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Offset Policy

(The original German text is authoritative)

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1 General bases

1.1 Legal bases

The Principles of the Federal Council regarding the Armament Policy of the DDPS dated 24 October 2018 form the legal basis for the offset policy of armasuisse.

In the Industrial Participation Strategy, the Federal Council states the following:

"The objective of offset in Switzerland is a sustained and effective generation of volume of business and know-how and/or technology transfer in favour of the Swiss industrial base relevant to security and armament. Offsets offer Switzerland the possibility to transfer investments to the country in spite of procurements abroad, to strengthen the country's own industrial base, which is indispensable for security and national defence, and to further develop economic relations with other countries. Offsets are specifically designed to ensure the preservation of existing and the acquisition of new know-how and generate additional contract and export volumes for Swiss enterprises, thus permanently promoting the international competitiveness of Swiss companies. Offsets produce a high economic benefit and contribute to the maintenance of Switzerland as an industrial base and to the preservation of jobs."

1.2 Definition of offset

Offsets or offset transactions are all types of compensatory transactions in connection with procurements abroad.

Direct offsets are defined as transactions directly connected to the armaments to be procured; the services provided by Swiss companies are incorporated into the armaments to be procured. Direct offsets take the form of either fully or partly licensed manufacture, subcontractor relationships, joint ventures, and other forms of cooperation. Direct offsets are realised to create capacities or know-how contributing to autonomous maintenance, value retention or value enhancement of a system and to core capabilities of industries relevant to security and defence.

Indirect offsets are not directly related to the armaments to be procured, but are triggered by the relevant defence procurement. This type of offset is primarily related to industrial contracts, offset-relevant financing activities, technology transfers, investments, marketing or sales support etc.

Indirect offsets can be divided into:

- **indirect offsets relevant to security and armament policy** and
- **other indirect offsets**

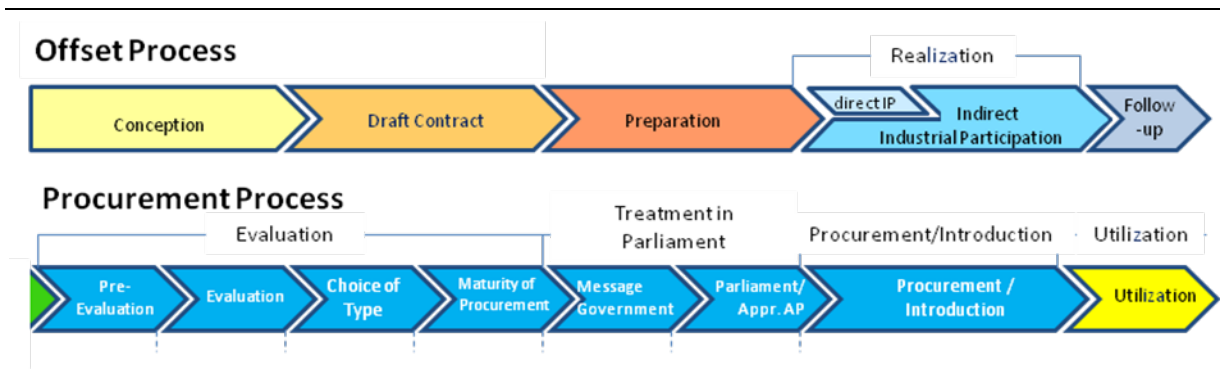
Weighing up the different participation alternatives always has to take into account security and armament policy considerations.

In Switzerland indirect offsets are realised if they open up new markets to competitive Swiss industry, give access to advanced technologies, ensure the preservation and/or development of additional know-how, or lead to additional contract and export volumes, and, above all, to additional turnover.

With direct and indirect offsets usually one hundred percent of the contract value must be compensated, with indirect offsets supplementing direct offsets. armasuisse reserves the right, to establish a set of requirements on a case-by-case basis that are designed to accomplish defence-related indirect offsets.

