armies was over (Zaborowski 2002, 133). This echoed a French move since 1991 to replace NATO with a Europe-only defense force from which the U.S. would be excluded (Soczewica 1994, 35). This concerned strategic thinkers in both America and Poland, with Poland continuing to promote a strong U.S.-centered NATO, aligning with U.S. interests in retaining allied relations and support. During this period, the U.S.-Poland relationship was better than with many of America's ties to traditional transatlantic

partners, and warmer in 2001 than with other new-NATO former Eastern Bloc states (Zaborowski 2002, 127).

Relations with the Czech Republic and Hungary at this time were not bad since these countries also supported the U.S. Global War on Terror. Even so, the U.S. Government criticized both countries in December 2001 and January 2002 for choosing the Gripen, and openly lobbied Poland to buy the F-16. The Czech and Hungarian Gripen selection caused concern with U.S. Air Force Lieutenant General (3-star) Tome Walters. Lt Gen Walters served as Director of the Defense Security Cooperation Agency (DSCA) during 2000-2004, overseeing FMS and FMF activities for the U.S. Government (“Lieutenant General Tome H. Walters Jr.” 2004; “Tome H. Walters” 2004). Walters emphasized allied interoperability, implying that European countries were putting NATO out-of-area operations in Afghanistan at risk by exploiting the fighter choice as a potential pathway for non-EU countries to gain economic benefits through EU membership. In an interview with the *Defense Daily*, Walters commented:

“The first question any nation should be asking is how do we link up as tightly as we can with American air power ... Certain countries were able to play the EU membership card very skillfully” (“Pentagon Plays Afghan Card to Sell Warplanes” 2002).

A spokesman for DSCA further emphasized interoperability by adding that buying American enables friends and allies to tap into a high-tech range of advanced military capabilities combat-tested in Afghanistan:

“Basically, what we’re arguing is [we] have a proven capability versus a projected capability” (Ibid).

A State Department spokesman said it more succinctly – “If you’re going to buy, buy American.” (“Poland Opts for F-16s (News Briefs)” 2003). Although this sounded like purely commercial advertising, Washington advocated for the F-16 over the Gripen primarily on strategic grounds (Zaborowski 2002, 127). Downplaying economic points, the U.S. Government

declined to participate directly and officially in any offset agreements – unlike France, Sweden, and the UK.

4.8 Ambassador Hill and U.S. Officials

Similar to government encouragement in the UAE, the Poland case includes a key role for the ambassador, America’s senior in-country official representative for the president. In response to Polish attempts to recruit U.S. officials into the offset negotiation process, the U.S. Ambassador to Poland, Christopher Hill, replied that the U.S. Government neither encourages nor organizes offsets (Seguin 2007, 20). This echoed the Declaration of Offset Policy, which states:

“... no agency of the United States Government shall encourage ... or commit United States firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments [unless the president approves] an exception to the policy ... after receiving the recommendation of the National Security Council” (U.S. Congress 1992, §123 4207).

Christopher Hill had been a career State Department employee since 1975, with previous work experience in Poland, arriving as Ambassador in 2000 after an NSC assignment as “Special Assistant to the President” on European issues (Hill 2024; U.S. Department of State 2005). An interview participant observed that career diplomats are better at working in grey areas. Reportedly, however, political appointees in their first-ever ambassador position are typically uncomfortable engaging anything that approaches offsets, because they are in the grey area of international relations (Anonymous Interview Q4317 2024). Ambassador Hill had a 25-year professional background in the State Department at that point, including NSC work with the president, with a strong sense for the art of the possible in the grey areas. He also demonstrated understanding how policy continued from President Clinton’s classified PDD-34, which tasked embassy officials with promoting arms trades in support of U.S. security interests (Clinton 1995,

7). He was primed for playing Putnam's two-level game between domestic politics and international counterparts by finding overlapping win-sets in both America's and Poland's security interests. One overlapping area included offsets.

Although emphasizing strategic priority and de-emphasizing offsets in public, U.S. officials recognized this fundamental aspect to the overall strategic relationship and informed Polish counterparts that they would encourage U.S. firms to meet future obligations. This partial 'hands on' encouragement – but 'hands off' commitment – frustrated Polish officials and negotiators since government representatives for the Gripen and Mirage openly provided guarantees and actively supported offset bids with their own national firms (Seguin 2007, 20).

4.9 May 2002 – Fighter Aircraft Procurement, Phase 2

In February 2002, Germany offered Poland 23 NATO-compatible former East German MiG-29s for the extremely low cost of €1 Euro each – a bit more than USD \$1 per aircraft – to expand Poland's existing MiG-29 inventory and replace retiring MiG-21s. This offer enabled delaying and reducing fighter procurement plans, giving Poland breathing room to deal with how foreign responses were shaping the next selection stage (Seguin 2007, 10–11, 21). During this period, Lockheed Martin continued working with the Government of Poland on offsets for the final offer, and also coordinated with the U.S. Government to promote the overall F-16 package.

In May 2002, Poland changed the requirement from 36 new/used to 48 new fighters. Each of the U.S., Swedish/UK, and French self-evaluated offset proposals exceeded USD \$10 billion, although Poland assessed the proposed offset projects at a lower value (Seguin 2007, 11, 21). In the summer of 2002, understanding the need for greater official support in the competition, Lockheed Martin and the U.S. Government increased engagement and influence. In

July 2002, the U.S. side matched Poland's requirement by offering more aircraft, weapons, and capabilities (U.S. Department of Defense, Defense Security Cooperation Agency 2002).

Also in July, President Bush hosted Poland's President Kwaśniewski at only the second state dinner in Bush's then 18-month presidency (Seguin 2007, 26). The White House issued a press release promoting benefits for closer military collaboration:

“This cooperation, moreover, will demonstrate to other NATO Allies and nations aspiring to join the Alliance the possibilities and benefits of modernizing and transforming defense capabilities” (The White House, Office of the Press Secretary 2002).

In meetings with President Bush during President Kwaśniewski's U.S. trip, the two heads of state agreed to forming a closer military-to-military relationship. Simultaneously, Poland was facing increased pressure to buy a European aircraft. Emphasizing a strong U.S.-based security policy, the Polish Ambassador in Washington argued that European countries could not force Poland to choose between strategic cooperation with Americans and loyalty to the European Union. He emphasized that both were possible at the same time (Seguin 2007, 26, 27).

Although U.S.-Poland relations were at a peak, Poland's fighter procurement was still in a competition phase, and European producers offered better side deals. U.S. industry representatives and DoD officials claimed that a lack of official financing was a significant reason for a string of previously lost F-16 contracts. Missing support was cited in Hungary's September 2001 decision to lease JAS-39 Gripen fighters. It was considered a factor with the Czech Republic's decision in December 2001 (then cancelled in 2002) to buy new Gripen fighters. The same lack of financial support was also blamed for Austria's July 2002 decision to buy Typhoon fighters from a combined Eurofighter consortium (Evans 2003, 541).

In early 2002, news media reported Lt Gen Tome Walters making similar comments about a lack of broad-based U.S. Government support for the arms trade as a foreign policy tool.

Even before his role as the DSCA Director, he had previous experience advocating to Congress for Air Force programs (Birch 2014, 209n556). In this case, with DSCA, he employed that experience and his contacts to campaign for interoperability through the executive branch up to the president, and from the executive branch over to the legislative branch:

“Our inability to compete with financing is a major problem for us. ... The absence of an effective defense-export loan program from the US really disadvantages us. It is time for us to begin that discussion with the administration and Congress to point out to them that we are losing out on a generation of air force to air force relationships because we can’t be more financially competitive” (Evans 2003, 541n11).

Proving the point, an interview participant observed Lt Gen Walters meeting with Senator Kay Bailey Hutchison (R-Texas) and State Department officials regarding F-16 issues at Lockheed Martin facilities in Fort Worth, Texas (Anonymous Interview C2403 2024). Notably, Senator Hutchison’s constituency produced the F-16 in Fort Worth.

Coordination up to the president within the executive branch, and between the executive and legislative branches, paid off later that year when the White House sent a \$3.8 billion FMF *repayable* loan request for Poland to Dennis Hastert (R-Illinois), Speaker of the House, on September 13, 2002 (Duffy 2002). A historically large president-approved FMF loan would serve as a policy tool to bankroll offsets and make them more possible. As federal funding designed to induce cooperative outcomes, this fits principles for the “encouragement standard” in constitutional law – in summary, president-approved encouragement for offsets. Furthermore, it signified a distinct departure from the norm where FMF “is discouraged for purchases containing offset provisions as a condition for securing the purchase” (Eisenhour 1989, 29).

On October 10, 2002, the White House request became a rider attached to a Continuing Resolution proposal that needed approval from Congress to keep federal government operations from coming to a halt (U.S. Congress 2002, §128 H7826; Little 2004). On the floor of the House

of Representatives, while promoting alignment in voting on the FMF loan, Bill Young (R-Florida) introduced a sense of immediacy with relative gains concerns about losing to another foreign defense exporter:

“... it is important that we do this in a timely fashion because there is competition; and if, by a certain date in November, this financing arrangement has not been agreed to, the Poles are going to another buyer or provider” (U.S. Congress 2002, H7827).

Separately on the same day, Representative Christopher Cox (R-California) highlighted Poland among a short list of countries supporting U.S. policy against Iraq (U.S. Congress 2002, H7747). Although Iraq discussion took place separately from the FMF loan debate, together they illustrated Poland’s status in America’s burden-sharing priorities and relative gains concerns about establishing state-to-state relationships, within and beyond Europe. The combination of allied industrial competition and broader security issues punctuated financial considerations, also emerging as salient factors for alignment in Congress, the executive branch, and the Bush Administration when promoting aircraft to a supportive ally while many other countries opposed U.S. policy.

Congress approved the \$3.8 billion FMF loan rider in the Continuing Resolution to cover the estimated aircraft purchase price in time to influence Poland’s final selection decision (Evans 2003, 539; Seguin 2007, 16). A year-and-a-half earlier, Poland made \$3.5 billion in national funds available for the procurement when releasing its first phase request for fighter aircraft proposals in April 2001 (de France 2001). Access to \$3.5 billion in national funds and the low-interest \$3.8 billion FMF credits meant that Poland now had more than twice as much money available for working with the purchase and even better options for engaging both *direct* and *indirect* offsets. Moreover, because U.S. Government FMF credits are restricted to purchasing U.S. products, it meant the U.S. Government firmly aligned Poland’s win-sets with Lockheed

Martin through both rewards and exclusions. Since Poland's policy required an offset obligation with a valuation of 100% or more of the contract, including multipliers, the FMF loan ensured Lockheed could meet expectations if the F-16 were selected over the Gripen and Mirage. The *repayable* FMF loan demonstrated the strength of a U.S. whole-of-government desire for an exclusive arms trade relationship with Poland. If Poland were to respond by purchasing the F-16, and accept a *repayable* loan that basically covered U.S. industry offset expenses, it would also show how much Poland wanted a relationship with the United States.

Considering a pronounced trend in reducing U.S. Government FMF loans over the 1990s, the Poland loan was unusually large (Evans 2003, 539, 542, 551). Furthermore, the G.W. Bush Administration re-interpreted the Arms Export Control Act to pull a 100% matching loan from the U.S. Treasury instead of the 85% maximum legal limit observed until then, covering the full price of the F-16 deal. DSCA, under Lt Gen Tome Walters, then offered the FMF loan to Poland with payment due in 15 years, and interest reduced on the back end if Poland paid more up front. This financing creativity, and encouragement for offsets, made the F-16 proposal much more attractive, challenging the leading position held by the Gripen ("Poland Picks Lockheed Combat Jets" 2002).

Even without offsets, the White House might have approved a huge loan for Poland's F-16 purchase. However, because U.S. policy tilted heavily against providing a *repayable* FMF loan for arms deals employing offsets, supporting the loan as an exception to policy stands out as White House encouragement. Furthermore, implementing the loan through a friendly member of Congress, and attaching it as a rider to a Continuing Resolution that was certain to pass, demonstrated commitment to the F-16 deal, including encouragement for Lockheed Martin offsets.

However, because the other foreign teams also offered attractive financial packages, this simply equalized the competition (Seguin 2007, 16–17). Even so, without an overall attractive package in all aspects – including aircraft capabilities, creative financing freeing up Poland’s national funds, attractive *direct* and *indirect* offsets, and political support – the F-16 would have met the same fate as it did in previous competitions. Instead, the G.W. Bush Administration, key stakeholders in the executive branch, and Congress worked in alignment with Lockheed Martin to leverage relative gains concerns about interoperability and burden sharing in promoting F-16s to Poland and providing whole-of-government White House-endorsed and Congress-approved encouragement through an FMF loan.

4.10 November 2002 – Foreign Bids Revealed

On November 12, 2002, the day before all bids were opened, the U.S. Government submitted a proposal to the Polish Ministry of Defense for 48 new F-16s. In a press announcement, Lockheed Martin explained overall goals through a U.S. Government perspective, where Poland choosing the F-16:

“... lays the foundation for the development of a long-term strategic relationship between Poland and the United States, militarily, politically and economically” (“Lockheed Martin F-16 Formally Offered to Government of Poland” 2002).

The announcement also highlighted the F-16 for its interoperability, widespread international presence, and long-term future viability with over 4,000 aircraft delivered to 23 countries, and hundreds more on order for existing customers. Furthermore, Lockheed Martin offered an offset package to the Polish Ministry of Economy with 86 projects comprehensively covering more than 100% of the contract value [Table 4.1].

Table 4.1. Lockheed Martin Offer to Poland, November 2002

Project Types	Number of Projects
<i>Direct</i> Offsets	49
<i>Indirect</i> Offsets	37
TOTAL	86

(Otrębski and Jarosz 2009, 63)

The proposal targeted almost every sector of Poland’s economy through both *direct* and *indirect* offsets including defense and aerospace, manufacturing, high technology, telecommunications, electronics, energy, petrochemicals, steel, ship building, and agriculture (“Lockheed Martin F-16 Formally Offered to Government of Poland” 2002). Also, the offset proposal covered many political jurisdictions, evoking broad support from key Polish politicians and their voting constituents (Anonymous Interview Q4317 2024). Furthermore, DSCA clarified in 1999 that all offset costs incurred by U.S. industry on FMS national fund and FMF *repayable* loan cases are “allowable” rather than just “reasonable” costs (U.S. Department of Defense, Defense Security Cooperation Agency 2000a; 2000b). This clarification, three years prior to Poland’s aircraft decision, made the large FMF loan even more attractive by giving Lockheed maneuvering room to offer bigger and better side-deal projects.

On November 13, 2002, Poland opened all bids and initiated technical analysis (Polish Ministry of Defence 2003). Poland’s selection team employed a points system with 45 points for price, 20 for technical and tactical requirements, 20 for operational suitability, and 15 for offsets. Although not published, scores were reportedly 96 out of 100 points for the F-16, 93 for the Gripen, and slightly less for the Mirage. These ratings, however, were so close that they did not completely explain why Poland chose the F-16 (Seguin 2007, 11). Even so, the offset factor explains elimination of one contender. Dassault offered offsets at less than 70% of contract value

for the Mirage (Polish Ministry of Defence 2003). Failing this requirement produced the first fatality, although Dassault and the French government held on until the final decision.

The offset offers from Lockheed Martin and Saab/BAE teams were economically similar. Once significant offset packages could justify a fighter aircraft purchase to Polish constituents, and when linked to attractive financing, the final decision between the F-16 and Gripen came down to other factors (Seguin 2007, 30–32). Although Poland’s fighter aircraft points rating did not capture international relations or alignment between U.S. industry and U.S. domestic politics, these factors played a difference anyway.

4.11 December 2002 – Selection & Offset Negotiations

On December 27, 2002, Poland’s Minister of Defense, Jerzy Szmajdzinski, announced the F-16 as the final choice (Bieszyński 2007, 2; Polish Ministry of Defence 2003). The procurement of 48 aircraft at \$3.5 billion included Lockheed’s additional offset proposal (Markowski and Hall 2004, 171). Responding to the decision, the U.S. Ambassador to Poland, Christopher Hill, stated:

“It represents more than an airplane. It is a fundamental choice about strategic political and military relationships” (Holley and Kasprzycka 2002; “Poland Picks Lockheed Combat Jets” 2002).

However, aircraft selection did not close out the process. Instead, it simply initiated the next phase, for negotiations on the final offset package. Lockheed Martin’s going-in proposal for a variety of offset projects carried a self-assessed total value of \$9.8 billion, with a goal of negotiating down to \$3.5 billion – paring down to a 100% offset obligation, including multipliers, equivalent to the value for the F-16 purchase (Seguin 2007, 22–23).

Although not “formally” considered part of negotiations, in early January 2003 Lockheed Martin and the U.S. Government gave Poland’s Prime Minister Miller a spin as a passenger

flying in the back of a two-seat F-16 over Warsaw, watching a second F-16 perform tactical maneuvers and rolls for his benefit. A Pentagon spokesman confirmed the U.S. Government sponsored the jet ride as an exception to policy. He said, “If the US government deems it in our national interest, we pay for it” (Sennott 2003). Prime Minister Miller enjoyed the ride so much he said he would remember it “until the end of my life” (Wayne 2003).

Similarly, if offsets were in the national interest, the president could grant an exception for executive branch officials to provide encouragement. The whole-of-government approach; the exceptionally huge loan exceeding the 100% obligation for offset projects, approved by both Congress and the president; and the atypical F-16 promotional ride offered to a foreign leader – these demonstrate various forms “encouragement” with the president’s authorization.

About one week after the jet ride, on January 14, 2003, in a joint press session with Poland’s President Kwaśniewski in the White House, President G.W. Bush said:

“... we’re here to have a substantive talk on a lot of issues, issues ranging from the war on terror to the recent decision by the Polish government on the purchase of U.S.-made aircraft, to how best to implement that decision, to let the Polish people benefit so the decision is not only good for the defense ministry of Poland, but it’s good for the people of Poland. ... I’ve got no better friend in Europe today than Poland” (The White House, Office of the Press Secretary 2003).

In response, President Kwaśniewski added to the positive mood, flexing Poland as an American security partner through an exclusive arms trade relationship, and strongly motivated to pick up on NATO burden sharing where other member countries might fall short. He stated:

“... what President Bush mentioned, Poland decided to have your fighter F-16 ... we have a chance not only to have good place for Polish army, not only to have a good contribution to our NATO membership – but we have a chance to open new chapter in the economic relations between Poland and United States” (Ibid).

The deal highlighted personal involvement from the president, promoting American weapon systems to former Communist countries and guiding a favorable FMF loan – exceeding the value

of the offset obligation attached to the sale – through Congress, with help from key players in both the House and Senate. It also highlighted U.S. Government partnership with and promotion of industry in the sale of F-16s manufactured in the president’s own home state of Texas (Sennott 2003).

During this phase in the fighter procurement competition, the Polish side struggled unsuccessfully to pull U.S. officials fully into any commitments within the actual offset process, although American representatives did participate to an extent by offering encouragement. Poland wanted U.S. guarantees for Lockheed Martin outcomes, but the U.S. Government would not co-sign for any offset commitments on behalf of industry (Seguin 2007, 24). Even so, Ambassador Hill provided his office to facilitate and satisfy discussions for Lockheed Martin’s and Poland’s immediate needs. This resulted in a successfully structured framework allowing Lockheed Martin to reduce its early obligations by deferring some performance to later, while still offering a full commitment to Poland exceeding 100% of the contract value (Anonymous Interview Q4317 2024; Seguin 2007, 24).

The \$3.5 billion deal was lauded in America. However, defeated European partners accused Poland of a purely political decision without economic justification, harming European defense industry interests, violating European solidarity, damaging Poland’s credibility as a future EU member, and becoming subjugated by Americans. Tensions grew considerably between Poland and some EU partners (Kapiszewski 2004). Minister of Defense Szmajdzinski defended the choice:

“If someone thinks politics is of primary value here ... they will say that it was a decision between who we are closer to, Mommy or Daddy ... Poland is equally close to the U.S. and to European countries” (Holley and Kasprzycka 2002).

Shortly after the decision, the Saab/BAE and Dassault losing teams expressed disappointment, indicating macro-level political and security issues as significant reasons for Poland's final decision. Some Western European governments, especially France, chastised Poland for dealing a blow to a common European defense identity ("Poland Picks Lockheed Combat Jets" 2002; Tagliabue 2003a). Differences with France became more acute after Paris and Warsaw took opposite sides on policies towards America (Tagliabue 2003a). The Chief Executive Officer for Dassault stated:

"The political element was the dominating element, much more than the quality of the material and the price. I felt for a very long time that they very much favored rapprochement with the Americans. So, it's not a surprise" (Seguin 2007, 25).

Other public officials, industry representatives, and authors might offer contradictory opinions, saying that micro-level factors in the procurement checklist – 45% price, 40% operational and tactical criteria, 15% offsets – led entirely to Poland choosing the F-16 (Seguin 2007, 24; Taylor 2009, 750). In fact, the head of Lockheed Martin's effort in Poland specifically said the decision came down to "price, technical capabilities and offset" (Holley and Kasprzycka 2002). However, U.S. Government efforts – through Congress, with the president, and through the executive branch – all in alignment with Lockheed Martin, comprehensively made a difference for the overall package. Furthermore, offsets could not have survived as a pillar in the final deal without the \$3.8 billion *repayable* FMF loan.

Also within January 2003, during offset negotiations and U.S. officials entertaining and encouraging Polish leaders, another reason emerged for the U.S. Government to actively seek Poland's favor. After much domestic and international debate, it was becoming clear that the U.S. was intent on invading Iraq. On the 22nd of January, U.S. Secretary of Defense Donald Rumsfeld commented that all Central and East European states supporting the U.S. were a part

of “new Europe,” with France and Germany leading anti-war feelings from “old Europe” (Kapiszewski 2004, 28; Zaborowski 2008, 118). On the 30th of January, Poland’s prime minister co-signed a “letter of the eight” supporting the U.S. position against Iraq and seeking transatlantic unity along with seven other NATO countries – the Czech Republic, Denmark, Hungary, Italy, Portugal, Spain, and the UK. Although both Germany and France were leading voices against America’s invasion plans, Germany reacted with official silence (Lubecki 2005, 73). On the other hand, French President Jacques Chirac asserted:

“These countries have been not very well behaved ... They missed a good opportunity to keep quiet” (“Chirac Lashes Out at ‘New Europe’” 2003; Lubecki 2005, 73; Zaborowski 2008, 119–20).

