

MASTER OF SCIENCE IN PROGRAM MANAGEMENT

THE DETERMINANTS OF UNITED STATES GOVERNMENT POLICY AND PRACTICE TOWARDS OFFSETS IN INTERNATIONAL TRADE

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Offsets are countertrade practices through which sellers in exporting countries provide concessions to buying governments as a condition of sale. Offsets are increasing as a percentage of defense exports. Because U.S. industry leads worldwide defense exports, U.S. offsets policy and the potential impact of offsets on U.S. national security are highly significant. U.S. policy considers offsets to be economically inefficient and market distorting, restricts U.S. government agency involvement in offsets and places responsibility for such arrangements with businesses. Offset policy has been the subject of intense and frequently conflicting policy initiatives undertaken between 1973 and 2003, involving both the executive and legislative branches of government. This thesis details why and how U.S. policy on offsets evolved, and identifies key participants and policy decisions. This thesis concludes that, initially, the primary policy drivers were DoD desires to preserve prerogatives to domestically produce foreign designs and to avoid unnecessary friction with allies. DoD led policy development within the executive branch with the publication of offsets policy memoranda by the Deputy Secretary of Defense. While no single focus for congressional offsets policy was identified, a primary policy driver was the perceived loss of jobs resulting from offsets, as legislators from states and districts where organized labor was strong led efforts to mandate restrictions and reporting requirements. Important differences emerged between the legislative and executive branches, regardless of administration, regarding offsets. These included differences regarding the effect of offsets on domestic employment and technology transfer and the appropriate U.S. response to demands for offsets.

KEYWORDS: Offsets, USG Policy, International Trade