1.3 Offset process

The handling of offset in the context of the procurement process can be broken down into five phases. To make this easier to understand, the procurement process is shown in the graphic chart below. However, the chart does not show the advance project planning by the Armed Forces Staff, which takes place before the offset process undertaken in parallel with the procurement process. Nor does it show parts of the utilisation or decommissioning phase, which only take place after the offset process. In project planning (green chevron in chart below), the participation of Swiss industries relevant to security should, among other things, be considered from the armed forces point of view in procurement and offset transactions. Such considerations should take account of capability gaps and the potential which the procurement projects in question offer for promoting industries relevant to security in Switzerland.



During the **conceptual phase**, content-related requirements for offsets, are sketched based on project planning inputs and own reflections on the technological and industrial base, for instance in the form of an offset portfolio. Consideration is also given to any other security and defence policy aspects that may exist. These requirements are then forwarded to the competing enterprises and industry partners.

During the **draft contract phase** the procurement contract and the offset agreement are prepared and the different tenders are evaluated on the basis of a value benefit analysis. This analysis becomes part of the overall assessment of the procurement. Direct and indirect offsets are partly assessed separately, as they involve different objectives. The extent of the direct and indirect offsets is fixed during this phase.

During the parliamentary deliberation phase up until the approval of the Armament Programme, **preparations** are made for the implementation. The contracts themselves only take effect once the Armament Programme has been approved. In cooperation with its industry partners armasuisse provides for transparent information of the relevant stakeholder groups.

During the procurement and introduction phase the **implementation** of the offset transactions takes place. The prime contractor places contracts with Swiss enterprises and furnishes proof regarding the realisation and extent of offset transactions and their conformity with the requirements using a standardised reporting procedure (Offset Declaration Form, ODF). This proof includes the written confirmation of the Swiss contractor. The implementation will be monitored with **operative controlling** by armasuisse alone in the case of the direct offset, and under the lead of armasuisse in cooperation with the industry associations Swissmem/GRPM in the case of the indirect offset. These associations operate the Berne Offset Office for this purpose. This Office is financed by a contribution amounting to 0.1 percent of the qualifying transaction value and payable by the Swiss beneficiary of an offset transaction.

Through strategic controlling and reporting during the **follow-up phase**, the experiences gained with offset transactions are processed and used as the starting basis for future projects. The entity responsible for strategic controlling is also armasuisse; in the field of indirect offset this can also be done via the Offset Office Berne in cooperation with the two industry associations.

2 Requirements for offsets in Switzerland

The requirements for the individual offset programmes are defined by armasuisse for each case or project, based on higher-level documents (Armament Policy of the Federal Council, Industrial Participation Strategy). Details are negotiated with the prime contractor and laid down in a formal offset agreement.

