

## **New Report Details Security Risks Related to Opaque Defense Contract Payments**

*Washington, D.C.* - New research from Transparency International warns that the United States is ignoring potentially dangerous corruption risks around opaque defense contract payments (aka 'offsets' or industrial cooperation agreements) that threaten to undermine U.S. and international security.

As the U.S. escalates its defense collaboration globally, *Blissfully Blind* breaks down the complex web of corruption risks associated with offsets – financial sweeteners added to overseas arms sales in addition to the military hardware the country receives.

Offsets are increasingly common parts of international arms deals, but the huge amounts of money involved combined with a lack of transparency, especially for offsets going to economic sectors outside defense, makes them especially vulnerable to corruption.

Defense companies are incentivized to offer big offset packages to secure lucrative deals. Foreign officials in importing countries may choose to buy from whichever firm they can personally gain the most, regardless of whether they offer best value for the people they represent.

**Gary Kalman, Executive Director at Transparency International U.S. (TI US), said:**

*"The culture of offsets in international arms sales may seem an odd practice to the public. Imagine the look you'd get from telling a car dealership that you'll only buy a car from them if they help fund your child's school."*

*"The corruption and other risks of these side deals are so great that, in most industries, the practice is banned. Yet, in the defense sector, offsets are standard practice."*

*"At the very least, we need the type of transparency and accountability called for this in this report."*

### **Key Findings:**

- The global value of defense offsets is projected to reach \$371 billion for the 2021-2025 period, with U.S. defense firms estimated to provide between \$36.5 billion and \$52.4 billion for FY 2021 and FY 2022 combined.
- Among arms importing countries, Indonesia, Malaysia, Oman, Saudi Arabia, Taiwan, the United Arab Emirates, and the UK all face high or very high corruption risk due to a lack of transparency, support for risky types of investments, and weak monitoring or enforcement around offset contracts.

- Other arms importing countries, including Australia, India, Israel, the Netherlands, Poland, South Korea, and Ukraine have specific high-risk aspects of their offset policies.
- Corruption in defense offsets can undermine efforts to obtain critical defensive capabilities, waste government funds, complicate U.S. government and defense company relations with key security partners and weaken citizen faith in governments.
- Meanwhile, U.S. defense companies show weak controls to prevent corruption in offsets. Many lack explicit policies and procedures to address the risks.
- The U.S. government's 'hands-off' approach to overseeing offsets effectively leaves defense firms to mark their own homework. Regulation of offset agreements by the Commerce Department is inadequate.

This report comes at a critical moment. There are increasing demands for offsets from purchasing countries and greater collaboration with countries like the United Arab Emirates, Indonesia, Saudi Arabia, and Malaysia – all nations with minimal anti-corruption safeguards in their defense sectors.

And in the U.S., there are [now moves](#) by Congress to further weaken the already lax checks on offset arrangements by significantly raising the dollar value of arms deals that require congressional review before they can go ahead.

**Colby Goodman, Senior Researcher at Transparency International – Defense & Security and author of the report, said:**

*"A surge in demand for defense offsets, inadequate anti-corruption measures by U.S. defense companies, poor safeguards in many U.S. partner nations, and lenient oversight from Washington has created a perfect storm of corruption risks, which has the very real chance of undermining any public benefit of the offsets to the importing country.*

*"It's essential that these corruption risks are confronted and mitigated, with responsibility falling on both the U.S. and importing countries to enact meaningful reforms."*

The report makes a series of targeted recommendations to the U.S. government that would enhance the oversight of defense offsets and significantly address corruption risks, while also ensuring U.S. defense firms do not face unnecessary barriers to their business with international partners:

1. **Increase transparency** by strengthening reporting on defense offsets and political contributions. Prioritize detailed private disclosures through the State and Defense Departments and establish an interagency task force to improve overall private and public transparency.
2. **Assess corruption risks** by taking a proactive approach to mitigate corruption risks in offsets by reviewing agreements and conducting comprehensive studies on past

arrangements. A focus should be on indirect offsets (investments not directly related to the equipment being sold in the contract) and partner country controls.

3. **Penalize wrongdoing** by enhancing the investigation and prosecution of offset-related corruption, establishing watchlists for offenders, and enforcing strict penalties for non-compliance with reporting requirements.
4. **Encourage stronger foreign offset policies** by urging U.S. partner countries to do the following: adopt transparent and effective offset policies, emphasize the disclosure of offset details similar to Australia, demand stricter oversight of high-risk activities, and ensure robust enforcement against violations.

#### **Notes to editors:**

Transparency International is a global network with chapters in more than 100 countries to end the injustices caused by corruption.

Blissfully Blind is a joint research report from Transparency International – Defense & Security, one of Transparency International's global programs that works to reduce corruption in defense and security sectors worldwide, and Transparency International U.S.

The report was produced through a comprehensive approach that included reviewing U.S. defense offset laws and regulations, analysis of U.S. arms sales data and reports, and 30 interviews with industry experts, U.S. government officials, and representatives from partner countries such as India, Malaysia, and South Korea.

Defense offsets are side deals made between a purchasing government and a foreign defense company in connection with a major arms sale. They are an inducement offered by a defense company and/or a requirement by the purchasing government and would not exist without an arms sale. Offsets typically involve defense companies investing in the local defense industry or other economic sectors in the purchasing country. Offsets can be direct, that is tied to the specific equipment or service sold, or indirect, a broad investment unrelated to a specific contract.

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