Because the U.S. was seeking closer ties with allies, such commentary was not fully expected. However, it encouraged the U.S. and Poland to increase state-to-state relations and mutual security alliance behavior.

The U.S.-Poland relationship became stronger, with Warsaw supporting the U.S.-led invasion in March 2003, followed by Poland administering occupation zones in Iraq for stabilization (Palczewska 2021, 87). The White House also praised Poland for its role in the “coalition of the willing” (Kapiszewski 2004, 34). Even though Germany did not censure Poland officially, a German newspaper in May 2003 labeled Warsaw’s role in Europe as America’s “Trojan donkey” (Ek 2005b, 4; Kapiszewski 2004, 33).

America’s desire for Poland to join Iraq operations offers an emerging alternative explanation for F-16 sales and offset engagement. Even so, this additional causal reason does not diminish or conflict with claims made so far. International causation – based on fighter aircraft procurement competition with allied countries and burden sharing concerns in NATO – led to U.S. domestic alignment, and to executive branch encouragement. The U.S. desire for Poland’s political and military support in Iraq underlines broader relative gains concerns through NATO,

extending to the U.S. Global War on Terror, for exclusive state-to-state relations with Poland and an increase in burden sharing to overcome free-riding and buck-passing.

4.12 April 2003 – Final Agreement & Offsets

On April 18, 2003, Poland and the U.S. Government finalized the FMS case for 48 F-16s with initial jet delivery in 2006 and the separate \$3.8 billion FMF *repayable* loan approved by Congress to cover the purchase, with Lockheed Martin completing the agreement for offsets on the same day (Bieszyński 2007, 2; Otrębski and Jarosz 2009, 19; Pieciukiewicz et al. 2024, 3, 11; Seguin 2007, 24). Jerzy Szmajdzinski, Poland’s Minister of Defense, and Lt Gen Tome Walters, Director DSCA, completed the government-to-government contract on the grounds of Poland’s Air Force Academy, with Poland’s Prime Minister Miller and U.S. Ambassador Hill also in attendance (Stylinski 2003).

In an interview the week prior to departing from the U.S. for the signing ceremony, Lt Gen Walters participated in a news media interview addressing the F-16 sale. His response succinctly addressed what his role was, what it was not, and emphasized the strengths of interoperability for security and combined operations:

“My responsibility is not to flack for a commercial entity, but it is to pursue national security interests. We are working with countries that are our friends to build influence in peacetime so we will have access to the region when we need it in time of crisis. ... Lockheed is a successful company. It does not need my help. Its responsibility is to its shareholders. My job is not to work for Lockheed shareholders, but for the secretary of defense and the president. ... I told the Poles they had the potential to be front-line leaders in NATO. They could join with the U.S. Air Force and 23 other countries and 8 NATO countries that fly the F-16. Or, they could have the Gripen and have interoperability with Sweden and South Africa” (Wayne 2003).

Initially, in November 2002, Lockheed offered a total of 86 separate offset projects at an assessed value of \$9.266 billion. The final agreement in 2003 between the Polish government and Lockheed contained only 44 offsets, but with a much higher assessed value of \$12.613

billion [Table 4.2]. Although reducing the number of projects in the final agreement, Poland’s official valuation grew when factoring in multipliers (Bieszyński 2007, 3). As a result, Lockheed’s offset package for Poland became “the largest in commercial history” (Królikowski 2011; Pieciukiewicz et al. 2024, 11; Seguin 2007, 22).

Table 4.2. 2003 – Less Projects, but Higher Valuation Due to Multipliers

Lockheed Martin-Poland Offsets in USD Millions		LM offer to Poland – November 2002	Poland agreement with LM incl. multipliers – April 2003
<i>Direct</i> Offsets	No. Projects (%)	49 (56.98%)	16 (36.36%)
	Offsets Value (%)	\$4,443.10M (47.95%)	\$4,897.26M (38.83%)
<i>Indirect</i> Offsets	No. Projects (%)	37 (43.02%)	28 (63.64%)
	Offsets Value (%)	\$4,822.73M (52.05%)	\$7,715.88M (61.17%)
TOTAL	No. Projects (%)	86 (100%)	44 (100%)
	Offsets Value (%)	\$9,265.83M (100%)	\$12,613.14M (100%)

(Otrębski and Jarosz 2009, 63)

The very highest levels of the U.S. government had been prodding and encouraging Polish officials to consider the F-16. In addition to President Bush advocating to Poland’s most senior leadership, Secretary of Defense Rumsfeld discussed the F-16 deal with Poland’s leaders when visiting Warsaw (Little 2004). Ambassador Hill, echoing Polish officials said, “It’s the deal of the century.” He also gave credit to Lockheed Martin for creating a “team U.S.A. concept” that brought U.S. industry together with the U.S. Government to offer the deal (Tagliabue 2003b). Separately, a State Department spokesman emphasized:

“We certainly think the F-16 is a superior multi-role fighter, and we were pushing for its sale in Poland. But our interest was related to Poland’s role in NATO, not to anything else” (Little 2004).

Separately, a consultant in Poland who specifically helped arrange some of Lockheed’s offset deals offered another perspective. Although acknowledging the obvious commercial aspect involving an American firm, he gave primary credit to more factors that only a national government could fully bring together:

“Lockheed didn’t win the contract, the U.S. government did, with pressure and support coming from the very highest levels ... They created a program that, politically and economically, was very hard to say no to” (Ibid).

In logical agreement, but fully dissatisfied with its implications, the President of the European Commission, Roman Prodi (from Italy), attacked the F-16 decision by complaining:

“... it’s displeasing that ... Poland signs a megacontract for the purchase of American fighters ... One cannot entrust his purse to Europe and his security to America” (Konyshv and Skvortsova 2020, 59n54).

Once all deals locked into place, any U.S. Government encouragement for offsets in Poland ended. Ensuring fulfilment of offset obligations is an issue between the importer and the U.S. exporter (Anonymous Interview D6104 2023). Because the U.S. Government did not co-sign for responsibility on industry’s offset obligations, Lockheed Martin assumed full responsibility for implementation and execution of its side deals. The U.S. Government still had a role in managing the F-16 FMS cases, reviewing and approving defense exports, and managing additional FMS projects that emerged through any military-related projects, especially *direct* offsets. However, particularly from State and DoD perspectives, these were exports and FMS cases. Any relationship to Lockheed offset obligations, especially with *indirect* offsets involving commercial projects, were a Lockheed issue and not a U.S. Government issue.

4.13 Domestic Stakeholders – Commerce, the President, Congress, and Labor

In February 2003, two months before Poland and Lockheed Martin finalized the package deal, the Department of Commerce resumed publishing “Offsets in Defense Trade” reports that had been on pause since 9/11. New reports included the entire Declaration of Offset Policy for the first time, including the exception clause that states the president’s role in approving U.S. Government encouragement (2003b, 6; 2003a, 2; 2004, 2; 2005, 1–2; 2006, I–2; 2007a, I–2; 2007b, I–2). This is not smoking-gun proof that the president explicitly authorized government

encouragement for offsets. New reporting did not specifically state that President G.W. Bush authorized going ‘hands on’ for Poland or any other country’s offset arrangements. Even so, publication timing is quite coincidental, when U.S. Government and Lockheed Martin representatives were wrapping up the Poland F-16 deal. President Bush’s actions in 2003, including involvement by Ambassador Christopher Hill and Lt Gen Tome Walters, highlighted continuation of President Clinton’s classified PDD-34 policy initiated in 1995, and declassified in 2010. Participation actively demonstrated “senior government officials ... promoting arms sales of particular importance to” U.S. national security, regional interests, and the U.S. defense industrial base (Clinton 1995, 7).

Furthermore, in April 2003, the same month as Poland’s final agreement on both the F-16 package and offsets, Representative Martin Frost (D-Texas) emphasized his role in alignment with Senator Kay Bailey Hutchison (R-Texas) in successfully securing the \$3.8 billion FMF loan for Poland:

“The importance of this sale cannot be understated. Poland’s decision to move forward with this purchase means increased job security for Lockheed employees” (Stylinski 2003).

In contradiction to Representative Frost’s claims, however, official voting records show that he actually opposed the Congressional Resolution – which included the White House loan rider for Poland – in the House vote on October 10, 2002 (U.S. Congress 2002, H7835-36). Even so, Representative Frost’s pro-job comments reflect the majority of F-16 production taking place with organized labor at Lockheed Martin facilities in Texas, demonstrating the need for popularly elected representatives to create appeal among constituents. Accordingly, Representative Frost’s statement also highlights alignment with successful pork-barrel politics

for Texans accomplished not only by Senator Hutchison, but also for national security and industry by President George W. Bush, the previous Governor of Texas.

On the other hand, the Poland agreement provoked criticism from U.S. labor unions on the grounds that offsets shifted American jobs abroad (Sennott 2003). Even Lockheed's marketing campaign explicitly advertised employing offsets to "assist Polish companies in penetrating U.S. markets" ("Lockheed Martin F-16 Formally Offered to Government of Poland" 2002). Addressing these concerns about offsets, Ambassador Hill said the U.S. Government:

"... does not organize them, nor does it encourage them. ... What American business tells you is, 'We don't like offset deals either. But if we don't [do offsets], we're going to lose business, and American workers will be hurt, too'" (Tagliabue 2003b).

About one year later, in June 2004, heated discussion in the U.S. House of Representatives about offsets in general included a heavy focus on Poland F-16s, with very strong conflicting messages that highlighted the prohibitive anti-offset status quo prevailing over pro-offset forces. Representative Curt Weldon (R-Pennsylvania) gave a positive perspective that was similar to comments made by Representative Frost of Texas in April of the previous year:

"From 1997 to 2003, Lockheed Martin produced 526 F-16s. Do you know how many were bought by the U.S. Air Force? Thirty-one. Thirty-one out of 526 F-16s were bought by the U.S. That is 4 percent. ... I think those labor unions producing the F-16s would have [been] severely impacted if those 500 F-16s had not been ... sold to those European countries ... all of whom have offset provisions" (U.S. House of Representatives 2004a, 36, 38).

Yet in complete contradiction to this praise for offset-based F-16 production, Representative Weldon also attacked offsets in the same House Armed Services Committee (HASC) session, based on constituents in the Boeing Company, a U.S. firm competing against Lockheed Martin:

"I am against offsets [because they] have had direct impact in my district. We have a Boeing plant that manufactures helicopters and they also had produced the leading edge of their wings for their commercial airplanes. And because of an offsets requirement with Great Britain, they took all of that work out of my district and transferred that leading-edge work to Great Britain. Those were good United Auto Workers (UAW)

jobs, high-paying jobs and for no reason except that they had to fulfill an offset requirement, those jobs left Pennsylvania and my district. So it offends me” (Ibid, 35).

Concurring with the negative statement made by Representative Weldon, but not with Weldon’s praise for offsets, Representative Rob Simmons (R-Connecticut) commented on the negative effects of Poland’s offsets for an F-16 engine supplier in the same HASC session:

“Pratt Whitney is not in my district but it is a Connecticut company, and a lot of my constituents work there ... so there was an announcement of a layoff and [a constituent] at the [Pratt & Whitney] plant ... got on my home phone ... and said, ‘What the heck is going on? You just announced and have been celebrating the largest aircraft contract in the history of the world, and a month later we are getting laid off.’ And the answer I got for the company, ‘Well, it had something to do with offsets in Poland’” (Ibid, 45-46).

Fully illustrating the negative feelings surrounding offsets in the prohibitive status quo, Representative Robin Hayes (R-North Carolina) succinctly summarized the prevailing mood in that day’s HASC hearing:

“... why in the world is the United States of America granting offsets? ... I mean we are being played for a bunch of saps” (Ibid, 55).

4.14 Conclusion

Controversy in congressional testimony demonstrates how complex and dangerous offsets can be for American politicians in their relationships with unions, small- and medium-size suppliers, and even among large companies competing to be the sole winner. Extending that political danger to the president and executive branch overall shows why there are prohibitions in the Declaration of Offset Policy against agencies of the U.S. Government encouraging any offset arrangements. The political controversy also explains why the president only infrequently authorizes executive branch officials to quietly encourage offsets, as an exception to policy. Furthermore, the same danger explains why, in the name of bureaucratic politics, current federal publications list only prohibitions without acknowledging the president’s role. These reasons

demonstrate profound obstacles that typically prevent achieving alignment for offsets in U.S. domestic politics, even when addressing something as potentially benign as “encouragement.”

In the Poland F-16 case, problems with buck-passing and free-riding were based in NATO, not in the target country, producing U.S. burden sharing concerns aligned with like-minded security thinkers in Poland. Even so, in this context, Poland’s 1999 Offset Act merged with a string of F-16 sales losses in other European countries. This exacerbated U.S. relative gains concerns about international competition for an exclusive relationship with Poland and the possibility that another country’s fighter aircraft would interfere with interoperability when U.S. Forces cooperate with European militaries. Lockheed advocated to Congress, and Congress and Lockheed worked with the executive branch and the White House. Together, the legislative branch, the executive branch, and the administration crafted a huge state-to-state loan exceeding both the purchase value and the 100% offset obligation amount, as a notable exception to numerous standing policies and also against trends of declining loans and increasingly negative attitudes toward offsets. Even so, key stakeholders and representatives acted on behalf of and in coordination with President G.W. Bush, in accordance with the Clinton arms trade policy stated in PDD-34. For example, the U.S. Ambassador to Poland engaged the president, Lockheed Martin representatives, and international counterparts on the F-16 sale, and provided his office for discussions between Polish stakeholders and U.S. industry representatives. Eager to emerge from the Cold War and Soviet occupation, and to stand with the United States, offsets and the congressional financing package created a unique opportunity for the Poles (Wayne 2003).

Furthermore, in discussion about friends and allies, Kay Bailey Hutchison, then-U.S. Ambassador to NATO and former Texas senator, highlighted presidential burden sharing concerns with buck-passing and free-riding:

“... every president with whom I'd worked, ... with Clinton and ... through Bush and then Obama and then Trump all said the same thing. They said it in different ways, but they said the same thing. Europe needs to do more for this alliance” (“Episode 74. The Power of Two: US Engagement with NATO” 2022).

The causal reasons are strong, with multiple high-level officials stating their concerns about competing industries and problems with burden sharing in NATO. Poland’s 1999 Offset Act legislated a 100% matching requirement, increasing the pressure on Lockheed Martin to engage other actors from the Security Cooperation Enterprise – the president, executive branch agencies, and Congress. They were all present, with key stakeholders organizing and cooperating in networks crossing organizational boundaries and overcoming domestic opposition. A tremendous exception was made, with direct input from the White House and approval from Congress for \$3.8 billion in FMF “encouragement” to Poland.

In complete harmony with the Declaration of Offset Policy, no agency of the U.S. Government committed itself or U.S. industry to offset outcomes, but there were many other examples of support for offsets. The lack of government commitment reinforced the impression expressed by one interview participant, familiar with Poland offset negotiations, who claimed that U.S. laws completely prohibit U.S. Government officials from participating in offset events, without exception (Anonymous Interview Q4317 2024). This echoed the same perspective from other interview participants familiar with other offset deals, where they expressed an ironclad view of federal law preventing encouragement for any offset arrangements (Anonymous Interview A5901 2023; Anonymous Interview B7802 2023; Anonymous Interview D6104 2023; Anonymous Interview J7510 2023; Anonymous Interview L3812 2023; Anonymous Interview N9214 2023; Anonymous Interview Y7916 2023).

Even so, activities with the Poland F-16 sale highlight “encouragement” for offsets, in line with PDD-34 policy endorsing weapons marketing, accomplished through Lt Gen Walters

and Ambassador Hill, and involving direct communication with President G.W. Bush and indirect communication through Senator Hutchison. Simultaneously, the president and other stakeholders overcame domestic opposition, both in Congress and in the executive branch, achieving alignment with key stakeholders in the Security Cooperation Enterprise to produce a massive incentive loan. White House-endorsed encouragement resulted in the F-16 sale to Poland, with the largest-ever offset package up to that point in history, overcoming relative gains concerns caused by competition from other aircraft manufacturers and the potential for more NATO buck-passing and free-riding that might further undermine burden sharing.

Evidence presented for the Poland F-16 case produces the following scores to measure against theoretical claims, with 0 representing no evidence, and 1-4 demonstrating increasing strength in evidence [Table 4.3]:

Table 4.3. Poland – Confidence Scores for Observed Evidence

Confidence	Evidence for Variables
3	[C1.1] Foreign Industry Competition – Only friendly/allied countries competed – Sweden/UK and France
4	[C1.2] Burden Sharing Concerns – Lt Gen Tome Walters blamed the EU for promoting a lack of NATO interoperability
3	[C2] Domestic Alignment – The White House and Congress cooperated to approve a \$3.8 billion <i>repayable</i> FMF loan; Lt Gen Walters and State Department officials engaged Senator Kay Bailey Hutchison; President G.W. Bush and Ambassador Hill engaged Polish counterparts
4	Observed White House Encouragement – The White House endorsed a \$3.8 billion <i>repayable</i> FMF loan for F-16s where Poland required offsets valued at a 100% obligation

Scores above produce the following chart [Table 4.4].

Table 4.4. Poland – “Doubly-Decisive” Observation, “Smoking-Gun” Claims

<i>Encouragement for Offsets</i> Observed White House encouragement: <u>4</u>	[C1] <i>International Causation – Relative Gains Concerns</i>	
	[C1.1] Foreign Industry Competition <u>3</u>	[C1.2] Burden Sharing Concerns <u>4</u>
$[C3] = (C1.1 + C1.2 + C2) / 3 = \underline{3.33}$		
[C2] <i>Domestic Alignment</i> <u>3</u>	If $(C1.1 \times C2) > 0$, then $(C1.1 + C2) / 2 =$ <u>3</u>	If $(C1.2 \times C2) > 0$, then $(C1.2 + C2) / 2 =$ <u>3.5</u>

In sum, based on the numbers, the Poland F-16 case displays a strong likelihood of “encouragement” for offsets, with observed evidence of White House involvement passing the “doubly-decisive test” and theoretical claims passing the “smoking-gun test.” Relative gains concerns with foreign industry and burden sharing concerns are both significant factors. There is strong domestic alignment where the White House and Congress cooperated to approve a \$3.8 billion *repayable* FMF loan for Poland; Lt Gen Walters and State Department officials engaged Senator Kay Bailey Hutchison; and President G.W. Bush and Ambassador Juster engaged Polish counterparts. White House involvement is implicated more strongly for encouraging offsets by endorsing the FMF loan, where Poland attached a 100% offset obligation.

Although sharing many similarities with the UAE, Poland highlights much more evidence for encouragement and the president’s role. The Poland case, more than the UAE case, adheres to the three-step process where problematic offsets exacerbate relative gains concerns, and U.S. actors in the Security Cooperation Enterprise produce domestic alignment, resulting in U.S. Government officials encouraging offsets through Putnam’s two-level game to match win-sets between international counterparts and domestic stakeholders in Congress and U.S. industry. Both cases also show White House involvement in promoting the overall arms deals. As shown with UAE and Poland examples, not all circumstances are the same, with offset projects

occurring at different points – primarily as pre-offsets for the UAE, and weighted toward the end of sales negotiations for Poland. Moreover, offset project expectations were different – UAE interests focused on *indirect* offsets, and Poland required a mix of *direct* and *indirect* offsets.

Similarly, the next chapter shows evidence of encouragement for offsets in India through processes and structures overlapping with the UAE and Poland, but differing in expectations and application. The India case follows the three-step process – international causation, domestic alignment, and an executive decision. Engagement plays out in a two-level game between Level I international counterparts and Level II U.S. domestic stakeholders. However, unlike Poland and the UAE, India expected mostly *direct* offsets, but with some *indirect* offsets at different phases of dynamically changing policy. Despite prohibitions in the Declaration of Offset Policy, the three-step process and two-level structure demonstrate through case-specific circumstances that the U.S. Government offers encouragement for offsets.

Chapter 5. India

India leveraged historically large offsets during 2005-2020, with U.S. Government encouragement for defense exporters emerging as India increasingly looked to the West, beyond Russia, for military equipment needs, and pitched dynamically changing offset policies in a drive for defense industry self-sufficiency. Although India is often the world's leading arms importer and the United States is usually the leading exporter, with a tremendous flow of defense equipment from the U.S. to India, bilateral defense trade failed to meet expectations. India's market liberalization and offset policy turbulence placed U.S. Government and industry in competition with other international suppliers, leading both the executive and legislative branches to encourage U.S. defense exporters across a longer timespan than found in previous cases. The longer timespan offers a longitudinal study in contrast to UAE and Poland cross-sectional perspectives.

The India case proves theory in the three-step process and in Putnam's two-level game, but with unique differences. More like Poland than the UAE, India demonstrates international causation, U.S. domestic alignment, and encouragement for offsets. However, unlike previous examples focusing only on Lockheed Martin F-16 deals, encouragement for offsets with India occurred through 16 years of continuously changing offset policy that generated turbulence for defense exporters, and created broader enduring support across the U.S. Government. Allied and Russian industries offered a competitive procurement threat on behalf of their home governments through a broad variety of military equipment sales. As a result, U.S. officials increasingly promoted interoperability and sought a "two-way street" in burden sharing where security interests converged about China as a regional threat.

However, America's security-seeking behavior was frequently in conflict with India's drive for full independent control of its defense decisions in choices about international relationships, and all the way down to weapons production technology. Despite U.S. policy increasingly squeezing Russian interests, India retained its historical relationship with Russia as a primary source of weapons imports. The push for burden sharing, while applying pressure to change India's international relationships, irritated India's sense of strategic autonomy. The strategic autonomy response, in turn, exacerbated U.S. relative gains concerns in competition with international defense exporters and burden sharing with a weaker security partner facing China. This produced increasing encouragement where U.S. industry faced challenges with offsets.