2.1 General requirements

- **Participation threshold level:** Generally offsets in Switzerland are realised for major procurements which are part of armament programmes. In individual cases armasuisse can reduce the threshold value if this helps strengthen industrial potential of relevance to security and armaments. Under specific special circumstances, armasuisse can increase the threshold value or waive offsets.
- **Degree of autonomy:** Direct offsets are mainly determined by defining the degree of autonomy Switzerland seeks for the maintenance and operation of a system. This results in the share and role of Swiss industry within the value creation, maintenance and value-retention chain of the system to be procured. The definition is part of the evaluation for a specific defence procurement.
- **Offset volume:** For procurements abroad Switzerland always requests offset transactions in the total amount of the procurement sum, i.e. a compensation rate equalling usually one hundred percent of the contract value.
- **Contract threshold level:** armasuisse fixes a threshold level for the individual transactions within an offset programme. This is laid down in the Offset Agreement.
- **Confidentiality:** All data within the scope of offset transactions are subject to commercial secrecy. Individual data may only be published after previous written approval by all parties involved in offset transactions (armasuisse, Swiss enterprises and prime contractor).
- **Transparency:** In the interests of transparency, on the declaration form the Swiss company consents to its name being added to a publicly accessible offset register in connection with the project entailing offset obligations.
- **Duration:** As a rule the foreign manufacturer is under an indirect obligation to participate until two years after completion of the armament project in question. armasuisse may request minimum fulfilment volumes for certain periods. Decisions on this are made on a case-by-case basis.
- **Selected projects (e.g. major procurements):** Here, additional requirements may be defined with a view to specific offset programmes. One possibility is the definition of certain offset activities during the competition phase or prior to the conclusion of a contract.
- **Technological and industrial sectors:** The main instrument for the control of offsets is the definition of preferred technological and industrial sectors. These are defined by armasuisse. In particular, the aim is for at least 60 percent of the total offset obligation to be realised with companies of the security-relevant technology and industrial base Switzerland (STIB). This also includes the direct offset. The extent of the compensation should already be specified during the competition phase and, if possible content-related requirements agreed. Along with their offer, tenderers must submit detailed documentation in the form of an offset implementation concept, which should wherever possible already include concrete projects, contracts and work packages for the fulfilment of the offset obligation. Deviations are permissible only if suitable reasons are stated and will be submitted to the offset supervisory authority for review.
- **Direct offset:** In particular, the aim is for 20 percent or more of the total offset obligation to be realised as a direct offset, unless non-governmental restrictions of the supply country make this impossible. Deviations are permissible only if suitable reasons are stated and will be submitted to the offset supervisory authority for review.
- **Regional distribution:** In terms of the distribution among the three linguistic regions of Switzerland, the aim is to allocate approximately 65 percent to the German speaking region, 30 percent to the French speaking region and 5 percent to the Italian speaking region.

2.2 Specific requirements

2.2.1 Requirements for the prime contractor

- **Point of Contact:** To ensure that the participating Swiss companies are kept informed efficiently and effectively, the prime contractor is obliged to name a Point of Contact. For offsets of above-average size or for foreign manufacturers with no previous operations in Switzerland, armasuisse is entitled to require the prime contractor to establish a coordination office in Switzerland. This shall be decided by armasuisse on a case-by-case basis.
- **Coordination meetings:** These are held periodically or as required. They serve to oversee the offset transactions and take countermeasures if there are any problems. For coordination meetings with prime contractors, armasuisse uses a standard agenda which allows the statements of the various prime contractors to be compared. In addition to questions on the current offset transaction, the agenda should also contain general questions on Swiss offset and on international comparison. In this way armasuisse continually obtains information which can be evaluated.
- **Contractual penalties:** If the offset agreement is not fulfilled, contractual penalties may be incurred. These will be contractually negotiated, but will amount to at least 5 percent of the non-fulfilled portion and will not release the party in question from complete fulfilment of the offset. However, armasuisse's aim is to develop long-term ties with the industry. Therefore, as far as is possible and reasonable, and based on optimum controlling/reporting, the utmost effort should be made at an early stage to support the prime contractor in its efforts to fulfil its obligations so that a contractual penalty can be avoided. Failure to fulfil contractual offset obligations will be an assessment criterion in future defence procurements.

2.2.2 Requirements for the Swiss industry

- **Efforts based on the agreement:** The offset obligation incumbent on a foreign armaments manufacturer does not give any specific Swiss company any direct entitlement to be awarded a contract. The interested Swiss tenderers play an active part in the process. However, in each individual case, the foreign partners must provide evidence using a declaration form to show that the offset transaction was realised due to efforts under the participation agreement.
- **Competitiveness:** The competitiveness of the Swiss offer is a prerequisite.

3 Eligibility

3.1 General eligibility

3.1.1 Sales effectivity

Procurements abroad lead to a potential loss in sales for Swiss companies. This should usually be one hundred percent compensated by offsets. In this way, the Swiss economy also benefits from defence procurements of the Swiss Armed Forces, even if they are realised abroad. The reason for focusing on the volume of sales is that this variable represents a transparent and easily verifiable parameter. The Swiss industry is obliged to provide information on the volume of sales on the declaration form (Offset Declaration Form).