Like previous cases, the India case also employs Putnam's two-level game, but with Congress stepping in to serve as an alternative path for international relations. In contrast to Putnam's theory, which puts the president and the executive branch firmly and exclusively at the center of negotiations, the Senate India Caucus emerged from Congress as a significant U.S. stakeholder for offsets. Moreover, when interests for constituents in the defense industry became more salient than legislative principles stated as prohibitions in the Declaration of Offset Policy, the Senate India Caucus pressed for encouragement from the Departments of Defense and State. Although the law says only the NSC will make waiver recommendations to the president, the law as written is not meaningless – unless Congress wants the bureaucracy to ignore the law. Executive branch actors responded, with ambassadors and the U.S. Trade Representative (USTR) engaging international counterparts and encouraging industry. Furthermore, the White House led a national-level conventional arms transfer policy change with the State Department to shape conducive environments for U.S. industry involved in offsets. These activities showed the

U.S. Government becoming increasingly pro-industry when dealing with offsets, not limited only to India.

India and the United States were and still are motivated by different objectives. India seeks self-sufficiency through promoting job growth and building up its indigenous defense industry base. Alternatively, the U.S. uses arms sales as a foreign policy tool for interoperability and to address shared security challenges such as China, to build allied and partner capacity for self-defense, and to leverage arms exports for maintaining the U.S. defense industry base (Lalwani 2023). Because of these discrepancies between American and Indian security policies, along with competition in the international arms trade, U.S. Government actors engaged India's leaders and encouraged U.S. defense exporters when offsets impeded American foreign policy.

5.1 1960-2004 – India Offsets Before Formal Policy

Although India's offset practices date back to the 1960s, formal policy was initially established under the Indian Ministry of Defence (MoD) in 2005. Following a failed border war with China in 1962, India attempted a variety of processes and structures for defense planning to achieve self-sufficiency and strategic autonomy from other states (Behera 2020, 158). During the Cold War, most of India's cooperative weapons manufacturing took place with the Soviet Union, yet some also took place through agreements with Western countries. Up to the mid-1970s, India faced serious challenges absorbing defense technologies. Although licensed production of Soviet MiG-21 fighter aircraft had some positive impact, India's state-owned arms manufacturers failed to acquire sufficient technology for manufacturing and weapons employment. Furthermore, even when excelling at some indigenous defense production, Soviet licensing agreements restricted India from exporting advanced and sensitive products to other countries (Misra 2012, 55–56).

Additional developments in the 1980s and 1990s punctuated over-reliance on foreign technology. Soviet weapon systems made up about 70% of total imports by 1980 and indigenization efforts were insufficient for the armed forces and their growing requirements (Misra 2012, 53; Behera 2020, 77). Examples of offsets at this time include the MoD placing obligations on fighter aircraft imports where foreign exporters would “buy back” domestically produced engines and components. Efforts produced very limited success because most of the purchases were confined to aircraft for the Indian military – not for export outside of India – and engines in limited deals for export were used primarily for maintenance of aircraft no longer in production (Palta and Nai 2018, 22). In another example, outside of fighter aircraft, India’s State Trading Corporation was able to link a deal for importing 155mm howitzers from Sweden’s Bofors artillery company with *indirect* offsets, labeled as “counter trade,” at 50% of the main contract value. This involved India requiring Bofors to deal with traditional commodities such as rice, castor oil, and cashew nuts on India’s behalf. However, these agricultural products provided no benefits to India’s defense industry nor to other advanced technology sectors (R. P. Singh 1998, 62n42; Government of India, Comptroller and Auditor General of India 1990, 9–13). Some other *direct* offsets were accomplished during the 1980s and 1990s, but none achieved meaningful indigenization or technology transfer (Bitzinger 2014, 5).

Beyond offset developments, in 2001, the government liberalized restrictions – previously limiting arms production to state-owned firms – by opening participation in the arms industry to private industry, including firms financed with Foreign Direct Investment (FDI) up to 26% of the value of the company. The intent was to create a self-reliant defense industry base by involving foreign exporters. Even with liberalization, however, arms trade participation by India’s private industry required government review and approval, as did FDI. Furthermore,

licenses were also required for arms production and foreign export. Despite bureaucratic hurdles remaining for government approvals, expansion of FDI was a significant milestone in the future development of India's offsets (Behera 2022, 3; Chary and Roy 2024, 7; Misra 2012, 44).

5.2 2005 – Introducing Official Offset Policy

In 2005, the MoD established India's first formal offset policy based on Kelkar Committee recommendations (Government of India, Ministry of Defence 2005). In 2004, the MoD convened a committee under Dr. Vijay Kelkar to review results of the 1999 Kargil War with Pakistan, and to deliver findings on improving India's national defense industry base (Pardesi and Matthews 2007, 430). In April 2005, the Committee recommended amending defense procurement rules to purposefully harness offsets "[t]owards strengthening self-reliance in Defence Preparedness" (Government of India, Ministry of Defence 2005). More specifically, the Committee suggested:

“India should leverage its buying power and *offset arrangements* to expand the domestic industrial base through foreign investment and technology transfer” (Misra 2012, 9).

In July, the MoD issued Defence Procurement Procedure-2005 (DPP-2005), implementing Kelkar Committee recommendations. Although only a modest start, it was a profound change in applying leverage over foreign vendors attracted to India's growing procurement budget over the next 15 years. DPP-2005 specified offsets at 30% of defense contracts exceeding the threshold value of 300 crore (3 billion) Indian Rupees – U.S. \$46 million (Srinivas 2010, 68, 170; Behera 2020, 133). Other policy elements included offset obligations to be discharged concurrently with the main contract, with penalties for defaulting on unfilled obligations. Foreign vendors were given the options of either purchasing, or executing, Indian defense industry exports for goods and services, or investing in India's defense industry infrastructure. According to DPP-2005, foreign vendors could choose an Indian Offset Partner

(IOP) from state-run public sector enterprises or from private sector companies based on consultations with India’s industry associations. However, the policy was *non-mandatory*; lacked clarity on how India’s industry associations would guide IOP selection; and did not designate a government agency to manage the program. Even so, DPP-2005 established precedent for future policy (Misra 2012, 68–69).

Before the new offset policy became binding, U.S. manufacturers lobbied the Government of India to ease future obligations and restrictions. Large defense exporters complained that it might become too difficult to compete under the new procurement rules, especially for fighter aircraft. U.S. firms lobbied India individually, and also lobbied collectively through the U.S. India Business Council, advocating against policy implementation (Sobie 2005; *Defense Industry Daily* 2005)

Table 5.1. U.S.-to-India Arms Trade Rankings, 2005

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2005*	1	3	Russia 57%	Israel 21%	UK 9.8%	France 8.5%	Netherlands 2.1%

* 2005 – U.S.-to-India arms transfer values were below the SIPRI reporting threshold

(SIPRI 2024)

In 2005, in the fifth year of the George W. Bush Administration, U.S. defense exports to India were so negligible that they did not appear in the Stockholm International Peace Research Institute (SIPRI) database [*Table 5.1*]. Among the top five defense import sources for India, Russia was number one until France took over the position in 2021. After 2005, U.S. exporters were typically (although not always) in a top five spot for India’s defense import sources. Here is where India’s defense offset policy began. DPP-2005 appeared as U.S.-India strategic interests increasingly converged, initiating dynamically changing procurement policy over time. These issues combined with pre-existing competition for access to India’s market, raising

relative gains concerns about competition with other defense exporters while India maintained a weaker military, and sowed the seeds of U.S. Government encouragement for U.S. industry.

5.3 Offset Policy Overview & 2006-2008 DPPs

Since establishing formal policy under the MoD through DPP-2005, a dynamic series of changes for offsets flowed through DPPs issued in 2006, 2008, 2011, 2013, 2016, and through Defence Acquisition Procedure-2020 (DAP-2020) (Behera 2020, tbl. 6.2 Evolution of Offset Policy, 133–34; Government of India, Ministry of Defence 2020; 2013a; 2013b; 2016; 2020; 2011; 2010; 2006; 2008). Additional policy revisions and amendments to overall procurement procedures – sometimes impacting offsets – also popped up between DPPs (Metzger 2012; Government of India, Ministry of Defence 2018; 2019) [Figure 5.1].

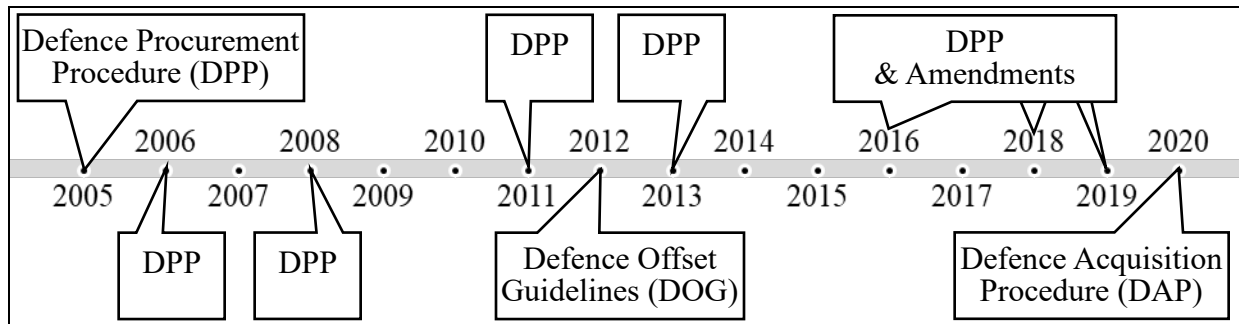


Figure 5.1. 2005-2020 – India’s Dynamic Offset Policy Changes

This dynamic environment led to inconsistent application of offset rules and regulations. Frequent changes made it difficult for everyone to keep up – including Indian importers, IOPs, Indian officials tasked with validating and supervising execution of offsets, foreign exporters, and U.S. Government representatives who usually do not care how U.S. companies address their own problems with offsets. These changes accompanied India’s growing defense budget and a turn to Western defense exporters while maintaining longstanding relations with Russia. Partial convergence with U.S. policy on regional security, especially over China, diverged in 2009

when India joined in establishing BRICS – the Brazil, Russia, India, China South Africa economic organization – which often appears to hold anti-U.S. policies. Differences also surfaced in 2017 when Congress passed the Countering America's Adversaries Through Sanctions Act (CAATSA) against Russia, creating complications for India. Furthermore, America's push for burden sharing while maintaining restrictions on sensitive technology exports collided with India's keen historical sense of optimizing strategic autonomy (Abercrombie 2018). These factors merged with international competition for arms trade opportunities, and elevated America's relative gains concerns about burden sharing and the persistent competition with other defense exporters. Differences between arms trade exporting firms and India's offset policies led to U.S. industry lobbying the U.S. Government for encouragement to resolve problems created by India's emerging and dynamically changing offset policy.

Policy changed again through DPP-2006 and DPP-2008, during the G.W. Bush Administration, producing both progress and critiques. DPP-2006 made defense industry offsets *mandatory*; permitted more forms of FDI and industry partnering through joint ventures; and created a new MoD organization – the Defence Offset Facilitation Agency (DOFA). Foreign vendors were allowed to work with state-run arms manufacturers or select any IOP from the private sector having a license to produce defense items (Behera 2020, 133; Misra 2012, 69; Samunnatha and Shridhar 2021, 23). DPP-2006 also specified acceptable “services,” defined by Indian policy as non-manufacturing *direct* offsets for any project within the defense field addressing maintenance, overhauls, upgrades, life extensions, engineering, testing, design, defense-related software, and quality assurance services (Behera 2020, 133; Srinivas 2010, 171; Palta and Nai 2018, 24). The new policy received criticism from foreign and domestic

companies, with both stakeholder groups demanding eligibility for Transfer of Technology (ToT) as offset credits, and authorization for banking and transfer of offset credits between projects. India's own private sector participants also sought increasing clarity on what were vague and confusing industrial licensing requirements (Misra 2012, 69).

Later in 2006, the Aerospace Industries Association (AIA), a lobbying group for U.S. aircraft manufacturers, completed its first-ever India trade mission ("US Aerospace Industry Woos India" 2007). The organization's summary describes its market presence and influential advocacy:

"AIA represents nearly 340 high-technology manufacturers and suppliers across every sector and tier of the Aerospace and Defense industry. Our agenda is driven directly by the CEOs and senior managers of our member companies. Together, we work to shape regulatory and legislative policies and create networking opportunities through meetings, international air shows and an extensive network of councils, committees and working groups" ("Aerospace Industries Association" 2019).

The AIA delegation included senior executives from firms such as Boeing, Lockheed Martin, United Technologies Corporation, Raytheon, and Pratt & Whitney. An AIA spokesperson observed international marketing competition along with offset requirements, and noted, "The French and Germans have already signed memorandums of agreement with key organisations in India" ("US Aerospace Industry Woos India" 2007). This simple market-share observation highlighted the source for international causation that eventually led to alignment across domestic stakeholders in Congress and the executive branch, and produced U.S. Government encouragement for industry involvement in offsets. It spoke to rising relative gains concerns about state-to-state relationships through the arms trade in competition especially with Russia, future interoperability with India's exceedingly diverse military inventory, and growing expectations for burden sharing as U.S.-India strategic security interests converged regarding China. Although AIA did not extend market concerns out so far in the beginning, they grew over

time as the U.S. Government saw American industry’s role as a tool of foreign policy challenged by other foreign vendors.

In 2007 and 2008, there were more changes in India’s offset environment. The first defense industry offset contract was accomplished in 2007 as a result of DPP-2006 (Samunnatha and Shridhar 2021, 22; Suman 2021, 76). The next DPP, in 2008, introduced additional modifications, including a list of 13 defense product categories, and offset banking with credits valid up to 30 months. However, DPP-2008 denied domestic and foreign requests for ToT in R&D entities or based on civil infrastructure counting as offsets (Behera 2020, 133; Samunnatha and Shridhar 2021, 22–23; Palta and Nai 2018, 24; Srinivas 2010, 173, 177). Even with changes, new policy continued to be seen as overly restrictive in some areas and missing too much detail in other areas, similar to previous DPPs (Shanson 2008b; 2008a).

Table 5.2. U.S.-to-India Arms Trade Rankings, 2006-2008

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2006	1	4	Russia 62%	Poland 15%	Israel 14%	U.S. 5.4%	Germany 1.5%
2007	1	1	Russia 77%	UK 7.2%	Israel 4.5%	Poland 4.4%	U.S. 3.7%
2008*	1	3	Russia 80%	UK 14%	Israel 2.5%	Germany 1.4%	Australia 1.0%

* 2008 – U.S.-to-India arms transfer values were below the SIPRI reporting threshold

(SIPRI 2024)

During the 2006-2008 timeframe, when India’s offset policies were changing in the final years of the G.W. Bush Administration, the United States continued as the top global defense exporter [Table 5.2]. In 2006, U.S. defense exports to India appeared in SIPRI data for the first time, breaking in as the fourth largest source of India’s defense imports. In 2007, India became the world’s top defense importer for the first time, and the U.S. was India’s fifth largest source of defense imports for that year. In 2008, U.S. arms exports to India were negligible, dropping

again below SIPRI reporting thresholds. Even so, U.S. firms continued competing against other exporters to return to a Top Five share of India's defense import market.

During this timeframe, in 2007, despite official policy dictating a 30% offset obligation for defense procurement, the MoD applied a 50% obligation against a competition opened for a Medium Multi-Role Combat Aircraft (MMRCA). Participants included Russia's MiG-35, the Swedish JAS-39 Gripen, the French Rafale, and American entrants with the Boeing F/A-18 and Lockheed Martin F-16. The offset obligation stood out for two reasons – 20% in excess of policy, and neither India's limited private defense sector nor the state-run Hindustan Aeronautics Limited were found capable of absorbing or processing offset obligations as large as 50% of a huge contract (Anicetti 2024, 105).

The next year, in 2008, during the final year of the Bush Administration, the MoD continued a general policy of 30% offset obligations, but selectively applied 50% offset obligations to helicopter competitions. As a result, two companies voluntarily dropped out of consideration, doing what industry calls a “no-bid” on proposed contracts (Anonymous Interview D6104 2023; Anonymous Interview Q4317 2024; Anonymous Interview Y7916 2023; Govindasamy 2008). The 50% obligation, despite a 30% policy, led to complaints from foreign vendors disadvantaged by procedural exceptions, compelling recognition from Indian stakeholders over time that exporters were not absolutely desperate to enter India's market at all costs and that domestic industrial capacity could not absorb such large amounts of *direct* offset obligations. However, acceptance was not immediate. When U.S. companies did a “no-bid,” the US government asked Indian stakeholders, “Why don't U.S. companies offer their products to you?” The U.S. Government at that time did not want to hear that offsets were the reason, and

Indian stakeholders did not want to get lectured by the U.S. Government about offsets being a problem (Anonymous Interview D6104 2023).

Table 5.3. U.S.-to-India Arms Trade Rankings, 2009-2010

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2009*	1	1	Russia 74%	Uzbekistan 11%	UK 5.8%	Israel 5.6%	Germany 1.9%
2010	1	1	Russia 79%	Uzbekistan 7.2%	UK 4.2%	Israel 3.7%	U.S. 1.9%

* 2009 – U.S.-to-India arms transfer values were below the SIPRI reporting threshold

(SIPRI 2024)

During 2009-2010, in the first two years of the Obama Administration, American arms transfers to India were initially negligible but recovered in the second year [Table 5.3]. India continued as the top global defense importer, and in 2010 U.S. defense exports were again at number five for Indian defense import sources – a position last held in 2007. U.S. firms continued competing against other international manufacturers for India’s arms market. Although key U.S. Government officials were not yet sufficiently aligned to encourage U.S. industry when dealing with India’s changing offset policies, momentum was building.

5.4 2004-2011 – The Senate India Caucus

While U.S. exporters were struggling with mixed success and failure in the India market, a significant domestic source of U.S. foreign policy emerged from Congress through the Senate India Caucus. Within Congress, a caucus and a committee are not the same. Each caucus exists outside of and separate from party organizations and the committee system in the Senate and House. When established committees and the political parties do not facilitate lawmaker goals, they will form caucuses to bypass and overcome the political party establishment and the committee system that neglects or blocks solutions for important and enduring issues (Wallner 2016).

In 2004, late in the G.W. Bush Administration, then-Senator Hillary Clinton (D-New York) and Senator John Cornyn (R-Texas) brought national attention to emerging U.S.-India issues by co-founding the bipartisan “Senate India Caucus” (Cornyn 2004). It was the Senate’s first single-country focused caucus, with a large membership of 34 out of 100 senators (Cornyn et al. 2013). When India’s own offset policies persistently surfaced as an impediment to U.S. industry serving as a foreign policy tool, the Caucus stepped up to visibly engage both the executive branch and the Government of India where U.S. national interests and U.S. industry interests converged.

Since its founding in 2004, the Senate India Caucus has continued through multiple presidential administrations and changing co-leads from the Democratic Party, although retaining the same Republican co-founder. When President Obama assumed office in January 2009, Hillary Clinton departed the Senate and the Caucus to become President Obama’s Secretary of State. Senator Chris Dodd (D-Connecticut) replaced Clinton as the Democratic Party co-lead for two years, until leaving the Senate to become a lobbyist in 2011. Senator Mark Warner (D-Virginia), previously a staffer for Senator Dodd, took over as bipartisan Senate India Caucus co-lead with Senator Cornyn.

Previous to becoming the Democratic Party co-lead for the Caucus, Senator Warner actively fostered emerging opportunities with India while simultaneously promoting U.S. jobs and exports. In April 2005, while serving as Governor for the Commonwealth of Virginia, he led a delegation of 65 people promoting education and trade on his first visit to New Delhi (Blake 2005). A few months after then-Governor Warner’s visit, India’s MoD introduced its first official offset policy, restricted at that time to *direct* offsets, meaning projects allowed only in the defense sector.

Table 5.4. U.S. vs. India – Different Concepts for Direct & Indirect Offsets

Definition Sources	Offset Categories		
U.S. & Most Countries	Direct		Indirect
<i>Direct vs. Indirect</i>	related to the main program		unrelated to the main program
India, Malaysia, Oman, South Africa	Direct		Indirect
<i>Direct category is broad</i>	related to the main program	+ unrelated to the main program -but- in the defense field	not in the defense field

Compared to U.S. definitions, policy in India uses a broader concept for *direct* offsets and a narrower one for *indirect* offsets [Table 5.4] (Georgariou 2008, 1; Joshi 2015, 102–3; Srinivas 2010, 51, 175–76; Countertrade & Offset 2024, 5). India applies the definition for *direct* offsets to any projects taking place in the defense field, even if not in support of the program on the main contract. On the other hand, India’s definition for *indirect* offsets applies to projects taking place outside of the defense sector – such as civil infrastructure or projects with commercial aircraft companies – to satisfy obligations incurred by arms deals.

Defense exporters actively lobbied the Government of India to expand beyond *direct* offsets, to also allow *indirect* offsets such as investing in power grids and improving roads (C. Paul and Singh 2011). However, when the Senate India Caucus lobbied the executive branch on behalf of U.S. industry constituents, or when Senator Warner lobbied independently, the words “direct” and “indirect” did not appear. By omitting overly specific terminology, advocacy avoided creating confusion for stakeholders. As a result, Caucus leaders successfully framed issues so that senior U.S. and India policy personnel from very different bureaucratic, legal, and political cultures could easily grasp the message that U.S. interests included offsets.

5.5 2011-2012 – DPP Offset Policy Changes

The next revision to India's DPP for offset policy after 2008 took place in 2011, introducing multipliers for the first time. Changing from one IOP to another was permitted, pending Defence Offset Facilitation Agency approval for each change. DPP-2011 also allowed using *direct* projects (defined by India as being in the defense field, but not directly associated with the main program) for domestic security, civil aviation, simulators, and training simultaneous to first-time introduction of limited *indirect* offsets (defined by India as not in the defense field) (Palta and Nai 2018, 24; Misra 2012, 69; Samunnatha and Shridhar 2021, 24; Behera 2020, 133; Government of India, Ministry of Defence 2011; 2010). However, changes in policy fell short of industry expectations for decreasing documentation and bureaucratic procedures, and did not promote sufficient awareness of applicable rules and regulations among domestic and foreign industry, or among India's government stakeholders (Shanson 2011; Aggarwal 2011).

In 2012, in between DPP changes, the MoD announced revised Defense Offset Guidelines (DOG) articulating three objectives – (1) fostering internationally competitive domestic industry; (2) enhancing indigenous defense R&D capability; and (3) promoting a dual-use industrial base. Although the DOG updated policy, procedures continued to suffer from ambiguous explanations, insufficient incentives for manufacturing, and a lack of MoD capacity through DOFA to monitor and audit offset projects (Behera 2012, 1–2).

5.6 2012 – Congress & State on Offsets

These first few turbulent years of India's formal offset policy changes began commanding the interest of American lawmakers and diplomats, who in turn encouraged U.S. defense exporters that engaged offsets. In a think tank piece, the Center for Strategic and

International Studies (CSIS) noted that India's lofty ambitions with offsets were a mismatch with reality, not "leading the country toward its ultimate aim of self-sufficiency in defense production." Rather than formulating a strategic vision, India was primarily relying on ad hoc DPP changes (Latif 2012). Obligations placed on foreign defense exporters exceeded India's own domestic capacity, putting foreign manufacturers at risk of penalties for not fulfilling offsets in a timely manner because India's own defense companies could not keep up.

In February 2012, Nancy J. Powell appeared before Congress in a confirmation hearing as President Obama's nominee for Ambassador to India. Then-Senator John Kerry (D-Massachusetts), Chairman of the Senate Foreign Relations Committee, asked Powell:

"What steps can the Indians realistically take this year to liberalize their economy, particularly to encourage more foreign investment?" (U.S. Senate 2012, 56).

Ambassador-nominee Powell succinctly responded in the context of multiple challenges:

"We have ... continued to encourage liberalization in the aviation, pensions, and insurance sectors, as well as in defense-offsets" (Ibid).

Powell joined the Foreign Service in 1977, with 35 years of government service up to that point. As a career foreign service professional, she previously served at two diplomatic posts in India and four assignments as ambassador across two presidents – Uganda (for President Bill Clinton); and Ghana, Pakistan, and Nepal (for President George W. Bush). Furthermore, she coordinated official policy and actions with Congress through an assignment to State Department Legislative Affairs. Finally, when serving as Director General of the U.S. Foreign Service, Powell was appointed Ambassador to India (U.S. Department of State, Office of the Historian 2024; U.S. Department Of State, Bureau of Public Affairs 2005; "Leader, Mentor, Diplomat: Ambassador Nancy J. Powell" 2017). Tested by years of diplomatic practice, and with expertise in liaison to Congress, multiple presidents counted on Powell to choose exactly the right words

for both domestic and international audiences. Among the many areas that Powell addressed as ambassador, her testimony highlighted advocating for relaxation of India's "defense-offsets" where the U.S Government "continued to encourage" progress in a job that "we" were already doing.

Two months later, upon reporting to India, Ambassador Powell touched on her role with offsets at the American Chamber of Commerce (AmCham):

"I came here with a commitment to improve our trade relationship with India. I am therefore naturally concerned by ongoing challenges to trade and investment, including high tariff and non-tariff barriers, restrictions on foreign investment, lack of transparency, and defense offset requirements" (Powell 2012b).

Shortly afterward, engagement continued when other American diplomats might have otherwise shied away from addressing offsets so frequently and openly with U.S. industry representatives. In May 2012, the month after arrival at U.S. Embassy New Delhi, Ambassador Powell approached industry leaders at the U.S.-India Business Council about offsets:

"I recognize there are some challenges to all of you. ... High tariff and non-tariff barriers, restrictions on foreign investment, a lack of transparency, and defense offset requirements are among those issues. ... I want to assure you that as I move around, as those of the American Mission move around and we talk with officials at very senior levels as well as at the states, we will continue to work on your behalf to make sure that U.S. companies can compete in India" (Powell 2012a).

Engagement about offsets was not limited only to the ambassador, but also extended to other in-country U.S. leadership. The following month, in June 2012, Donald Lu, Deputy Chief of Mission for the U.S. Embassy in India, serving under Ambassador Powell, addressed offsets at the AmCham Panel on U.S. High Technology for India's Growth:

"... we look forward to working with all of your companies to sort out the many challenging parts of this commercial relationship – local content restrictions, tech transfer requirements, discriminatory manufacturing policies, defense offset requirements, transparency concerns and retroactive tax provisions. These are serious challenges, but challenges that I am confident that India can address with the help of its many foreign partners" (Lu 2012c).

Just like Ambassador Powell, Donald Lu was not limited to only one engagement. He addressed offsets again with an audience at St. Mary’s College in Hyderabad. However, rather than speaking about how “we” will continue addressing issues, he changed the focus to India’s Prime Minister Singh, indicating a nuanced diplomatic shift toward supporting India’s goals rather than portraying an American will for imposing expectations on the host country:

“Of course, there *continues* to be work left to be done to advance *the Prime Minister’s goal* of inclusive growth – addressing a discriminatory manufacturing policy, *complex defense offsets*, transparency concerns and retroactive tax provisions” (Lu 2012a; 2012b).

In the same timeframe, other members of the professional diplomatic corps expressed similar perspectives. In 2012, Richard Verma, future-Ambassador to India (2014-2017), co-authored an article through the Center for American Progress, highlighting the surging U.S. Government interest in India’s defense procurement and offset policies:

“The Indians need to ... open up the market to U.S. companies and loosen the restrictions related to foreign direct investment and *defense offsets*. Additionally, both countries should work toward the possibility of *cooperative research and development, and co-production* where possible” (Richard Verma and Wadhams 2012).

Table 5.5. U.S.-to-India Arms Trade Rankings, 2011-2012

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2011	1	1	Russia 69%	Italy 8.5%	U.S. 5.9%	Uzbekistan 5.8%	Israel 4.3%
2012	1	1	Russia 86%	Israel 3.7%	UK 3.6%	U.S. 3.1%	Ukraine 1.0%

(SIPRI 2024)

During 2011-2012, continuing through the Obama Administration, America was again the world’s top defense exporter, India maintained its position as the world’s top defense importer, and U.S. exporters were again a top five source for India’s defense imports [Table 5.5]. Although India’s percentage of imports from Russia increased from 2011 to 2012, this timeframe

marked the beginning of a more prominent and enduring presence for American defense industry in the Indian market. A more established presence, in competition with other defense exporters, and accompanied by India's changing offset requirements, generated motivation for U.S. Government officials to offer encouragement for U.S. industry success.

Activities with then-Senator John Kerry, Ambassador Powell, Deputy Chief of Mission Lu, and future-Ambassador Verma highlighted alignment for offsets between Congress, the executive branch, and think tanks. The link between the State Department and Congress was especially strong. Powell's response to congressional confirmation questions from Kerry demonstrated a shared interest between the legislative and executive branches when encouraging U.S. industry with offsets. If State Department involvement had been a problem, the issue would have been addressed more vocally with resistance inside and outside of confirmation hearings. Instead, Powell did not face a hostile nomination process because Obama Administration goals aligned with key stakeholders, especially between Congress and American ambassadors serving as senior in-country official representatives for the U.S. president.

5.7 2012 – Senators Lobby the DoD: More Offsets

In July 2012, eight years after its founding in 2004, the Senate India Caucus lobbied the executive branch for changes to India's military procurement system. While Ambassador Powell and Deputy Chief of Mission Lu were engaging U.S. industry representatives in India, Senators Cornyn and Warner jointly sent a letter to Deputy Secretary of Defense Ashton Carter. Secretary of Defense Panetta had recently appointed his Deputy Secretary to lead the Defense Technology and Trade Initiative (DTTI), an organization created to energize U.S.-India defense trade (U.S. Department of Defense 2015). Although unusual for Congress to reach out directly to a Deputy Secretary rather than the Secretary of Defense, Cornyn and Warner urged Carter to influence

changes in India's defense procurement procedures that were impeding U.S.-India relations because of his leadership role over the DTTI. They also advocated for aggressive pursuit of:

“... co-development or coproduction opportunities ... mutually beneficial not just to the U.S. and Indian defense industries, but also to the long-term relationship of our two militaries” (Kronstadt and Pinto 2012, 3).

Although implicitly addressing numerous issues with offsets, the letter did not explicitly mention “offsets.” Instead of talking about *direct* offsets, which support the weapon system on the main contract according to U.S. policy, the letter addressed “co-development and coproduction opportunities” which can be offsets in support of other programs, or can be their own independent programs where offset projects support them. This repeated key terminology previously used when Richard Verma wrote his think tank piece. Separately, “the long-term relationship of our two militaries” became more succinctly recognized over time as “interoperability” in letters and announcements from the Senate India Caucus.

Beyond addressing the Deputy Secretary of Defense, the co-authored 2012 letter from Senators Cornyn and Warner also implied broader political signaling through Putnam's two-level game to Level I international leaders and Level II domestic stakeholders. However, unlike Putnam's two-level game where the president and the executive branch exclusively interact with international counterparts, Congress was running its own game in parallel. At Level I, the Senate India Caucus signaled an expectation to India's government on behalf of U.S. industry for reform with *direct* offset requirements. At Level II, by formally reaching out to the DoD, the letter indirectly notified the broader executive branch up to the president, and peers in Congress, of Senate alignment with the Obama Administration on India issues; and notified key U.S. industry constituents of legislative branch support. Furthermore, advocacy demonstrated why the Senate

India Caucus continued to operate – because the Caucus delivered solutions for U.S.-India issues where legislative branch structures and the conventional party establishment could not.

By writing to the DoD, the Senate India Caucus took steps approaching but not overstepping legal territory originally institutionalized through the “Duncan Memorandum.” Deputy Secretary of Defense Charles Duncan issued the 1978 memorandum as a DoD-only policy, with President G.H.W. Bush applying policy to the entire executive branch in 1990, and Congress converting the policy to federal statute in 1992. Prohibitions state:

“... *no agency of the United States Government* shall encourage ... United States firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments” [unless the President approves] “an exception to the policy ... after receiving the recommendation of the National Security Council” (U.S. Congress 1992, §123 4206-4207).

When issuing the Senate India Caucus letter, members of Congress were sailing directly against organizational interests by asking the DoD, the original bureaucratic source for contemporary U.S. prohibitions, to engage international counterparts about offset issues. They were doing this because the Secretary of Defense had appointed Carter as the DTTI chair, to energize U.S.-India defense trade (U.S. Department of Defense 2015). Congress was able to promote government encouragement for offsets because prohibitions in the Declaration of Offset Policy apply to the executive branch, but not to Congress. Even so, the DoD was still subject to the prohibitions in the Declaration.

In 2012, a “sense of disappointment” had set in with the U.S. Government over the slow pace of reform. Although the Obama Administration initiated a pivot toward Asia, shifting America’s focus away from the Middle East to address issues with China, the strategic move was not producing reciprocal results from India. Deputy Secretary of Defense Carter said, “India clearly plays an important role in our rebalance.” However, T.P. Sreenivasan, a retired Indian

diplomat, commented on America's increasing regional interest by succinctly noting, "We want strategic autonomy" (Denyer and Lakshmi 2012).

By the end of 2012, 17 U.S. entities paid a total of \$212 million to lobby Congress for their business interests in India. Not all of these companies represented defense exporters, with firms such as Walmart, Dell, and the Alliance of Automobile Manufacturers promoting their international goals. However, organizations having significant overlapping interests with the defense industry, such as AIA and AmCham, were also included in documented lobbying. The Government of India launched a probe into some of the activities, even while using a U.S.-based firm to lobby Congress on behalf of India's own interests (*The Economic Times* 2013). As a result of defense industry advocacy to the U.S. Government, lawmakers visibly engaged ambassadors and heads of federal agencies, while also promoting reforms to India's leadership where U.S. industry interests merged with America's national interests.

5.8 2013 – DPP Offset Policy Changes

In the year after the Senate India Caucus engaged the DoD, India's DPP-2013 introduced a new combination of liberalization and restrictions. Services became ineligible as offsets, although manufacturing remained eligible (Palta and Nai 2018, 25). Investment in civil infrastructure was excluded, unless approved by exception. The DPP introduced ToT with a multiplier range of 2-3, and a multiplier of 1.5 for offset projects with Micro-, Small-, and Medium-Enterprises (MSMEs). DOFA – set up in 2006 – was renamed the Defence Offset Management Wing (DOMW), gaining more functions and powers for oversight and management. Offset credit banking was extended to seven years, and pre-banked credits could fulfill up to 50% of any offset obligation (Behera 2020, 134). However, policy continued receiving criticism for maintaining a 26% Foreign Direct Investment (FDI) cap that discouraged

foreign vendors from entering India's defense market (Shanson 2013). Furthermore, the dynamic nature of new policy exacerbated confusion for Indian government officials, Indian industry, and also among foreign vendors exporting to India. As a result, stakeholders continued seeking stability, clarity, better business rules, and a higher FDI percentage.

5.9 2013 – Senators Lobby State: Less Offsets

In June 2013, a year after the Senate India Caucus letter to Deputy Secretary of Defense Carter, Senators Cornyn and Warner jointly penned a letter to John Kerry during his first year as Secretary of State, as he prepared for India travel. The Senators urged him to address U.S. defense industry frustrations with offsets:

“We must continue to make inroads on modifying the defense offset regime, since the Government of India's Defense Procurement Procedures mandates that purchases of US equipment require 30 percent of the contract value to be invested in Indian defense industries” (Press Trust of India 2013).

Rather than speaking obliquely about offsets, as done previously in the 2012 letter to Carter, the 2013 letter to Kerry explicitly addressed “the defense offset regime.” This letter from the Senate India Caucus also marked a shift by addressing the 30% obligation for *direct* offsets “in Indian defense industries” as being too difficult for U.S. industry to achieve. In other words, instead of seeking elimination of offsets, the letter sought Department of State influence over Indian counterparts to *reduce* offset obligations, by “modifying” the market to make it more conducive for U.S. exporters.

Since the senators were arguing for offset relaxation to enable more business, rather than lobbying for complete elimination, this arguably constituted a Senate India Caucus milestone in documented encouragement for offsets. This new letter highlighted pulling a new lever by going to State, in addition to previous advocacy with the DoD, as another primary stakeholder in the executive branch. Although not prohibited for Congress, executive branch encouragement for

offsets would be in contravention of prohibitions in the Declaration of Offset Policy – unless DoD and State acted with the president’s blessing, after recommendation from the NSC.

This 2013 letter to the Secretary of State, similar to the previous 2012 letter to the Deputy Secretary of Defense, reinforced the same influence goals – conveying information to President Obama, the NSC, and other key stakeholders in the executive branch; letting Congress know the Senate India Caucus was active and influential; notifying U.S. industry constituents of legislative branch support; and lobbying as well to India’s government. Openly known congressional advocacy to the executive branch that specifically mentioned offsets could also minimize accusations the Obama Administration was acting as a rogue policy entrepreneur when cooperating with U.S. industry on offsets. Publicly advertising congressional support and pressure could compel – or enable – the Obama Administration to achieve more than usual with and for U.S. firms.

When visiting India soon after receiving the Senate India Caucus letter, Secretary of State Kerry appeared before hosts with Ambassador Nancy Powell, where he addressed alignment on security issues:

“... India is a key part of the *U.S. rebalance in Asia*. And we are committed to that rebalance. I want to emphasize this point. *Our security interests with India converge* on a wide range of maritime and broader regional issues, and we value India’s role in our *mutual efforts* to ensure a stable and prosperous Asia” (Kerry 2013).

Although not using the term “offsets,” Kerry briefly linked common security interests with “*opportunities for co-production and co-development of defense systems*” in the same speech (Ibid). This reinforced the same message delivered previously through Ambassador Verma’s 2012 think tank piece, and also through the 2012 letter from Senators Cornyn and Warner to Deputy Secretary of Defense Ashton Carter.

Table 5.6. U.S.-to-India Arms Trade Rankings, 2013

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2013*	2	1	Russia 71%	U.S. 19%	UK 2.7%	Israel 2.2%	Ukraine 1.9%

* 2013 – Russia was the No. 1 Global Defense Exporter by value
(SIPRI 2024)

According to SIPRI for 2013, the U.S. dropped to number two in global arms exports behind Russia, India continued again as the world’s top defense importer, and Russia remained as India’s primary source of defense imports [Table 5.6]. Simultaneously, the U.S. share of India’s defense market moved from fourth place in 2012 to second place. This meant that U.S. firms were not only exporting more to India, but they were also becoming contenders against Russia’s market share. India imported almost \$2 billion worth of U.S. military gear in 2013, signing more than \$9 billion in contracts since 2008, up from only \$500 million for all previous combined years (M. F. Martin et al. 2014, 9). However, this was still in contradiction to Russia having a bigger overall global market share in 2013. Increasing business success in India accompanied by continuing competition across the globe, simultaneous to converging U.S.-India security interests and dynamic offset policy changes, also meant more U.S. Government encouragement for America’s defense exporters, especially in India.

Even so, Americans continued to experience frustration by seeking coordination with India at a rate faster than India’s industrial and bureaucratic capacity could absorb, while India’s MoD also kept changing the “standard” rules. Although welcoming U.S. recognition of India’s great power status, the desire for strategic autonomy continued. U.S.-India security concerns about China increasingly converged, but India did not yet feel a direct threat at its border (Samaranayake et al. 2013, 43). Furthermore, India, China, and Russia were original founders in

the BRICS economic group, and India looked for ways to preserve economically beneficial ties with Russia despite U.S. opposition to that bond.

5.10 2014-2016 – Presidential Policy Changed & Senators Lobbied the DoD

In January 2014, President Obama implemented a new arms trade policy, superseding Clinton's 1995 Presidential Decision Directive (PDD-34). Obama's "Presidential Policy Directive/PPD-27: United States Conventional Arms Transfer Policy" continued an important aspect of Clinton policy, stating that U.S. Government support for arms exports will include:

"... tasking our overseas mission personnel to support overseas marketing efforts of U.S. companies bidding on defense contracts; actively involving senior government officials in promoting transfers that are of particular importance to the United States; and supporting official Department of Defense participation in international air and trade exhibitions" (Obama 2014).

Four months later, in May 2014, Senator Warner made a public affairs announcement aimed at, and in support of both President Obama and India's new Prime Minister-elect, Narendra Modi, in the same month that Modi took office. Warner proposed a "100 days action plan" for the Obama Administration and the incoming Modi Government to "refresh" U.S.-India relations across the board. As part of the plan, he recommended that India allow *indirect* offsets that would enable specific activities such as building community colleges in India to satisfy offset obligations incurred through the arms trade (*The Hindu* 2014). While promoting linkage between Virginia community colleges and India offsets, Senator Warner continued avoiding the words "direct" and "indirect," enabling wider understanding than found in overly specific vocabulary.

In July 2014, between waves of India DPP policy changes, the new Modi Administration raised the cap for FDI with companies in the defense sector from 26% to 49%. The intent was to attract more exporters from abroad, to create self-sufficiency that would counter threats from

Pakistan and China. However, the new FDI ceiling only marginally increased business interest in India and did not produce the dramatic results that were expected. Instead, the FDI increase from 26% to 49% was still perceived by many foreign vendors as a 49% limit, which impeded many companies from moving past considering investment to actually doing it. Because the FDI limit continued to constrain foreign vendors as minority shareholders, it undermined goals for achieving greater strategic autonomy (Migliani 2014; Weitz 2017, 8).

In September 2014, when Modi visited the United States as India's new Prime Minister, Senator Warner issued a press release explained in relation to regional and national strategic interests. Although advocating for expanding India's offset policy by enabling a "two-tier system" for continuing *direct* offsets at the first tier, and introducing "a second tier" for *indirect* offsets, Warner referred to *direct* offsets as "traditional Indian defense industries" and *indirect* offsets as "other Indian priorities":

"By creating a two-tier system, offset funds that cannot be spent on traditional Indian defense industries could flow to a second tier of other Indian priorities, such as education, skills development or manufacturing. This will not only benefit the U.S. and Indian economies but will also strengthen the defense infrastructure of our strategic partner in a region of increasing importance to the United States" (Warner 2014).

Later in 2014, India's news media addressed White House-level senior officials advocating for India to overhaul its offset system as a policy deliverable, in preparation for a state visit from President Obama in January 2015 (Shanson 2014). Mike Froman, the U.S. Trade Representative (USTR) – one of the member organizations in the interagency offset working group – led a delegation to the U.S.-India Trade Policy Forum (TPF), hosted by India's Ministry of Commerce and Industry. The TPF provided a venue for evaluating progress on U.S.-India investment and trade issues at the ministerial level (U.S. Trade Representative 2014). Froman advocated for relaxation of rigid financial penalties imposed for delays in fulfilling offsets,

asserting that most defaults were caused by a lack of production capacity from Indian companies. He also recommended restricting offset project performance to the Indian company on the primary contract, rather than creating a wider and more complex web of offsets (Jacob 2014). Furthermore, Froman asked for India's MoD to make future DPP offset policy changes open for public comment before going final (Katoch 2015).

Soon after the USTR engaged Indian counterparts, and shortly before accompanying President Obama on the India visit, Senator Warner appeared as a guest speaker at the Washington-based Atlantic Council think tank. He continued to seek changes to India's *direct* "defense-focused offset" policy by expanding to *indirect* "offset in another area," outside of the defense and military establishment. Again, he did not say "direct" or "indirect":

"... India mandates a 30 percent carve out for homegrown industries in the purchase of U.S. defense, civil aviation or homeland security equipment. And for many companies, there's just not the capacity at this point in India to fully efficiently provide a full defense-focused offset. ... if you can get to some other notion, 20 on a growing level and still do an offset in another area that would be of national interest to India, for example skills development" (South Asia Center 2015).