Swiss companies are also obliged to disclose the value-added share within Switzerland. These data are not evaluated statistically by armasuisse, but armasuisse or the Offset Office Berne reserves the right to perform random checks on the value-added information during operative controlling.

Offset transactions with a Swiss value-added share of 61 percent or more will be 100 percent eligible. If the Swiss value-added share is below 61 percent, but above 20 percent the transactions are recognised to the corresponding extent. As a rule transactions with a Swiss value-added share below 20 percent are not eligible at all.

3.1.2 Additionality / sustainability

Offset transactions are subject to the condition of additionality or sustainability and are recognised by armasuisse if:

- Code 1 the transaction is new if (alternatively)
- (a) there has been no previous business connection to the Swiss company,
 - (b) the business relationship covers other products/services than in the past; or
- Code 2 in a business relationship which has existed for some time the transaction (alternatively)
- (a) constitutes a substantial increase in sales compared to the average sales of the last three years for the same product(s) or the same service(s),
 - (b) constitutes an increase in business which has already been recognised by armasuisse and was documented accordingly by the foreign company,
 - (c) constitutes an increase in business which is based on a new framework agreement with a duration of several years, and which has been recognised by armasuisse.
- It is the Swiss company's responsibility to provide confirmation or any possible evidence. If evidence of additionality was previously provided for specific offset transactions, it must be included in the controlling process; or
- Code 3 an existing business relationship is reactivated and a contract is placed with the Swiss company (alternatively)
- (a) without inviting other offers,
 - (b) if during open and competitive invitation of offers the Swiss company proves to be at least as competitive as the best offer.
- The recognisable value is defined by armasuisse on a case-by-case basis, depending on the importance of additionality; or
- Code 4 every other transaction, if the foreign company can prove that the relevant transaction with the Swiss company was realised solely due to its efforts. The recognisable value is fixed by armasuisse on a case-by-case basis, depending on the importance of additionality (it is advisable to clarify eligibility and amount with armasuisse in advance).

3.1.3 Industrial sectors

Products and services, including licences, from the following sectors of Swiss industry can be considered for offset transactions:

- Sector 11 Engineering industry
- Sector 12 Metal industry
- Sector 13 Electrical and electromechanical industry
- Sector 14 Optical industry
- Sector 15 Watch-making industry
- Sector 16 Vehicle, truck and railway industry
- Sector 17 Rubber and plastic products
- Sector 18 Chemical products
- Sector 19 Aircraft and aerospace industry
- Sector 20 IT industry/ software engineering
- Sector 21 Co-operations with universities and research institutions

Certain products and services are excluded from recognition (e.g. agricultural and pharmaceutical products, consumer goods, consulting, services in banking, tourism and insurance). The eligibility of contracts in critical areas, e.g. areas which are not explicitly mentioned, is examined beforehand on a case-by-case basis (Special Cases/Transactions).

3.1.4 Multipliers

Since in most cases the economic value of investments is higher than the financial expenses alone, multipliers can be used in order to take into account the actual value of an offset transaction. The sum for an offset transaction proposed by the prime contractor and accept-

ed by armasuisse is assigned a mathematical factor and is thus adjusted to the actual value of the transaction for the national economy.

The following multipliers can be used in Switzerland:

offset transactions outside the defined industrial sectors	0.5 – 1
offset transactions with research institutions	1 – 2
offset transactions of high relevance to Swiss security and armaments policy	1 – 3

All decisions on the use of multipliers are made on a case-by-case basis within the requirements of this policy. In general, prime contractors under offset obligations are not entitled to use multipliers.