Notably, Indian industry lacked the capacity for participating in the same *direct* offsets required by DPPs. India's policy levied a minimum 30% of the contract as an offset obligation on foreign vendors. However, not enough of India's own domestic industry was technologically capable of meeting the standards expected even by the Government of India, putting a very hard squeeze on foreign defense companies when seeking capable IOPs (Shanson 2014). Although not common, successfully reducing a country's obligations for defense exporters from 30% to 20% is not unprecedented (Anonymous Interview G3807 2023). Considering these factors, the U.S. lobbied India to make policy more flexible. Senator Warner was repeating the message expressed by the USTR, raising concerns that India's MoD might penalize U.S. firms for

contract delays beyond their control, caused instead by IOPs that were not yet suited for standards required to enter international supply chains (Shanson 2014).

In March 2015, shortly after Senator Warner’s India trip with President Obama, Senators Warner and Cornyn wrote another Senate India Caucus letter to Ashton Carter in the DoD. This time, however, Carter had been promoted from Deputy Secretary to become the new Secretary of Defense. This letter renewed lobbying for relaxation of *direct* offsets in favor of India expanding its policy to accept *indirect* offsets, and avoided using either term. The letter also promoted the “strategic partnership” addressed both in Carter’s confirmation hearing and highlighted in President Obama’s recent travel to India:

“... we are writing to you to express our strong support for the U.S.-India defense relationship, as well as the commitments made thus far by the Obama Administration to enhance the strategic partnership ... We also remain hopeful that India will make needed reforms in defense offsets ... to pursue a two-tiered system where offset funds that cannot be spent on traditional Indian defense industries could flow to a second tier of other Indian priorities such as education, skills development, or manufacturing” (Cornyn and Warner 2015).

The letter’s stated purpose, as written, demonstrated bipartisan support for the Obama Administration and U.S. strategic, diplomatic, financial, and defense relations with India. Repeated direct public lobbying to senior recipients in the executive branch achieved the same goals as previous letters and announcements – reaching President Obama, the NSC, and key executive branch stakeholders; informing peers in Congress and U.S. industry of alignment and influence throughout the executive branch; and conducting international relations from the legislative branch by advocating to the Government of India.

Similar also to previous lobbying, publicly advertised advocacy could facilitate Obama Administration engagement with U.S. industry and counterparts in India. It was not a secret – the message, like many before, was openly advertised – and this one also named “the Obama

Administration.” Lobbying President Obama indirectly through the Secretary of Defense in an open letter available to a full assortment of key stakeholders in government and industry would again mitigate accusations that State, the DoD, and any other federal agencies were violating federal statute by engaging industry to promote offsets without the president’s awareness or consent. The senators were naming the president in the letter, which was certainly conveyed from the DoD to the chief executive, if not already coordinated in advance between the Senate India Caucus and the White House.

Activities described so far highlight Congress emerging as leaders in addressing offset issues, which complicates using Putnam’s two-level game as an analytical structure for this study. In contrast to Putnam’s two-level game theory, which puts the president and the executive branch firmly at the center of interactions with Level I international counterparts, problems with offsets in India produced unique congressional engagement with India’s leaders. Furthermore, the Senate India Caucus provided encouragement for U.S. industry when constituent interests became more salient than legislative principles, leading the Caucus to influence and enable the executive branch into engaging offsets in ways that the law and bureaucratic norms would otherwise block.

Later in 2015, the Boeing Company offered rare insight on U.S. industry experience through a chapter in an edited volume on offsets published in India. This transparent message from U.S. industry to stakeholders in the India offset community, as lobbying through the literature, was a risky gamble. It could have backfired by offending the same Indian authority figures responsible for procurement and contract oversight. Boeing’s three key elements for success in offsets were stated as:

“... (1) an offset policy that is aligned with the industrial objectives it is intended to accomplish, (2) a consistent application of the offset policy across all defence

acquisition programmes and (3) flexibility in the implementation of the policy” (White 2015, 166)

In contrast, these points implicitly indicated shortcomings caused by (1) India’s dynamically changing DPP updates repeatedly achieving misalignment with self-sufficiency and strategic autonomy goals; (2) ad hoc offset policy applied inconsistently by multiple Indian government stakeholders with overlapping authority that undermined effective offset execution; and (3) overly rigid policy enforcement, even when conditions changed, often impeding foreign and domestic companies from proposing or accomplishing offset projects. Because it was published, the observations demonstrate a widespread frustration among defense exporters with India’s offset programs that exceeded their fear of getting censured and blocked. The industry message was openly available, now in “the literature” and not just through a company’s press release or in the news media. It demonstrated a commitment in enduring print to similar messages that industry also conveyed to Congress and executive branch stakeholders.

5.11 2016 – DPP & Amendments, U.S. Engagement

In the final year of the Obama Administration, the next change to India’s offset policy took place through DPP-2016. The MoD increased the minimum threshold requirements for offsets on the main contract from 300 crore (3 billion) Indian Rupees (U.S. \$46 million) by raising the level to 2,000 crore (20 billion = U.S. \$305 million in 2016), while retaining the 30% obligation rate (Raghuvanshi 2022; Spindel 2024, 10; Behera 2020, 134). Software development and engineering services were reinstated as eligible offsets, but with a 20% cap. However, services related to training and quality continued to be excluded (Palta and Nai 2018, 25). Furthermore, in 2018 and 2019, the MoD issued two amendments to DPP-2016 (Government of India, Ministry of Defence 2018; 2019). The biggest achievement in this series of DPP-2016 changes was raising the minimum threshold for offset obligations. This meant offset

requirements applied to fewer foreign vendors, and invited projects at levels where India's own firms were more likely to operate. Instead of seeking a profound overall dramatic import-led short-term change in India's self-sufficiency at the enterprise or platform level, India's offset policy makers recognized that market conditions highlighted a need to refocus at lower levels of production with smaller companies and suppliers.

Also in 2016, the United States designated India as a "Major Defense Partner" – a title unique only to New Delhi, until the UAE also received the same designation in 2024 (U.S. Department of State 2024b). This emphasized India's elevated status in U.S. export considerations as a result of American firms successfully selling several high-end military platforms to India since 2008, including Boeing C-17 Globemaster and Lockheed Martin C-130 Hercules transport aircraft, Boeing P-8 Poseidon maritime patrol aircraft, Boeing CH-47 Chinook and AH-64 Apache helicopters, and BAE Systems M777 howitzers (Abercrombie 2018). However, no U.S. firms had yet sold fighter aircraft to India, and offsets were still considered a significant complication when doing local business.

In April 2016, Secretary of Defense Carter and U.S. Ambassador to India, Richard Verma, engaged Indian leaders in negotiations about ToT for in-country coproduction involving the potential sale of Lockheed Martin F-16s and Boeing F/A-18s (Gady 2016). Negotiations dragged on, but India did not purchase either aircraft. Later in the year, Ambassador Verma met AmCham business leaders, where he emphasized intense U.S.-India engagement with strong positive momentum, including President Obama meeting Prime Minister Narendra Modi eight times since 2014. He noted two-way trade had increased to \$109 billion, and engaged AmCham members about their questions on many topics, including offsets (T. Paul 2016a).

Also in 2016, Tina Kaidanow, the State Department’s Principal Deputy Assistant Secretary for Political-Military Affairs, met AmCham defense industry leaders to discuss DPP issues with offsets (T. Paul 2016b). While visiting India and addressing offsets with AmCham members, she was in a position overseeing the Office of Regional Security and Arms Transfers – PM/RSAT – the primary U.S. Government organization responsible for U.S. policy on using the arms trade as a foreign policy tool (U.S. Department of State 2024a).

Table 5.7. U.S.-to-India Arms Trade Rankings, 2014-2016

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2014	1	2	Russia 49%	U.S. 35%	Israel 4.9%	UK 4.7%	France 1.7%
2015	1	3	Russia 66%	U.S. 9.6%	Israel 5.8%	UK 5.5%	France 4.4%
2016	1	2	Russia 66%	Israel 19%	UK 5.1%	France 4.6%	U.S. 1.6%

(SIPRI 2024)

Summarizing U.S.-India defense trade during 2014-2016, the U.S. returned to its usual position as the top global arms exporter [Table 5.7]. India dropped from being the world’s largest importer in 2013, until again becoming number one in 2019. Although Russia maintained its position as India’s primary source for defense items and services, its share dropped in 2014 and jumped back up for 2015-2016. The U.S. share of India’s defense import market increased from 2013 to 2014 but dropped in 2015 and again in 2016. As competition cut into U.S. defense exports, U.S. Government officials continued to encourage U.S. defense exporters.

The closing years of the Obama Administration saw renewed emphasis specifically on burden sharing with President Obama complaining about “free riding” by America’s security partners (Brandon 2019; Mohan 2019). However, in India, the preference for strategic autonomy and an enduring sense of regional unilateralism complicated prospects for American policy goals

(Mohan 2019). Engagement between American officials and U.S. industry representatives continued past the Obama Administration's final year and into President Trump's first term, promoting U.S. military equipment to friends and allies, and increasingly encouraging industry to engage and overcome issues with offsets on behalf of American regional policy.

5.12 Kenneth Juster: A Career Leading to India Offsets

In January 2021, during the final month of the first Trump Administration, the U.S. Ambassador to India, Kenneth Juster, closed out his tenure with a farewell speech addressing both progress and room for improvement with many issues surrounding India offsets, but without actually using the word "offsets." He diplomatically touched on many associated concepts – defense industrial cooperation, co-production, trade barriers, regional security, national strategy, interoperability, procurement, supply chains and value chains, production lines, critical dependencies, political risks, and jobs and domestic employment in both the U.S. and India (Juster 2021). The speech was not entirely about offsets, but offset factors were included in many of the topics.

Juster held many roles before becoming an ambassador in 2017, making him uniquely familiar with international relations, commercial business, diplomacy, the law, and especially with India and offsets. He briefly worked in the NSC, held jobs as a private industry lawyer, and worked at the State Department (Rich Verma and Juster 2022; Warner 2017). During 2001-2005, Juster signed approval for "Offsets in Defense Trade" annual reports as Under Secretary of Commerce in the G.W. Bush Administration (U.S. Department of Commerce, Bureau of Export Administration 2001b, un-numbered pages preceding p. i). Following 9/11 terrorist attacks on New York City and the Pentagon, the Bush Administration lifted several sanctions against arms exports applied by the Clinton Administration in response to India's nuclear weapons testing in

1998 (Abercrombie 2018). During this time, Juster co-founded the U.S.-India High Technology Cooperation Group (HTCG) with his counterpart from the Government of India, and negotiated trade policy credited with enabling high-technology exports to India that increased from \$1.6 billion in 2002 to \$8 billion in 2008 (Juster 2003a; Manayath 2017).

While promoting liberalization in U.S.-India relations, Juster observed a one-way street for unequal gains in India's favor. When speaking on behalf of the Department of Commerce in 2003 at the Federation of Indian Chambers of Commerce and Industry in New Delhi, he emphasized the need for mutual benefits:

“... let me say this as a good friend of India, India cannot take the position that free trade and globalization make sense when they mean outsourcing jobs to India or obtaining visas to work in the United States, but that they do not make sense when it means lowering barriers to trade or increasing access to your markets. To succeed, trade must be a *two-way street*” (Juster 2003b).

When working in private industry after his role with the Department of Commerce, Juster continued addressing the imbalanced U.S.-India relationship and began to integrate offsets into discussions. In 2009, Juster repeated concerns about lopsided relations that he stated at the Department of Commerce (*Voice of America (VOA)* 2009). In 2010, Juster co-authored a think tank piece on “Unleashing U.S.-India Defense Trade,” advocating for improvements to India's offset requirements:

“India could enhance the prospects for defense trade with the United States and effective *defense cooperation* if it provided greater *predictability and transparency* in its *offset policy* (which governs investment and local production requirements)” (Juster and Kuntamukkala 2010, 10).

India's non-tariff trade barriers at this time included 30% offset obligations for defense contracts valued over \$46 million, and the MoD had issued DPP changes for offsets in 2005, 2006, and 2008 that kept stakeholders off balance in the Government of India, India's industry, and foreign industry.

Juster’s emerging position highlighted increasing consensus across key stakeholders in the Security Cooperation Enterprise – from the defense industry, in Congress, and among senior leaders in the executive branch [Table 5.8]. His advocacy for offsets with India preceded legislative branch engagement with the executive branch in 2012, when Ambassador Nancy Powell responded to then-Senator Kerry in a confirmation hearing, and in the same year the Senate India Caucus began lobbying the DoD and State Department.

Table 5.8. Security Cooperation Enterprise

- | |
|---|
| <ul style="list-style-type: none"> • U.S. Defense Industry • Congress • Executive Branch <ul style="list-style-type: none"> • The President & National Security Council • Departments of: <ul style="list-style-type: none"> • Commerce • Defense • State |
|---|

5.13 2017 – Ambassador Juster & INDOPACOM

In January 2017, after 12 years in private industry following his role at the Department of Commerce, Juster returned to government service with the Trump Administration while Senators Cornyn and Warner continued engaging the executive branch. Juster held multiple senior roles simultaneously, including Deputy Director of the White House National Economic Council and Deputy Assistant to the President for International Economic Affairs (The White House 2017). In the first few months in the White House, he was also a primary contact for visiting Indian officials during staffing turbulence in the office of the National Security Advisor (Yashwant 2017).

In that same timeframe, Senators Cornyn and Warner lobbied Secretary of Defense “Mad Dog” Mattis and Secretary of State Tillerson. They advocated for approval of an in-country Lockheed Martin F-16 production line to overcome renewed competition against Sweden’s Gripen. Senators Cornyn and Warner wrote:

“Keeping the F-16 in production will help sustain a fleet of over 1,000 aircraft currently in the Air Force and help preserve thousands of American jobs in the supplier base

across 42 states, maintain approximately 800 high value design and engineering jobs in the United States, and extend the ... fighter aircraft as a significant *security cooperation tool*” (Mitchell 2017).

This message echoed similar announcements from the White House and the U.S. Ambassador to the UAE when promoting F-16 sales in 1998 (Kattouf 1998; The White House 1998). The Senate India Caucus phrasing about U.S. fighter aircraft as a “*security cooperation tool*” also overlapped with Juster’s previous think tank piece about overcoming offsets to increase U.S.-India “*defense cooperation.*”

In the midst of this activity, the growing U.S.-India relationship hit multiple speedbumps in 2017 that placed pressure on filling the vacant ambassador position at U.S. Embassy New Delhi. Although the end of the Cold War, 9/11 terrorist attacks, and India recently clashing with China over a shared border removed significant barriers in the U.S.-India relationship, Congress overwhelmingly passed the Countering America's Adversaries Through Sanctions Act (CAATSA), imposing sanctions on Russia, Iran, and North Korea, and any states involved in energy and security cooperation with them. Because India continued to maintain its military inventory and defense industry relationship with Russia, the new law strained relations, increasing the urgency for diplomatic engagement (Hughes 2021). Simultaneously, CAATSA created obstacles for U.S. companies competing in markets like India that were already buying from Russia (Anonymous Interview Y7916 2023). Furthermore, Secretary of State Rex Tillerson levied criticism against India for continuing to maintain a 49% cap on FDI in India’s defense industry. In August and October 2017, the Secretary of State emphasized how India’s restrictions prevented U.S. industry from contributing to India’s defense (Anicetti 2024, 110).

Within a few short months, personnel disputes within the Trump Administration led to Juster moving out of the White House, successfully nominated as ambassador and posted to

India in November 2017. His appointment filled a vacant embassy position with a highly qualified and well received candidate, widely acclaimed as a key architect in U.S.-India strategic relations (Manayath 2017; Desai 2017). In a public affairs release, Senator Warner complimented Juster's unanimous Senate approval:

“I was proud to support Ken's nomination to be our country's representative in India, one of our most important defense partners in the region” (Warner 2017).

In the same message, Warner highlighted a long-lasting personal relationship with his Harvard classmate: “I have known Ken since we were in law school in the 1970s” (Ibid).

Juster's appointment merged his previous experience from Commerce, State, the NSC, and high-level consulting practices; highlighted a personal relationship with the Senate India Caucus; and provided some distance from Washington-based drama while maintaining his connection to the president. This occurred as the U.S. and India both sought closer security and economic relations while addressing U.S. policy on Russia and China. At least one research interview participant for this study observed that appointed ambassadors, unlike career State Department officials rising to the rank of ambassador, do not know how to address offset situations (Anonymous Interview Q4317 2024). Although appointed, and not a professional diplomat who rose up through the ranks, Juster adroitly engaged U.S. defense industry dissatisfaction over India's dynamically changing offset requirements where American policy and U.S. industry interests merged.

Expanding beyond his past focus on commerce and finance to include security in his new role as ambassador, Juster addressed the “significant” market for U.S. defense exporters and how defense trade with India would benefit U.S. interests through military-to-military interoperability (Manayath 2017). The month before Juster's in-country posting, Secretary of State Tillerson gave a speech highlighting how the Trump Administration embraced India to promote regional

stability and offered “a menu of defense options” for capability improvements that could lead to even more defense trade (Abercrombie 2018). In speeches, discussions, and interviews aligning with the Secretary of State, Juster continued connecting the security cooperation message with industry in relation to U.S.-India interests (Sawhney 2017).

In November 2017, President Trump attached a new importance to India’s role balancing against China by introducing the regional “Indo-Pacific” label into his conversation rather than using the more familiar “Asia-Pacific.” During his first official Asia visit, he surprised observers by repeatedly using the new terminology. It demonstrated a significant shift in strategic focus and greater U.S.-India security convergence (Gopalaswamy 2018, 2; Mohan 2021, 5).

Table 5.9. U.S.-to-India Arms Trade Rankings, 2017

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2017	1	3	Russia 50%	Israel 23%	France 15%	U.S. 10%	S. Africa 0.5%

(SIPRI 2024)

In 2017, at the end of the Trump Administration’s first year, India dropped from being the world’s second largest defense importer in 2016 to number three [Table 5.9]. Notably, Russia’s share of India’s defense imports dropped from 66% in 2016 to 50%, and the U.S. share of the India defense market rose from 1.6% in 2016 to 10%. However, persistent misalignment of policies and disconnects between Indian and U.S. defense trade objectives continued complicating bilateral defense trade (Abercrombie 2018). Simultaneously, international competition and India’s changing offset policy continued to attract U.S. Government encouragement for defense exporters.

5.14 2018-2021 – Juster, Trump Policy, and India’s Changing Offsets

Over the next few years, Ambassador Juster increasingly engaged U.S. industry on offset issues while the Trump Administration promoted the arms trade, and while U.S.-India security interests increasingly converged. In April 2018, Ambassador Juster attended India’s Defence Exposition (DefExpo) trade show that highlighted advanced military gear from many countries. A Department of State press release on the event emphasized a security commitment to providing India with the most reliable, most technologically-advanced, and highest quality defense systems and equipment in the world (U.S. Mission India 2018).

In the same month as DefExpo, President Trump issued NSPM-10, the “National Security Presidential Memorandum Regarding U.S. Conventional Arms Transfer Policy.” It stated, “the executive branch will advocate strongly on behalf of United States companies” (Trump 2018). This aligned with policy initiated by Bill Clinton through PDD-34 where it promoted “[a]ctive participation by the U.S. government in supporting or promoting U.S. arms sales” for “U.S. national security, defense industrial, or regional interests” (Clinton 1995, 7). This same theme also continued through the Obama Administration in PPD-27 (Obama 2014). However, the new Trump policy became more proactive and purposeful than previous policies, adding a proposal for a comprehensive “action plan” to National Security Strategy, integrated across federal agencies with a “roadmap” for arms transfers (Trump 2018).

In May 2018, while the president and State Department were working on the conventional arms transfer policy, Secretary of Defense “Mad Dog” Mattis attended a change of command ceremony at U.S. Pacific Command (PACOM), and announced redesignating the unit as U.S. Indo-Pacific Command (INDOPACOM) (U.S. Pacific Command 2018). The official

change demonstrated greater security convergence and institutionalized a new regional mental map enduring beyond political discussion (Mohan 2021, 7–8).

In July 2018, in support of Trump’s NSPM-10, Secretary of State Mike Pompeo submitted an “Implementation Plan for the Conventional Arms Transfer (CAT) Policy” to the president, for whole-of-government coordination on conventional arms transfers. The plan included one effort to “organize for success” that included reviewing offset policy. It also included a second effort to “create conducive

environments” through the Interagency Offset Working Group, reorganized with Commerce and State as co-leads and including the DoD and USTR as members, to engage U.S. defense firms on

Table 5.10. Interagency Offset Team

- | |
|--|
| <ul style="list-style-type: none">• Executive Branch Agencies<ul style="list-style-type: none">• Department of State – co-lead• Department of Commerce – co-lead• Department of Defense – member• White House-Level<ul style="list-style-type: none">• U.S. Trade Representative – member |
|--|

“systemic offset issues” [Table 5.10] (Cooper 2019; U.S. Department of State, Office of the Spokesperson 2019; “US – State Updates Conventional Arms Transfer (CAT) Policy Implementation Plan” 2018).

As part of the CAT policy, the State Department noted in a Fact Sheet that it would work with security partners to ensure that importer “policies such as offset requirements do not imperil American jobs or reduce our technological edge” (U.S. Department of State, Office of the Spokesperson 2019). However, none of the new policy statements indicated efforts to eliminate offsets where advantageous to U.S. industry, nor that the State Department would avoid encouraging importer offset obligations that enhanced or increased American job opportunities. Activities described so far highlight ambassadors and the State Department, the DoD, the USTR, the president, and Congress – especially the Senate India Caucus and its links to State and the

DoD – with all of these stakeholders emerging to offer encouragement when promoting U.S. industry and American foreign policy.

Table 5.11. U.S.-to-India Arms Trade Rankings, 2018

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2018	1	3	Russia 60%	Israel 26%	France 9.8%	S. Korea 1.3%	U.S. 1.3%

(SIPRI 2024)

In 2018, the Trump Administration’s second year, Russia improved its position as India’s primary defense import source by 10% from 2017 to 2018, while the U.S. share of the India defense market decreased from 10% in 2017 to just 1.3% [Table 5.11]. Because U.S. exporters dropped to such a low level in India’s defense import priorities while participating in many other aspects of security cooperation with India, this invited stronger motivation from the U.S. Government to support defense exports and encourage firms encountering obstacles with offsets.

In the following year, at Aero India 2019, Ambassador Juster complimented growing military-to-military connections and looked for ways to facilitate the U.S. industry role in India’s offsets. He praised interoperability emerging as a result of increasing security convergence, although not explicitly highlighting border concerns with China or U.S. challenges to Russia’s relationship with India as primary motivators for growing U.S.-India military-to-military connections:

“Last year, the Indian Armed Forces conducted more military exercises with the United States than with any other armed forces in the world, and more U.S. service members came to train with their counterparts in India than at any time in the past” (Juster 2019).

In the same session, at Aero India, after touching on these military activities that were successfully overcoming American relative gains concerns, he turned in conversation to address where obstacles blocked U.S. foreign policy goals through the arms trade. Ambassador Juster

actively canvassed U.S. industry participants for actionable insight where in-country offsets were challenging burden sharing concerns:

“... we are interested in your views on defense offsets ... We look forward to your recommendations about what changes need to be made to improve the environment for our companies to compete on a level playing field” (Ibid).

At another trade show, DefExpo 2020, “featuring all-time high participation by US firms,” Ambassador Juster again addressed security cooperation issues, offsets, and relative gains concerns with burden sharing. India’s news media reported him promoting U.S. industry, in competition with other defense exporters, as a military interoperability solution for converging security interests:

“We believe that India must ultimately move toward systems that are interoperable with the equipment and networks of its security partners” (Shukla 2020).

Furthermore, at this same venue, Juster came out with more candor than an ambassador would typically express. He bluntly criticized India’s own policy as an obstacle to achieving strategic autonomy through self-sufficiency. In addition, he punctuated the comments in a way that would avoid any misperception by repeating the main point:

“If India believes offsets are essential it’s got to be done in a practical and effective way so that companies can utilise the offset requirements to enhance their production capabilities so that there is flexibility in what can be counted as an offset and that they get credit for their offset operations, so that they can continue to engage in the production activities that are desired” (Ibid).

Although official U.S. policy continued recognizing offsets as non-tariff trade barriers that should be eliminated, Juster was not advocating for abolition of offset obligations. Instead, this advocacy appeared to seek their normalization.

Only a few days after these comments, a senior Boeing executive offered a perspective overlapping with Ambassador Juster’s observations, but containing nuanced differences. Like Juster, he observed the similar potential for benefits that offsets could bring to India. In addition,

the Boeing executive described how the two-level policy game played out with the U.S. Government but failed to play out successfully among Indian officials:

“Offsets are a beneficial way to strategically grow within aerospace industry. However, companies are finding it difficult to cover offsets due to the way the policy is drafted and administered” ... “While there is alignment at [the] senior level, there needs to be stronger alignment down the bureaucratic level and at [the] working level” (Lalchandani 2020).

This industry situation explained Putnam’s two-level game, while also reinforcing understanding of the three-step process – international causation, lobbying for alignment, and government encouragement. Challenges emerged from discrepancies between senior-level Indian win-sets and win-sets for stakeholders within India’s own Level II domestic bureaucracies. In contrast, U.S. industry representatives facing challenges with offsets no longer needed to go out of their way to advocate for consensus across the U.S. federal government, because alignment was already a fact. Ambassador Juster, the president’s senior in-country representative, actively promoted U.S. industry and U.S. national interests while openly critiquing India’s offset policy and practice. This could take place due to agreement with the Senate India Caucus, and through efforts to produce conducive environments for offsets outlined in the State Department’s supplement to President Trump’s conventional arms transfer policy.

Later in 2020, the MoD issued policy changes for offsets through a “Defence Acquisition Procedure” (DAP) that replaced the “Defence Procurement Procedure” (DPP) and amendments used up to 2019. DAP-2020 was issued in the same timeframe as a rise in the FDI cap from 49% to 74% (Pandit 2020). This shift in allowing majority ownership by foreign vendors made participation more attractive for those seeking greater control over in-country production. The rising FDI ceiling demonstrated India’s increasing drive for self-sufficiency, and more flexibility with its concept of strategic autonomy. Furthermore, the use of offsets became limited only to

“global multi-vendor deals” with commercial entities, and no longer applicable to sole-source contracts with private firms nor in government-to-government deals such as U.S. Foreign Military Sales (FMS) procurement (Suman 2021, 296; Samunnatha and Shridhar 2021, 24; Pubby 2020). Indian officials became more comfortable with FMS because it minimized opportunities for corruption, thus reducing risks for civilian and military procurement officials (Cowshish 2020, 235). However, DAP-2020 abolished banking of offset credits, and excluded *indirect* offsets with civil aerospace, civil infrastructure, and homeland security (Spindel 2024, 10; Grevatt 2020a; 2020b). Overall, these changes meant fewer offset obligations would be incurred in the future, unless the MoD applied selective and arbitrary case-specific rules as it had done in the past, such as mandating 50% obligations when official policy specified only 30%.

India’s own defense industry praised DAP-2020 for improving foreign vendor opportunities, but other observers said the new policy was as complex as previous policy, and would therefore generate a repeating cycle of new and different types of complexity over time (Shanson 2020a). A number of U.S. industry representatives indicated they might not be able to continue doing business in India, even under the newest relaxation in offset rules. It was not a commitment to quit the market, but a strong indication that offset policies continued as an obstacle to defense exporters (Anonymous Interview Q4317 2024).

During 2019-2020, in the final two years of the first Trump Administration, India returned to consistently being the world’s top importer, a position previously held during 2010-2013 [Table 5.12]. In 2019, although maintaining its position as India’s primary source for defense imports, the percentage from Russia decreased relative to India importing more U.S. defense goods – the most transferred from the U.S. to India up to that time. However, in 2020, the U.S. lost its position as the second largest source of India’s defense imports to France. Offset

Table 5.12. U.S.-to-India Arms Trade Rankings, 2019-2020

Year	U.S. Rank in Global Defense Exports	India Rank in Global Defense Imports	India Defense Import Sources – Top 5				
			1	2	3	4	5
2019	1	1	Russia 38%	U.S. 24%	France 23%	S. Korea 6.1%	Israel 5.0%
2020	1	1	Russia 41%	France 27%	U.S. 16%	S. Korea 7.2%	Israel 4.0%

(SIPRI 2024)

obligations relaxed, India conducted more personnel exchanges and exercises with the U.S. military than with any other country, and the U.S. and India entered numerous security cooperation agreements. Even so, in July 2020, India’s minister of external affairs reinforced commitment to strategic autonomy by saying India will “never” join an alliance system (Kronstadt et al. 2021, 8, 12).

In January 2021, Ambassador Juster’s tenure in India ended along with President Biden succeeding President Trump. Encouragement for offset practices that accompanied the Trump Administration’s pro-industry CAT policy appeared to subside as Biden took office. Following the tradition of many presidents, the Biden Administration began erasing many of Trump policies right away (J. Cohen 2021). Although initiating changes in the first month, two years later President Biden did away with the integrated whole-of-government “roadmap” proposal by issuing “National Security Memorandum/NSM-18: Memorandum on United States Conventional Arms Transfer Policy” (Biden Jr. 2023). New policy stripped out text promoting U.S. exporters, found previously in policy implemented by Clinton, and continuing through G.W. Bush, Obama, and Trump. Biden policy did not erect any legal barriers for U.S. industry continuing to employ offsets, or prevent U.S. agencies from continuing any of their standard practices in support of U.S. industry. Specifically, however, the Biden Administration removed all Trump policy references to offsets. Omitting text about offsets from the conventional arms

transfer policy might not have changed any practices. Even so, it reinforced the norm for ‘hands off’ prohibitions in the same way that the Department of Commerce removed the presidential exception clause – found in the 1992 Declaration of Offset Policy – from its own publications starting in 2008 (U.S. Department of Commerce, Bureau of Industry and Security 2008, i; 2010, i; 2011, 1; 2012, 1; 2013b, 1; 2013a, 1; 2015, 1; 2016a, 1; 2016b, 1; 2018, 1; 2019, 1; 2020, 1; 2021, 1; 2022, 1; 2023, 3; 2024, 1).

5.15 Conclusion

Evidence presented for the India case produces the following scores to measure against theoretical claims, with 0 representing no evidence, and 1-4 demonstrating evidence of increasing strength:

Table 5.13. India – Confidence Scores for Observed Evidence

Confidence	Evidence for Variables
2	[C1.1] Foreign Industry Competition – Many competitors over 16 years created very keen relative gains concerns, but Russia challenges arguments that relative gains concerns are just as keen when competition involves only friends/allies
3	[C1.2] Burden Sharing Concerns – Ambassador Juster referred more than once to the U.S.-India relationship as a one-way street in India’s favor; U.S.-India security literature addresses U.S. burden sharing expectations blocked by India’s strategic autonomy
4	[C2] Domestic Alignment – Ambassadors testified to Congress about offsets in a confirmation hearing; the Senate India Caucus engaged Secretaries of State & Defense about offsets; the Senate India Caucus engaged U.S. presidents and Indian prime ministers; ambassadors engaged both U.S. industry and Indian officials about offsets
3	Observed White House Encouragement– Trump’s CAT included a State Department supplement promoting conducive environments for U.S. industry working with offsets

Scores above produce the following chart [Table 5.14].

Table 5.14. India – “Smoking-Gun” Observation Matches Claims

<i>Encouragement for Offsets</i> Observed White House encouragement: <u>3</u>	[C1] <i>International Causation – Relative Gains Concerns</i>	
	[C1.1] Foreign Industry Competition <u>2</u>	[C1.2] Burden Sharing Concerns <u>3</u>
$[C3] = (C1.1 + C1.2 + C2) / 3 = \underline{3}$		
[C2] <i>Domestic Alignment</i> <u>4</u>	If $(C1.1 \times C2) > 0$, then $(C1.1 + C2) / 2 =$	If $(C1.2 \times C2) > 0$, then $(C1.2 + C2) / 2 =$
	<u>3</u>	<u>3.5</u>

In sum, based on the numbers, the India case displays a strong likelihood of “encouragement” for offsets, passing the “smoking-gun test” for both observed evidence of White House involvement and the test of theory. Although relative gains concerns about foreign industry competition scored at only a moderate level, actual concerns should probably rate higher. However, some of the industry competition came from an adversary – specifically, from Russia. The score here reflects the original theoretical proposal that relative gains concerns are just as strong when all participants are friends and allies, and therefore the proposal was designed to give higher confidence for evidence not including strategic adversaries. Yet even with this artificially low score, it does not undermine the aggregate score.

Continuing with the other scores, they are more consistent with the “smoking-gun” rating. The other relative gains concern – for burden sharing – was strong based on Ambassador Juster observing more than once that the U.S.-India relationship was a one-way street in India’s favor. Although his pre-ambassador words expressed more of a concern about economics and tariffs than the arms industry, his economy-focused speeches changed to include regional security after becoming the ambassador. Domestic alignment was an extremely strong factor with members of Congress, particularly the Senate India Caucus, engaging U.S. presidents and Indian prime ministers, Secretaries of State and Defense, and ambassadors. U.S. ambassadors to

India also engaged U.S. industry about offsets at trade shows and AmCham meetings to collect information about challenges with offsets and advocate to Indian leaders on their behalf. Finally, the Trump Administration issued a CAT with a State Department supplement to shape conducive environments for U.S. businesses facing offsets.

The India case proves theory in the three-step process and in Putnam's two-level game, but with unique differences from UAE and Poland examples. The India case is based more on trends and an accumulation of activities in a longitudinal study rather than situated in a specific fighter aircraft deal. Taken together, encouragement activities in the India case highlight senior leaders in the executive branch – including ambassadors and the State Department, Commerce, the DoD, the USTR, and the president – interacting directly and indirectly with Congress, specifically the Senate India Caucus, and encouraging U.S. defense exporters while promoting changes to offsets on behalf of U.S. national interests. The three-step process took place with international causation based on frustration with offset policies. Relative gains concerns about industrial competition against allied and Russian defense exporters and burden sharing for defense against a rising China merged with lobbying for alignment across key stakeholders in the Security Cooperation Enterprise, resulting in U.S. Government encouragement. The two-level game was also active, with U.S. senior leaders seeking win-set alignment between their Level I counterparts in India and Level II domestic Security Cooperation Enterprise stakeholders. In fact, Ambassador Juster was able to employ the two-level game for in-country win-set alignment between India's key government stakeholders and U.S. defense exporters because Security Cooperation Enterprise consensus had already been achieved. This included backing from the Senate India Caucus and efforts to create conducive environments for U.S. defense exporters institutionalized through President Trump's conventional arms transfer policy.

Like previous cases, the India case also employed Putnam's two-level game, but with Congress stepping in and serving as an alternative path for international relations. In contrast to Putnam's theory, which situates the president and the executive branch exclusively at the center of negotiations, Congress produced the Senate India Caucus as a power center for encouraging offsets. Moreover, when defense industry constituent interests became more salient than legislative principles and prohibitions found in the Declaration of Offset Policy, the Senate India Caucus pressed for encouragement from the Departments of State and Defense. Prohibitions against encouragement found in federal law are not meaningless as written, and require NSC recommendations for the president to grant an exception. However, the Declaration of Offset Policy is less binding when Congress wants the federal bureaucracy to ignore the law. Executive branch actors responded, with ambassadors and the USTR encouraging industry. These activities showed an increasingly pro-industry direction with offsets beyond India.

Unlike previous chapters on Poland and the UAE that focused on specific arms trade activities, this chapter on India demonstrated that larger trends can also create conditions leading to encouragement. Although the India chapter shows Congress taking an unusually active role, and the Poland chapter highlighted a moderate role, evidence did not reveal such a strong role in the UAE case. Overall, case studies show evidence of U.S. Government encouragement for U.S. industry facing challenges with offsets, despite many practitioners, academics, and senior leaders portraying the U.S. position as an ironclad and universal 'hands off' policy, without exception.

Chapter 6. Conclusion

Why and in what circumstances does the president decide to go 'hands on' for offsets as a foreign policy tool? Consensus says that no one in the U.S. federal government ever offers encouragement for U.S. industry with offsets, under any circumstances. This perspective emphasizes the status quo based on the consequences for political leaders and bureaucratic interests when actively engaging issues with offsets. This dissertation argues that the prohibitive norm that prevents U.S. Government action is neither universal nor ironclad. Occasionally, senior officials from the executive branch all the way up to the president encourage offsets with defense exporters. Because involvement with offsets is generally taboo for the federal government, any activities beyond standard practices must be based in the national interest and have the aligned backing of industry, Congress, interagency offset working group member organizations, and the president. The point of this dissertation was not only to prove that the U.S. Government sometimes encourages offset activities for defense exporters, but also to explain what factors and conditions lead to encouragement.

6.1 Summary of Theoretical and Empirical Findings

The basic problem with government encouragement for offsets can be found through prohibitions in the “Declaration of Offset Policy,” where it says:

“... no agency of the United States Government shall *encourage* ... or commit United States firms to *any offset arrangement* in connection with the sale of defense goods or services to foreign governments” (U.S. Congress 1992, §123 4207).

The solution, although frequently dismissed and overlooked, is found in the same law, which continues by saying:

“... *the President may approve an exception* to the policy ... after receiving the recommendation of the National Security Council” (Ibid).

Solving the problem for applying the legal exception involves understanding factors and pathways that get past prohibitions. Because encouragement is infrequent, analysis turns to country-based examples for offsets with defense exports – also known as selecting on the dependent variable. Subject-based interviews suggested probable cases with the UAE, Poland, and India. Then research gathered evidence to enable iterative analysis through process tracing,

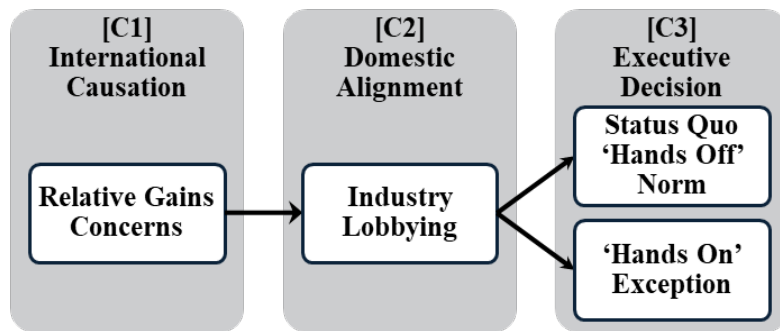


Figure 6.1. Three-Step Process for Encouragement

comparing evidence to each theoretical *claim* [C]. Theory starts with a three-step process – international causation, alignment across the U.S. Government, and finally

encouragement through the ‘hands on’ exception [Figure 6.1]. When encouragement emerges, theory argues that it takes place through Putnam’s two-level game, with the president and the president’s representatives aligning win-sets through negotiations between Level I international counterparts and Level II domestic stakeholders [Figure 6.2].

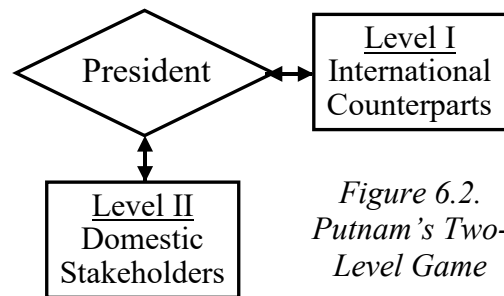


Figure 6.2. Putnam’s Two-Level Game

6.2 Claims vs. Observable Evidence

The following section compares each *claim* [C] made about the three-step process and Putnam’s two-level game against observable evidence revealed through research and analysis.

6.3 [C1] International Causation – Relative Gains Concerns

Evidence for Poland and India line up with theory in the first step, and the UAE does not prove or disprove claims. Therefore, theory starts out with mixed success on the positive side.

Theory claims that two international security-based variables, alone or together, demonstrating relative gains concerns with U.S. leaders that enable government encouragement for offsets as an exception to policy.

6.3.1 [C1.1] International Competition

[C1.1 Hypothesis]: Potential loss of a proposed or established exclusive state-to-state arms-trade relationship produces constant relative gains concerns.

[C1.1 Proof]: All three case studies show persistent relative gains concerns based on arms trade competitions with friendly countries, although the India case also included competition with Russia. In the UAE, the primary fighter aircraft competition came from France. In March 1999, Sheikh Mohammed of the UAE intentionally provoked relative gains concerns at a stalled point in F-16 discussions by informing reporters at a trade show that there were other options still on the table if the U.S. Government would not fulfill expectations for releasing fighter aircraft technology and weapons capabilities (Squeo and Pearl 2000).

In Poland, competitors included a Sweden/UK team and France. While promoting a House of Representatives *repayable* FMF loan vote, Bill Young (R-Florida) spoke to relative gains concerns when highlighting the international competition and the possibility of Poland “going to another buyer” (U.S. Congress 2002, H7827). Lt Gen Tome Walters, responsible for overseeing arms transfers as the DSCA Director, stressed relative gains concerns when speaking about the possibility of “losing out on a generation of air force to air force relationships” and the EU undermining NATO interoperability (Evans 2003, 541n11; “Pentagon Plays Afghan Card to Sell Warplanes” 2002). A spokesman for DSCA further emphasized interoperability by adding that buying American F-16s enables friends and allies to tap into a high-tech range of advanced military capabilities combat-tested in Afghanistan (“Pentagon Plays Afghan Card to Sell

Warplanes” 2002). In a press announcement, Lockheed Martin explained overall goals through a U.S. Government perspective, where Poland choosing the F-16:

“... lays the foundation for the development of a long-term strategic relationship between Poland and the United States, militarily, politically and economically” (“Lockheed Martin F-16 Formally Offered to Government of Poland” 2002).

Competition for the India market was much broader, not specific to fighter aircraft, and came not only from Russia. It also included friends and allies such as Israel, the UK, France, the Netherlands, Poland, Germany, Australia, and South Korea (SIPRI 2024). Independent of case studies, an official DSCA press release listed the same countries and added India, China, Brazil, the entire European Union as defense exporters posing challenges to American interoperability, even where many of these countries import U.S. defense equipment (U.S. Department of Defense, Defense Security Cooperation Agency 2013). Interview participants highlighted the same challenges for U.S. interoperability and added Japan, Serbia, and Türkiye as defense exporters (Anonymous Interview A5901 2023; Anonymous Interview B7802 2023; Anonymous Interview N9214 2023).

6.3.2 [C1.2] Weak Security Partners

[C1.2 Hypothesis]: Weak security partners generate relative gains concerns by buck-passing, free-riding, and chain-ganging on their own security, and this motivates the U.S. Government to increase burden sharing by encouraging U.S. industry where it participates in offsets.

[C1.2 Proof]: All three case studies show burden sharing-based relative gains concerns, although in unique case-specific ways, with Poland and India aligning with theory more than the UAE. In Poland, American relative gains concerns merged with Poland’s own concerns about buck-passing and free-riding by other NATO members that weakened the alliance (Kugler 2020,

324; Smura 2019, 105, 113). In the India case, burden sharing meant the U.S. Government encouraging procurement of more defense equipment as a result of the U.S. military increasingly contributing to regional security, especially to counter China.

American burden sharing concerns with the UAE, as a weak security partner, meant influencing the purchase of F-16s to deal with Iran, rather than simply basing U.S. Forces in the UAE and accepting subsidies for providing local protection. According to news media sources, Clinton Administration officials were eager to support new Middle Eastern energy projects as offsets, such as the Dolphin project in the UAE, because they specifically marginalized Iran as a regional security threat (Squeo and Pearl 2000). However, the UAE used “pre-offsets,” meaning they put successful offset project accomplishment first, before evaluating defense equipment. Therefore, the UAE’s process reduced the likelihood of U.S. Government intervention on behalf of offsets. Even so, relative gains concerns based on both factors – industry competition -and- burden sharing – generated increased interest from U.S. national security stakeholders.