3.2 Specific eligibility

3.2.1 Special transactions

The following transactions can also be recognised as offset transactions in individual cases:

- **Technology transfer:** Technology transfer is defined as the provision free of charge (utilisation of intellectual property) of technology or parts of a technology by the prime contractor to Swiss industry. In case of technology transfer only the added value for the Swiss economy actually generated by the technology transfer can be recognised as offset. The value of the technology itself is not eligible for offset. Export transactions/follow-up transactions of a Swiss enterprise with other foreign enterprises can also be recognised as offsets if it can be proven that they result from the previous technology transfer.
- **Marketing support:** Marketing support by the prime contractor can be recognised as offset if it can prove that this led to a new contract between the Swiss enterprise and a third (foreign) enterprise.
- **Research and development:** Depending on the manner in which a Swiss enterprise can use intellectual property for further research, this can be recognised as offset. The value is measured on the basis of the follow-up transactions of the Swiss enterprise.
- **Swaps/abatements:** Swaps or abatements are intergovernmental settlement transactions, where existing offset obligations in one country can be counted entirely or partially toward existing offset obligations in another country. armasuisse only takes abatements into consideration in exceptional cases. They are required to undergo detailed verification by armasuisse.
- **Banking:** In order to facilitate sustained cooperation between the prime contractor and Swiss industry, armasuisse may recognise recent transactions realised prior to the period defined in the Offset Agreement in the sense of "banking". The decision is made by armasuisse on a case-by-case basis. The eligibility of such banking credits may not exceed 20 percent of the relevant new offset obligation. At the same time, an exhaustive list of the offset transactions to be used for this purpose must be prepared by the applicant. Banking offset transactions are valid for a maximum of 5 years from the order date (P.O. date). The same limits (maximum of 20 percent and 5 years) apply to offset transactions arising from an over-fulfilment of an ongoing offset programme.
- **Transfer of offset credits:** The transfer of accumulated offset credits (approved offset transactions) require a specific causality between transferor and recipient. Either the recipient must already have supported the transferor as a strategic partner in the relevant procurement project at the time when this offset credit came into being, or the transferor must be a strategic partner (e.g. sub-supplier) of the recipient in the latter's offset programme with Switzerland. In addition, an exhaustive list of the offset credits to be used for this purpose must be prepared by the applicant.

Special transactions are assessed and their value determined individually on the basis of substantiating documents. They should be discussed with the offset authority beforehand at the earliest possible stage and will be submitted by the offset authority to the offset supervisory authority for examination.

4 Offset controlling/reporting

4.1 Offset controlling

For every transaction, prime contractors under the obligation for indirect offset must submit a written declaration (Offset Declaration Form) to armasuisse and the Offset Office Berne. The declaration must among other things be signed by the Swiss contractor and must confirm that the contract was actually placed and meets the criteria referred to.

In the case of indirect offset, validation furthermore requires that the consent of the Swiss contractor must have been obtained to pay the contribution of 0.1 percent of the transaction value referred to in section 1.3.

Controlling is performed jointly by armasuisse (lead) and representatives from Swissmem/GRPM or the Offset Office Berne.

4.2 Offset reporting

Periodical reporting by the prime contractor is carried out in a standardised manner. The aim is to achieve internet-based implementation in the future. Reporting is governed by the applicable guidelines.

5 Information

- **Armament Bill:** The relevant Armament Bill is the instrument for providing information on forthcoming offset transactions. It will present explicit factors relating to the main goals defined in the strategy.
- **Documents:** The request for a quotation for the relevant procurement and the Offset Declaration Form provide the industry partners with readily comprehensible and clear information on the offset transactions.
- **Information events:** Together with the cooperating associations, armasuisse organises annual information events for the interested Swiss industry. The associations handle the implementation of the concept and establish contact with the industry.
- **Training:** If the Swiss industry has a need for training, this will be provided by armasuisse and the associations.
- **Website:** armasuisse maintains a website for the basic information of all relevant stakeholder groups (www.armasuisse.ch). The information relevant to offset is updated at regular intervals. An analysis of the attainment of policy objectives is available on this internet site, along with a collection of all relevant public documents. If required, armasuisse can provide specific stakeholder groups with more detailed information.

6 Validity

The present policy was put into effect by the National Armament Director on 1 January 2019 and supersedes all other documents on this subject.