In an interview addressing the F-16 sale to Poland, Lt Gen Walters succinctly addressed relative gains concerns, conveyed with punched-up emphasis as a representative for the president of the United States:

“My responsibility is ... to pursue national security interests. We are working with countries that are our friends to build influence in peacetime so we will have access to the region when we need it in time of crisis. ... I told the Poles they ... could join with the U.S. Air Force and 23 other countries and 8 NATO countries that fly the F-16. Or, they could have the Gripen and have interoperability with Sweden and South Africa” (Wayne 2003)

A State Department spokesman emphasized:

“We certainly think the F-16 is a superior multi-role fighter, and we were pushing for ... our interest ... related to Poland’s role in NATO, not to anything else” (Little 2004).

Burden sharing, buck-passing, and free-riding perceptions persisted across many presidential administrations. Discussing European allies, Kay Bailey Hutchison, Ambassador to NATO and former Senator (R-Texas), highlighted concerns:

“... every president with whom I'd worked, which started with Clinton and then went through Bush and then Obama and then Trump all said the same thing. They said it in different ways, but they said the same thing. Europe needs to do more for this alliance” (“Episode 74. The Power of Two: US Engagement with NATO” 2022).

President Obama also commented on burden sharing and complained more broadly about “free riding” from America’s security partners, to include India (Brandon 2019; Mohan 2019).

6.3.3 [C1] Summary

Comparing relative gains evidence to theory, and how they contributed to support for U.S. industry with problematic offsets, conditions were strongest for Poland, less so for India, and mixed for the UAE because of “pre-offsets.” Although UAE evidence does not contribute as strongly to claims in the first step, neither does it disprove where India and Poland actually match claims. All three examples demonstrate that relative gains concerns, whether generated by offsets or not, produce stronger interest from U.S. Government national security stakeholders. Furthermore, evidence for both Poland and India demonstrates more acute U.S. Government interest based on relative gains concerns about industry competition and burden sharing when offsets create complications for U.S. foreign policy goals. Because Poland and India line up with theory, and the UAE does not fully prove or disprove claims, the first step starts out with mixed success on the positive side.

6.4 [C2] Domestic Alignment – Industry Lobbying

Similar to the first step, evidence for Poland and India line up again with theory, and again the UAE offers mixed results. Theory in the second step claims that industry lobbies the U.S. Government to overcome a domestic status quo that opposes helping defense exporters with

offsets. However, because prohibitions and opposition in the status quo are so overwhelming, they frequently prevent industry stakeholders from considering government advocacy. Among those companies that do know about the presidential exception to the Declaration of Offset Policy, they lobby not only to reach the president, but also to achieve alignment throughout key stakeholders in Congress and the executive branch. However, even when achieving domestic alignment, the president does not typically encourage offsets.

6.4.1 [C2.1] The Status Quo – Opposition & Lack of Awareness

[C2.1 Hypothesis]: Anti-offset actors succeed in portraying a completely prohibitive ‘hands off’ norm, creating a status quo where most stakeholders are unaware of the exception to policy.

[C2.1 Proof]: Evidence of the prohibitive status quo appears in literature, case studies, and subject interviews. Literature specifically mentions the “hands off” policy without acknowledging the presidential exception. References appear in numerous sources from news media, marketing materials, academic publications, theses, dissertations, journal articles, conference papers, and U.S. Government publications:

(Aquino 1990, 3–12; Berry, Jr. 1988, 130; Bingaman 1997, 18; Butler, Bowsher, and Yukins 2022, 2; Crabb 1989, 63, 66, 71; “Export Opportunities for Virginia’s Defense Industry” 2013, 13; U.S. Department of Defense, Defense Procurement and Acquisition Policy 2010, 54; Gandolfos 2015, 17; Gessert, Glass, and Pettijohn 1987, 3–5; Goodman 2024, 7, 10, 33, 34, 39; Healey 1999, 223; Herrnstadt 2008b, 7; 2008a, 13; Ianakiev 2006, 312–13; Irwin, Jeydel, and Sylvain 2015, 4; Kane 2009, G-53; Kenlon 2020, 18; Kremer and Sain 1992, 3, 77; Lambrecht 2012, 29; Lardner 1990b, 1–2; 1990a, 8; Metzger 2014, 4; Milligan 2003, 2; Moore et al. 2007, 62; Petersen 2011, 486, 490–91; Petty 1999, 17; Romanoski, Jr. 2004, 7; Schoeni 2015, 387n116; 2016, 151n291; B. Singh 2014, 19; Suman 2011; Tenvik 2015, 11; U.S. House of Representatives 2004b, 12, 13, 30; U.S. General Accounting Office 1998, 3; 2000, 1; 2004, 2; Vittori 2019, 52; Wang and Shin 1997, 23, 25, 26; Welch 1994, 1, 30, 41; Zorluoglu, Cakir, and Tezcan 2008, 34; 장원준 [Jang, Won-Joon] and 김미정 [Kim, Mi-Jung] 2016, 51).

Since 2008, Department of Commerce annual “Offsets in Defense Trade” reports to Congress repeat only paraphrased prohibitions in the Declaration of Offset Policy, and do not

acknowledge the legal waiver that allows the president to authorize an exception (U.S. Department of Commerce, Bureau of Industry and Security 2008, i; 2010, i; 2011, 1; 2012, 1; 2013b, 1; 2013a, 1; 2015, 1; 2016a, 1; 2016b, 1; 2018, 1; 2019, 1; 2020, 1; 2021, 1; 2022, 1; 2023, 3; 2024, 1). Omitting the presidential clause from the world's most widely reviewed report on offsets creates a misperception that there is no exception to the prohibitive norm.

Multiple examples of the prohibitive norm emerged with Poland. When speaking about offsets, Ambassador Christopher Hill said the U.S. Government “does not organize them, nor does it encourage them” (Tagliabue 2003b). Also with Poland, a politically charged atmosphere emerged around offsets that provoked criticism from U.S. labor unions on the grounds that offsets shifted American jobs abroad (Sennott 2003). Members of Congress testified about displeasure with offsets because of how they produced negative effects for their constituents. Representative Curt Weldon (R-Pennsylvania) said, “I am against offsets [because they] have had direct impact in my district” (U.S. House of Representatives 2004a, 53). Representative Robin Hayes (R-North Carolina) rhetorically asked, “... why in the world is the United States of America granting offsets? ... we are being played for a bunch of saps” (Ibid, 55).

Beyond the literature, each interview participant's experience was unique, although most shared a common claim for sincerely and honestly not witnessing, participating in, nor hearing of U.S. government encouragement for offsets (Anonymous Interview A5901 2023; Anonymous Interview B7802 2023; Anonymous Interview D6104 2023; Anonymous Interview J7510 2023; Anonymous Interview L3812 2023; Anonymous Interview N9214 2023; Anonymous Interview Y7916 2023). Some interview participants stressed that encouragement for offsets does not occur because it is illegal, without exception. On the other hand, some participants claimed that advocacy is possible for U.S. defense exporters in general, but not for offsets, and key

government stakeholders in the Security Cooperation Enterprise will not risk official censure for giving the appearance of favoritism by offering encouragement to any individual companies. More specifically, one interview subject claimed encouragement is possible for individual companies, but only for U.S. Government-managed FMS arms trades, and typically only after the importing government has already expressed official interest in procuring an item from a specific company. One participant stated that because of competition with other countries, the U.S. Government makes projects counting as offsets easier to export in order to not penalize U.S. industry. Even however, with limited exceptions found here, interviews reinforce an overall prohibitive norm and status quo that creates a lack of awareness about possible support for offsets, and eclipses knowledge of the president's role in authorizing exceptions to policy, as found in federal legislation.

6.4.2 [C2.2] Industry Seeks Alignment

[C2.2 Hypothesis]: When problematic offset issues threaten to undermine large FMS programs, defense firms will lobby the government for support.

[C2.2 Proof]: As stated in expert witness testimony to Congress about offsets:

“... there are places where the interests of the government and the companies converge, and there are places where the interests of the government and the companies diverge” (U.S. House of Representatives 2004b, sec. Statement of Katherine V. Schinasi, 28).

Lobbying emerges from organized industry associations and from individual companies. The Aerospace Industries Association (AIA) and other trade organizations give industry channels for advocating to Security Cooperation Enterprise officials in the U.S. Government. In-country chapters for the American Chamber of Commerce (AmCham) and specific organizations such as the U.S.-India Business Council engage U.S. embassies. In 2006, AIA completed its first-ever India trade mission, including senior executives from firms such as Boeing, Lockheed

Martin, United Technologies Corporation, Raytheon, and Pratt & Whitney (“US Aerospace Industry Woos India” 2007).

Evidence for alignment emerged many times across different activities in the U.S. Government, demonstrating support for U.S. industry requests, with stronger evidence when officials specifically mentioned offsets. Because U.S. ambassadors officially promote the president’s position, anything they say at official venues can be assumed to be associated with the president, until they say it is not the official position. In the UAE case, when Ambassador Kattouf appeared before Congress, he spoke about U.S. jobs associated with the F-16 sale in his confirmation hearing. This offers strong evidence for alignment, but not necessarily for support to offsets. In the Poland case, demonstrating alignment but not necessarily for offsets, Lt Gen Tome Walters actively advocated for “discussion with the administration and Congress” to promote F-16 sales (Evans 2003, 541n11). He also met Senator Kay Bailey Hutchison over the F-16 deal. Finally, the White House and Congress demonstrated alignment when cooperating with each other, and when the White House endorsed a \$3.8 billion FMF loan, where Poland attached 100% offset obligations.

The India case presents particularly strong evidence for alignment across the executive and legislative branches. Ambassador Nancy Powell specifically spoke about continuing advocacy for relaxation of offsets in testimony before Congress (U.S. Senate 2012, 56). The presentation given to then-Senator Kerry was successful, with congressional approval for posting to India. Furthermore, the strongest evidence emerged through research on the Senate India Caucus. Senators Cornyn and Warner actively advocated on behalf of industry constituents to the executive branch. Their lobbying message insisted that the Departments of State and Defense intervene on behalf of defense exporters to influence changes in India’s offset policy, defying the

Declaration of Offset Policy, which Congress ratified in 1992 to *discourage* the executive branch from working with offsets. According to a Supreme Court opinion on a different aspect of relationships between Congress and the president, this demonstrated an extremely high level of alignment:

“When the President acts pursuant to an express or implied authorization of Congress, his authority is at its maximum, for it include all that he possesses in his own right plus all that Congress can delegate” (U.S. Supreme Court 1952).

This activity from the Senate India Caucus could cause or enable the president and the executive branch to more freely exercise encouragement for U.S. industry working with offsets.

Interviews point to general requests from industry to the U.S. Government for help and also to specific requests – both through lobbying and advocacy (Anonymous Interview D6104 2023; Anonymous Interview G3807 2023; Anonymous Interview N9214 2023). According to one interview participant, U.S. companies “always” ask some U.S. Government stakeholders for help with pushing back on offsets, especially when facing onerous obligations, even if industry requests will not produce any government assistance. Other participants highlighted lobbying for alignment across senior level government officials in the Departments of State and Defense with limited success when working-level bureaucrats do not provide cooperation or support.

6.4.3 [C2] Summary

Evidence for Poland and India demonstrate alignment for offsets, while the UAE has the weakest evidence. Prohibitions and opposition to U.S. Government involvement in offsets do frequently prevent industry stakeholders from considering government advocacy for offset-based problems, but do not prevent it entirely. In all cases, alignment for the arms trade took place across key stakeholders in the Security Cooperation Enterprise. However, evidence for Poland

and India exceeded alignment simply for the arms trade and demonstrated alignment penetrating more deeply to produce encouragement for offsets.

6.5 [C3] Executive Decision and the Two-Level Game

In the third and final step, evidence demonstrates encouragement at different levels, stronger again with India and Poland than with the UAE. According to the Declaration of Offset Policy, what some might consider as legal proof, the final choice for authorizing encouragement rests with the chief executive.

[C3 Hypothesis] When choosing the exception, the president delegates actions to the executive branch.

[C3 Proof]: Evidence emerges in different ways based on the two different legal definitions for encouragement – more clearly where defined as federal funding employed to induce compliance, but less clear where encouragement is defined as facilitating, guiding, coordinating, or compelling outcomes. White House-endorsed *repayable* FMF loans subsidizing arms trades – where importers employed offset obligations – provide a strong case for the president encouraging industry participation in offsets. While FMF loan terms and conditions specify that credits apply only to U.S. manufactured goods and services, they also apply to reimbursing U.S. defense exporters for offset projects. Therefore, FMF loans are encouragement not only for the overall arms package – they are also encouragement for U.S. industry participation in offsets in support of U.S. foreign policy.

Examples of White House-level encouragement emerged in two places in the case studies. Poland stands out for receiving a \$3.8 billion *repayable* FMF loan, endorsed by the G.W. Bush White House and approved by Congress, for 48 Lockheed Martin F-16s and 44 reimbursable offset projects. Separately, The Trump Administration institutionalized policy to

increase support for industry with offsets by issuing NSPM-10, the “National Security Presidential Memorandum Regarding U.S. Conventional Arms Transfer Policy.” It stated, “the executive branch will advocate strongly on behalf of United States companies” (Trump 2018). This echoed previous policy issued by Presidents Clinton and Obama. Moreover, Secretary of State Pompeo submitted an “Implementation Plan for the Conventional Arms Transfer (CAT) Policy” to the president as a supplement to NSPM-10 for whole-of-government coordination in the arms trade. The plan included one effort to “organize for success” that included reviewing offset policy. It also included a second effort to “create conducive environments” through the Interagency Offset Working Group, to engage U.S. defense firms on “systemic offset issues” (Cooper 2019; U.S. Department of State, Office of the Spokesperson 2019; “US – State Updates Conventional Arms Transfer (CAT) Policy Implementation Plan” 2018).

Additional evidence of presidential authorization emerged through numerous examples of encouragement. Many activities took place through White House-level engagement. Vice President Gore hosted UAE leaders for a Rose Garden signing ceremony, showing White House support, but not necessarily demonstrating involvement with offsets. President G.W. Bush hosted Polish leaders, and the U.S. Air Force provided an F-16 promotional ride for Prime Minister Miller. President Obama sent the USTR to shape India’s offset policies in preparation for his own meeting with Prime Minister Modi. Although most activities took place to promote specific arms deals or to enrich overall bilateral relationships, only the USTR visit with India was isolated down to just issues with offsets. Even so, additional examples show how officials working for the president supported these activities by encouraging U.S. exporters who were dealing with offsets.

Ambassadors and diplomatic officials in particular highlight working through Putnam's two-level game as senior in-country representatives for the president. In the UAE, Ambassador Kattouf told his staff to make the F-16 deal into the embassy's own "priorities one, two and three" (Squeo and Pearl 2000). This demonstrates the embassy as a primary fulcrum in the president's two-level game, but does not necessarily speak to offsets. However, in the Poland case, Ambassador Christopher Hill recounted a personal telephone call with President G.W. Bush about the importance of selling F-16s to Poland. He also worked between Level I international counterparts and Level II U.S. industry so successfully that a consultant in Poland who helped arrange some of Lockheed's offset deals said:

"Lockheed didn't win the contract, the U.S. government did, with pressure and support coming from the very highest levels ... They created a program that, politically and economically, was very hard to say no to" (Little 2004).

The clearest evidence for ambassadors and diplomatic officials encouraging offsets through the two-level game emerged with India. These senior officials all had documented engagement about offsets – Ambassador Nancy Powell, Deputy Chief of Mission Donald Lu, Ambassador Richard Verma, Principal Deputy Assistant Secretary for Political-Military Affairs Tina Kaidanow, and most prominently, Ambassador Kenneth Juster.

While this evidence affirms theories from Putnam's two-level game in practice, the Senate India Caucus simultaneously offers complications where theory puts the president and his representatives firmly and exclusively at the center of negotiations. According to Putnam's theory, when Senators Warner and Cornyn engaged Level II domestic stakeholders in industry and applied pressure on the Departments of State and Defense, they were simply acting as other Level II domestic actors. However, when engaging Indian government officials about offsets, they demonstrated that Congress has a role at Level I that is not explained by Putnam. Although

this offers an exception to Putnam’s theory, it does not invalidate the two-level game as it applies to the president or where it might transfer theoretical principles over to others using a two-level structure for negotiations. Moreover, the Senate India Caucus shows how influential offsets can be when working through political figures that exercise influence at both domestic and international levels, and how politicians can promote interests where the traditional structures of Congress and its committee system are not successful.

6.5.1 [C3] Summary

Evidence of “encouragement” for offsets emerges more strongly for Poland and India than with the UAE [*Table 6.1*].

Table 6.1. Comparing Theoretical Claims to Observed Evidence

Theoretical Claims		Evidence Strength		
		UAE	Poland	India
[C1] Relative Gains	[C1.1] International Competition	4	3	2
	[C1.2] Weak Security Partners	2	4	3
[C2] Domestic Alignment		1	3	4
[C3] Executive Branch Encouragement for Offsets = (C1.1 + C1.2 + C2) / 3		2.33	3.33	3
Observed White House Encouragement		1	4	3

Results rely on both definitions for encouragement – as national funding to produce compliance with policy, and as facilitation, coordination, and influence. The G.W. Bush White House endorsed a \$3.8 billion FMF loan for Poland, and Poland attached a 100% offset obligation where Lockheed Martin was reimbursed through the deal for its offset expenses. Furthermore, numerous American diplomats, as the official in-country representatives for the president, worked through Putnam’s two-level game to promote U.S. industry interests to Indian

counterparts. Although the UAE case does not disprove that encouragement happens, the India and Poland cases present strong evidence that encouragement happens with the presidents' approval because it takes place through senior officials serving as the voice of the president.

Separately, the Senate India Caucus challenges two concepts – a strict interpretation of Putnam's two-level game, and the founding principles in the Declaration of Offset Policy. Putnam's theory puts the president and the executive branch exclusively at the center of negotiations. However, Senators Cornyn and Warner emerged as an alternative power center, advocating for offsets to foreign leaders. Moreover, when defense industry constituent interests became more salient than legislative principles and prohibitions implemented by Congress in the 1992 Declaration of Offset Policy, the Senate India Caucus pressed for encouragement from the Departments of State and Defense. Prohibitions against encouragement found in federal law are not meaningless as written, and require NSC recommendations for the president to grant an exception. However, the Declaration of Offset Policy is less binding when Congress wants the federal bureaucracy to ignore the law.

6.6 Implications

Analysis in this dissertation focused on U.S. Government encouragement for U.S. defense exporters facing challenges with offsets. Relaxing and changing the scope statement enables looking at U.S. Government claims about not having an offset policy for defense "imports." This claim denies the Buy American Act of 1933 as an offset "import" policy even while using offset-like practices of placing industrial participation and local content obligations on companies that participate in U.S. defense procurement. Why is 'Buy American' not considered an offset policy for defense imports? A thorough study that compares and contrasts official U.S. logic and principles for offsets with the World Trade Organization, with policies in

other countries, and with scholarship on offsets could improve how policy leaders understand and articulate the U.S. official premise. This could influence more international counterparts into understanding and agreeing with U.S. policy, or could lead U.S. policy leaders into understanding how much 'Buy American' serves as an offset policy for defense imports.

Empirically, this study demonstrates that the U.S. Government does indeed sometimes provide encouragement for U.S. defense exporters with offsets. On the other hand, it also highlights reasons for the prohibitive status quo. Organizational opposition emerged through the 1978 Duncan Memorandum, based on experience with messy offsets that put the DoD in a bind. Opposition also emerged with politicians, industries, and workers who lost opportunities that were transferred overseas as offset projects.

Because the U.S. Government sometimes encourages U.S. defense exporters in offset deals, it demonstrates a solution for arms trade-based relative gains frustrations with foreign policy goals. Key stakeholders in the Security Cooperation Enterprise from industry, Congress, and the executive branch align, enabling the president to cast a positive vote for an exception to policy prohibitions. Arguments in this dissertation can extend to the arms trade in general, where encouragement emerges as an exception to the norm to overcome any obstacles impeding U.S. foreign policy goals.

6.7 Avenues for Further Research

Switching the perspective away from the U.S. Government enables analyzing other countries with similarly vague offset policies, or where offsets are practiced but there are no policies at the national level. Although around 80 countries employ official legislation driving offsets as an explicit foreign policy and domestic economic tool, as many as 50 more countries require or expect offsets as an implicit norm not spelled out in national-level policy or legislation. Even so, a lack of transparency with offsets means they are poorly understood

(Balakrishnan 2018, 5, 9, 120, 127; Matthews 2004, 98, 100; 2014, 6; Nackman 2011, 514; Neuman 1985, 35; Sköns 2004, 150; Brauer and Dunne 2004, 1, 2, 9–10). Many countries obscure their offset activities by using titles for policies and organizations that reflect “compensation” or “benefits” for “cooperation” and “participation,” while excluding the word “offsets.” Beyond using obscuring vocabulary, some countries such as Singapore and Japan do not address offsets in their laws or policies, and do not have government offset authorities, yet typically require local content and offsets labeled instead as “industrial participation” (Balakrishnan 2017, 268). Furthermore, when issues with offsets arise in national legislatures but do not convert into formal laws, the lack of development pinpoints what is missing and explains where policy gets stuck in the three-step process – with international causation, domestic alignment, and government encouragement. Discussion at the national level indicates international causation and industry proponents putting forward their interests, while stalling in national assemblies and a lack of policy closure demonstrates insufficient alignment across key domestic stakeholders.

Going into more detail with Japan as an example, unlike the United States which employs the Buy American Act of 1933, Japan has no such “Build in Japan” legislation. Moreover, Japan has no laws or policies for or against its government encouraging offsets as defense exports. Even so, defense industry offset discussion has emerged in news media, and in Japan’s Parliament, known as the Diet, exploring the need for a national-level policy (Kodaira 2022; Nose 2021; 中谷 元 [Nakatani, Gen] 2020a; 2020b; 中谷 元 [Nakatani, Gen] and 福永 哲郎 [Fukunaga, Tetsurō] 2020; 伊藤 俊 [Itō, Shun] and 浜田 靖一 [Hamada, Yasukazu] 2023; 河野 太郎 [Kōno, Tarō] and 岩屋 毅 [Iwaya, Takeshi] 2019; 熊田 裕通 [Kumada, Hiromichi] 2023; 能勢 伸之 [Nose, Nobuyuki] 2021). However, discussion in Japan has not made progress beyond the national Diet and limited news media coverage to produce encouragement or to become institutionalized in laws and policies.

This demonstrates international causation merging with Japan's dissatisfied defense industry to produce enough alignment for discussion among national legislators and in the news media. However, because of insufficient alignment across domestic actors, lobbying does not produce the same effects that would otherwise arise from a similar situation in other countries with more formal policies. In the United States, the president can rely on the exception to the Declaration of offset Policy. Yet even without a similar policy, Japan can still run offset projects associated with imports as an implicit government function while denying officially that it conducts offset practices because it does not have a formal policy, does not use the word "offsets," does not run its program at the national level, and does not consistently apply "industrial participation" obligations in the same way on every foreign defense import. Analysis, structural frameworks, and findings in this study enable looking at countries that have similarly vague policy structures for offsets associated with imports or exports. Results show where they also experience challenges achieving domestic alignment, for a better understanding of how the international arms trade works and does not work as a tool of foreign policy.

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Annex A. The Unabridged “Declaration of Offset Policy”

Text below re-prints the unabridged Declaration of Offset Policy, as appearing in 2024 in Title 50 U.S. Code Section 4568 (U.S. House of Representatives, n.d., sec. Declaration of Offset Policy). In 1992, the Declaration was introduced in statute through amendment to the Defense Production Act of 1950 (U.S. Congress 1992, §123 4206–4208). Additional amendments in 2003 and 2009 made some changes, but they did not alter the overall ‘hands off’ tone nor any specific wording in the exception clause (U.S. Congress 2003, §7(c) 2895; 2009, §12(b)(1) 2022).

DECLARATION OF OFFSET POLICY

- (a) In General.-Recognizing that certain offsets for military exports are economically inefficient and market distorting, and mindful of the need to minimize the adverse effects of offsets in military exports while ensuring that the ability of United States firms to compete for military export sales is not undermined, it is the policy of the Congress that-
- (1) no agency of the United States Government shall encourage, enter directly into, or commit United States firms to any offset arrangement in connection with the sale of defense goods or services to foreign governments;
 - (2) United States Government funds shall not be used to finance offsets in security assistance transactions, except in accordance with policies and procedures that were in existence on March 1, 1992;
 - (3) nothing in this section shall prevent agencies of the United States Government from fulfilling obligations incurred through international agreements entered into before March 1, 1992; and
 - (4) the decision whether to engage in offsets, and the responsibility for negotiating and implementing offset arrangements, reside with the companies involved.
- (b) Presidential Approval of Exceptions.-It is the policy of the Congress that the President may approve an exception to the policy stated in subsection (a) after receiving the recommendation of the National Security Council.

(c) Negotiations.-

(1) Interagency team.-

(A) In general.-It is the policy of Congress that the President shall designate a chairman of an interagency team comprised of the Secretary of Commerce, Secretary of Defense, United States Trade Representative, Secretary of Labor, and Secretary of State to consult with foreign nations on limiting the adverse effects of offsets in defense procurement without damaging the economy or the defense industrial base of the United States or United States defense production or defense preparedness.

(B) Meetings.-The President shall direct the interagency team to meet on a quarterly basis.

(C) Reports.-The President shall direct the interagency team to submit to Congress an annual report, to be included as part of the report required under section 723(a) of the Defense Production Act of 1950 [50 U.S.C. 4568(a)], that describes the results of the consultations of the interagency team under subparagraph (A) and the meetings of the interagency team under subparagraph (B).

(2) Recommendations for modifications.-The interagency team shall submit to the President any recommendations for modifications of any existing or proposed memorandum of understanding between officials acting on behalf of the United States and one or more foreign countries (or any instrumentality of a foreign country) relating to-

(A) research, development, or production of defense equipment; or

(B) the reciprocal procurement of defense items.

Annex B. Changes in Annual Reports to Congress

Two tables in this Annex display data for Department of Commerce annual “Offsets in Defense Trade” reports to Congress. They address policy and aggregate data on offset obligations abroad for U.S. defense industry, with text analyzing trends and changes.

<i>Table B-1. “Offsets in Defense Trade” Annual Reports to Congress</i>								
Report No.	Publication Date	Data Timeframe - From Fiscal Year (FY) 1993 (Oct-1992)	Declaration of Offset Policy		Country-Specific Data	Buy American - offsets as imports	President	
			Re-printed, including the exception	Paraphrases prohibitions, no exceptions				
1*	May-1996	FY 1993-1994			✓		Clinton Jan-1993~ Jan-2001	
2*	Aug-1997	FY 1993-1995			✓			
3*	Aug-1998	FY 1993-1996			✓			
4*	Dec-1999	FY 1993-1997	<i>Report 4 unavailable – see NOTES, next page</i>					
	2000 – Skip Year		Previous report published Dec-1999					
5*	May-2001	FY 1993-1998			✓		G.W. Bush Jan-2001~ Jan-2009	
	2002 – Skip Year		Post-9/11 Commerce Dept. reorganization*					
6	Feb-2003	FY 1993-1999	✓		✓			
7	Jul-2003	FY 1993-2000	✓		✓			
8	Jul-2004	FY 1993-2002	✓**		✓			
9	Mar-2005	FY 1993-2003	✓**		✓			
10	Jan-2006	FY 1993-2004	✓**		✓			
11	Feb-2007	FY 1993-2005	✓**		✓			
12	Dec-2007	FY 1993-2006	✓**		✓			
13	Dec-2008	FY 1993-2007		✓		✓****		
	2009 – Skip Year		Previous report published Dec-2008					
14	Jan-2010	FY 1993-2008		✓		✓****	Obama Jan-2009~ Jan-2017	
15	Jan-2011	FY 1993-2009		✓		✓****		
16	Jan-2012	FY 1993-2010		✓		✓****		
17	Feb-2013	FY 1993-2011		✓		✓****		
18	Dec-2013	FY 1993-2012		✓		✓****		
	2014 – Skip Year		Previous report published Dec-2013					
19	Mar-2015	FY 1993-2013		✓		✓****		
20	Mar-2016	FY 1993-2014		✓		✓****		
21	Dec-2016	FY 1993-2015		✓		✓****		

Continued, next page

Continued – Table B-1 “Offsets in Defense Trade” Annual Reports to Congress							
Report No.	Publication Date	Data Timeframe - From Fiscal Year (FY) 1993 (Oct-1992)	Declaration of Offset Policy		Country-Specific Data	Buy American - offsets as imports	President
			Re-printed, including the exception	Paraphrases prohibitions, no exceptions			
	2017 – Skip Year		Previous report published Dec-2016				
22	Jun-2018	FY 1993-2016		✓			Trump Jan-2017~ Jan-2021
23	Apr-2019	FY 1993-2017		✓			
24	Jul-2020	FY 1993-2018		✓			
25	Jul-2021	FY 1993-2019		✓			Biden Jan-2021~ Jan-2025
26	Aug-2022	FY 1993-2020		✓			
27	May-2023	FY 1993-2021		✓			
28	May-2024	FY 1993-2022		✓			
NOTES							
<p>* Reports 1-5 (1996-2001) – Published by the Bureau of Export Administration (BEA), renamed as the Bureau of Industry and Security (BIS) in April 2002 by the Department of Commerce (Juster 2002). Reports 1-5 appear on the BIS website in “Executive Summary” versions, not as originally published versions (U.S. Department of Commerce, Bureau of Export Administration 1996a; 1997a; 1998a; 1999a; 2001a)</p> <p>- Reports 1-3 – Original versions at “Government Attic” FOIA archives (Shrum 2012).</p> <p>- Report 4 – <i>Not available</i>. Public release, based on a November 2024 Freedom of Information Act (FOIA) request to the Department of Commerce, was under official review but not yet approved or disapproved when this dissertation was finalized.</p> <p>- Report 5 – Original version accessed through the Defense Technical Information Center (U.S. Department of Commerce, Bureau of Export Administration 2001b).</p>							
<p>** In 1992, Congress directed the president to form “an interagency team” including the Secretaries of State and Defense, also known as the Interagency Offsets Working Group, “to consult with foreign nations” on offsets. This is accurately reflected in Reports 6-7 (February & July 2003). In December 2003, Congress added the Secretaries of Commerce and Labor, and the U.S. Trade Representative to the working group. However, Reports 8-12 (2004-2007) continued re-printing the 1992 team, showing only the Secretaries of State and Defense.</p>							
<p>*** Reports 13-21 (2008-2016) discuss relaxing 1933 Buy American Act restrictions for imports from “qualifying countries” in exchange for relief from offset requirements imposed on U.S. exports by those same countries. Drawing a direct connection between offset exports and ‘Buy American’ restrictions on imports logically portrays the Buy American Act as an offset import tool, contradicting U.S. policy that ‘Buy American’ is not an offset tool.</p>							
<p>NOTE: During 1986-1992, prior to Department of Commerce reporting, the Office of Management and Budget published reports on offsets. OMB Reports 1-2 were accessible (U.S. Office of Management and Budget 1986; 1987b), and a “Summary” of OMB Reports 1-3 was also available (1987a) – all accessed in hard copy through libraries. Otherwise, original versions of OMB Reports were <i>not available</i> (1988; 1989; 1990; 1991; 1992). OMB offset report titles were found in Milligan (2003, 118–19).</p>							

Excluding the Exception: *Table B-1* highlights the Declaration of Offset Policy and its exception clause, re-printed from federal statute in Reports 6-12 (Feb 2003-Dec 2007). From Report 13 (2008), annual reports no longer showed the Declaration, but instead paraphrased only its prohibitions and omitted the presidential exception clause. Although the Declaration includes both the prohibitive norm and the exception in federal statute, current executive agency publications do not acknowledge the exception or the president's role. Since 2008, Department of Commerce annual "Offsets in Defense Trade" reports to Congress repeat only paraphrased prohibitions (U.S. Department of Commerce, Bureau of Industry and Security 2008, i; 2010, i; 2011, 1; 2012, 1; 2013b, 1; 2013a, 1; 2015, 1; 2016a, 1; 2016b, 1; 2018, 1; 2019, 1; 2020, 1; 2021, 1; 2022, 1; 2023, 3; 2024, 1).

Prior to 2008, Reports 6-12 (2003-2007) reprinted the Declaration, including the clause that states, "the President may approve an exception to the policy" (2003b, 6; 2003a, 2; 2004, 2; 2005, 1-2; 2006, sec. I-2; 2007a, I-2; 2007b, I-2). Reports 6-7 repeated the Declaration verbatim (2003b, 6; 2003a, 2). In December 2003, Congress implemented an amendment to the Defense Production Act of 1950, changing the Declaration by adding more members to an Interagency Working Group on offsets. The original 1992 version specified only the Secretaries of State and Defense forming "an interagency team to consult with foreign nations on limiting the adverse effects of offsets in defense procurement" (U.S. Congress 1992, §123 4207). The 2003 amendment added the Secretaries of Commerce and Labor, and the U.S. Trade Representative (U.S. Congress 2003, §7(c) 2895). Despite the official increase in membership, Reports 8-12 continued repeating the 1992 version of the interagency team by reflecting only the two original members – the Secretaries of State and Defense (U.S. Department of Commerce, Bureau of Industry and Security 2004, 2; 2005, 1-2; 2006, sec. I-2; 2007a, I-2; 2007b, I-2).

In 2008, the Department of Commerce “purged much of its previous content, bringing it to one-third the length of the 2007 edition,” due to industry concerns with the U.S. Government openly publishing proprietary business information (Marshall 2009, 552). According to Department of Commerce internal staffing letters, these changes were initiated in coordination with the Departments of State, Defense, and Labor; with the United States Trade Representative and the Office of Management and Budget; and also in consultation with key members of congressional committees on financial services and banking in both the House and Senate (Vaccaro 2008, 1–2; Wall 2008, 2).

Changes in 2008 included offering a paraphrased version of the Declaration of Offset Policy, portraying it only as prohibitive, and excluding the exception clause. From 2008, annual “Offsets in Defense Trade” reports to Congress offer the following version:

“The official U.S. Government policy on offsets in defense trade states that the Government considers offsets to be “economically inefficient and trade distorting,” and prohibits any agency of the U.S. Government from encouraging, entering directly into, or committing U.S. firms to any offset arrangement in connection with the sale of defense articles or services to foreign governments” (U.S. Department of Commerce, Bureau of Industry and Security 2008, i).

The same reports do not acknowledge the exception included in the statutory Declaration. Omitting the exception from an executive branch publication also excludes acknowledging that the president, as the chief executive, has a role in determining exceptions to policy. Furthermore, it creates a widespread impression that there are no exceptions in policy or practice.

Reports 13-21 also discuss the DoD-managed Reciprocal Defense Procurement Memorandum of Understanding (RDP MOU) relief from 1933 Buy American Act restrictions on defense imports, highlighting interesting points (2008, 20; 2010, 22; 2011, 15; 2012, 15; 2013b, 15; 2013a, 16; 2015, 18; 2016a, 19; 2016b, 20). The RDP MOU is a bilateral means for each country’s industry to obtain access and transparency in the partner country’s defense market. It

facilitates U.S. Government procurement exceptions to ‘Buy American’ restrictions, promoting defense cooperation and equipment rationalization, standardization, and interoperability (RSI). As a result of RDP MOU exceptions to ‘Buy American’ localized production and content restrictions, the DoD evaluates many partner country products and domestic products in competitive procurements on the same basis as U.S.-produced equipment.

Because the RDP MOU program grants relief from Buy American restrictions placed on defense imports, it highlights DoD’s continuing role in an offset-like function, where the Office of the Under Secretary of Defense for Acquisition & Sustainment OUSD(A&S) (formerly Acquisition, Technology, and Logistics – AT&L) oversees RDP MOU management with the White House-level Office of Management and Budget (OMB) (Carter 2018; Winger and Russell 2024). Furthermore, RDP MOU discussion in “*Offsets* in Defense Trade” reports gives the impression that ‘Buy American’ restrictions act as market-distorting non-tariff trade barriers similar to foreign country offset obligations. This creates a logical equivalence where ‘Buy American’ appears to serve as an *offset* tool for defense *imports*. Even so, the U.S. Government officially denies that ‘Buy American’ is an offset policy (Balakrishnan 2018, 13, 19n21; Hoyos, Tsar, and Amann 2013; Markusen 2004, 88; Matthews 2019, 154; S. Martin 1996, 13).

Comparing Reports by Appendix-Types: *Table B-2* compares Annex-types from the “Table of Contents” across Reports 12-23 (2007-2019), showing category title changes over time and an increasing number of data-masked annexes. “Appendix” categories in Report 12 (2007) convert to “Annex” categories from Report 13 (2008). In Report 13, the number of public release categories decreases, and some of the new categories are “Not for Public Release” (masked) and they do not include an additional descriptive annex title – e.g., listed as “Annex A - Not for Public Release” or “Annex B - Not for Public Release.”

Table B-2. Comparing Annex-Types across "Offsets in Defense Trade" Reports		Report No.												
		12*	13	14	15	16	17	18	19	20	21	22	23	
Annex Numbers	Total Annexes	8	6	6	7	7	5	5	5	5	5	7	8	
	- Titled "Not for Public Release" – masked	0	(2)	(2)	(3)	(3)	(2)	(2)	(2)	(2)	(2)	(4)	(5)	
	- Title shown – public release, not masked	8	4	4	4	4	3	3	3	3	3	3	3	
Annex by Title in the Table of Contents	"Offset Transactions by Economic Sector"	1*												
	"Countries' Official Offset Policies"	1*												
	"Overview of Offset Transactions by Category"		1	1	1	1	1	1	1	1	1	1	1	
	"Statutory Provisions"	4**	1	1										
	Three similar Annexes – keywords = Department of Defense / Foreign / Fiscal Year	"Department of Defense's Prime Contract Purchases of Manufactured Items from U.S. and Foreign Firms, Fiscal Year"				1	1	1						
		"Department of Defense's Purchases from Foreign Entities, Fiscal Year"							1	1	1	1		
		"Department of Defense's Foreign Purchases by Category and Total Obligation, Fiscal Year"											1	1
	"Glossary and Offset Example"	1	1	1	1	1	1	1	1	1	1	1	1	
"Interagency Team Progress Report on Consultation with Foreign Nations on Limiting the Adverse Effects of Offsets in Defense Procurement"	1	1	1	1	1									
* Report 12 (2007) uses "Appendix," not "Annex" – "Annex" appears from Report 13 (2008)														
** Report 12 "Statutory Provisions" are in four separate Appendices – "Section 309 of the Defense Production Act of 1950, as amended" / "U.S. Department of Commerce Regulations Regarding Reporting of Offset Activity" / "Executive Order 12919" / "Defense Production Act Reauthorization Act of 2003 (Pub. L. 108-195)"														

The newly masked annexes contain some, if not all, of the missing data previously published in Reports 5-12 (2000-2007). Department of Commerce internal staffing letters, both dated December 9, 2008, provide insight on the changes from the "Appendix" format in Report 12 to the "Annex" format in Report 13:

"The 13th annual report includes two new For Official Use Only [not for public release] annexes that present country-specific offset activity data for 2007 and for the 1993-2007 period for Congress's information which would be redacted from the public version of the report. The data contained in the new annexes is much more detailed than the country-specific data published in previous reports and will be extremely useful in supporting the IaWG's [Interagency Offset Working Group's] discussions with foreign

governments on limiting the adverse effects of offsets in defense procurements. The public version of the draft report will include aggregate, worldwide data on reported offset agreements and offset transactions” (Vaccaro 2008, 2; Wall 2008, 2).

In addition, a section in annual reports focusing on “Interagency Team Progress Report on Consultation with Foreign Nations on Limiting the Adverse Effects of Offsets in Defense Procurement,” and appearing under other similar titles, was available in Reports 9-16 (2005-2012), but became unavailable from Report 17 (2013).

Table B-2 displays only up to Report 23 (2019). After Report 23, annual reports (as of completion of this study) continued using the same titles for three public release annexes, and also continued using five “Not for Public Release” masked annexes. The trends and changes in Department of Commerce annual “Offsets in Defense Trade” reports to Congress highlight over time where acknowledgment emerges for the presidential exception to the Declaration for Offset Policy, and also when and where information is removed from public access.

Annex C. Keywords – Google Alerts & Google Scholar

The following list shows keyword text strings used for daily notifications from Google Alerts (“Google Alerts,” n.d.) and Google Scholar (“Google Scholar,” n.d.). All keyword strings are entered exactly as shown, with or without quotation marks, except options shown here with parentheses. Text with parentheses indicates a non-English language to specify in settings for each individual Google Alerts notification entry – Brazilian Portuguese, Chinese traditional, French, German, Japanese, Korean, or Spanish. Some entries below appear in two different English language spelling formats – American English (defense, indigenize, indigenization, localization) and British English (defence, indigenise, indigenisation, localisation).

“10 U.S. Code 4852”	“defence supply chain”
“50 U.S. Code 4568”	“defense coproduction”
“arms sales notification”	“defense exportability”
“arms trade”	“defense industrial base”
“arms transfer”	“defense industry offset”
“article 346”	“defense offset”
“buck passing”	“defense offsets”
“burden sharing”	“defense supply chain”
“buy American”	“export compliance”
“compensaciones de la industria de defensa” (in Spanish)	“export control”
“compensações da indústria de defesa” (in Brazilian Portuguese)	“export controls”
“compensations de l’industrie de la défense” (in French)	“foreign direct investment”
“conventional arms trade”	“free riding”
“conventional arms transfer”	“indigenous defence”
“counter trade”	“indigenous defense”
“declaration of offset policy”	“indigenous supply chain”
“defence coproduction”	“industrial base analysis and sustainment”
“defence exportability”	“industrial base”
“defence industrial base”	“industrial compensation”
“defence industry offset”	“industrial cooperation”
“defence offset”	“industrial development”
“defence offsets”	“industrial offset”
	“industrial offsets”
	“industrial participation”
	“industry offset”

“industry offsets”	“The Defense Security Cooperation Agency notified Congress”
“juste retour”	“The State Department has made a determination approving a possible Foreign Military Sale”
“juste retour” (in French)	CAATSA
“major defence partner”	countertrade
“major defense partner”	defence “combined production”
“military industrial base”	defence “industrial participation”
“military supply chain”	defence “industry participation”
“offset agreement”	defence “joint production”
“offset agreements”	defence coproduction
“offset contract”	defense “combined production”
“offset contracts”	defense “industrial participation”
“offset policy”	defense “industry participation”
“offset”	defense “joint production”
“offset” (in Brazilian Portuguese)	defense coproduction
“offset” (in French)	indigenisation
“offset” (in Polish)	indigenise
“offset” (in Spanish)	indigenization
“offsets agreement”	indigenize
“offsets agreements”	industrial cooperation
“offsets contract”	industrial participation
“offsets contracts”	industry cooperation
“offsets in defence trade”	industry participation
“offsets in defense trade”	localisation
“offset policy”	localization
“offsets policy”	military coproduction
“offsety przemysłu obronnego” (in Polish)	military “combined production”
“pork barrel”	military “industrial cooperation”
“reciprocal defence”	military “industrial participation”
“reciprocal defence procurement”	military “joint production”
“reciprocal defense”	offsets
“reciprocal defense procurement”	sidepayment
“reciprocal procurement”	オフセット取引 (in Japanese)
“relative gains”	カウンタートレード (in Japanese)
“side payment”	절충교역 (in Korean)
“sovereign industrial capability”	工業合作 (in Chinese traditional)
“technology absorption”	補償貿易 (in Chinese traditional)
“technology absorptive”	
“technology transfer”	