

## **Offsets Threaten Jobs and National Security**

### **Aircraft Industry Jobs Fly Off with Transfers of Technology, With Little U.S. Regulation or Accountability**



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WASHINGTON—The U.S. government's failure to develop a coherent policy on specific outsourcing arrangements called trade offsets has resulted in lost jobs and the transfer of technological innovation to other nations. These technology transfers and lost jobs in turn threaten long-term harm to national security and the economy.

An offset is the transfer of technology and/or production from a U.S. company to another country in return for a sale of U.S. goods to that country. Because no comprehensive national policy for such deals exists, offsets remain the unique purview of private industry, which seeks to maximize profits, at times without regard to workforce or security concerns.

A new Economic Policy Institute briefing paper on trade offsets, part of EPI's Agenda for Shared Prosperity, points out that demand for such deals is increasing steadily over time in all regions, based on the U.S. government's limited data on offsets.

"Over the 14-year period 1993-2006, U.S. companies reported over 8,500 transactions, valued at \$42 billion, that involved the transfer of production and technology to 42 countries," author Owen E. Herrnstadt states. "A U.S. government report concludes that over 16,000 jobs were lost each year over the 2002-2005 period due to offset transactions in the defense industry."

The continued movement of U.S. industrial jobs and technology to foreign enterprises has led to an increasing dependence on overseas suppliers. Such dependence brings ever-increasing chances of mistakes being made with technology—as Herrnstadt notes happened when a U.S. aerospace company was involved in the transfer of technology to a plant in China that was involved in military production.

Other nations have recognized the value of offsets as a way to gain jobs and technology without investing in development. More than 20 European countries have offset agreements, such as a \$3.8 billion agreement for F-16s between Lockheed and Poland that includes subcontracts for Poles to make a variety of things, including parts for aircraft. Boeing's \$4.4 billion contract with South Korea for 40 F-15s includes the provision that South Korean workers would build parts and perform subassembly for future customers in other countries.

No country typifies the use of offsets more than China, whose growing aerospace industry is a direct reflection of its determined efforts to become a player on the world scene through the targeted, strategic use of offsets. The paper lays out China's development of two aircraft companies that in 2005 had combined employment of nearly a half-million people, with major expansion likely. Several leading international companies have extensive involvement with the Chinese aerospace industry, with Boeing and Airbus having the most at stake. Airbus has numerous projects in China and plans to establish a final assembly line for the A-320. According to Boeing's corporate Web site:

*-More-*

- More than \$1 billion in aviation hardware and services purchased from China since the 1980s.
- Some 4,500 Boeing airplanes in use currently utilizing parts and assemblies built in China.
- Active contracts between Boeing and its supplier partners and China's industry valued at more than \$2.5 billion.

The lack of U.S. policy on offsets and the transfer of such valuable manufacturing capacity and technology pose grave threats, Herrnstadt argues. "Instead of developing policies to foster and strengthen key industries, policy makers relegate decisions to major companies in the private sector, where a short-term focus on individual firms' profits has devastating results for the overall economy and national security," he writes.

Offsets "can and do assist in the creation of enterprises in other countries, ultimately resulting in greater competition for U.S. companies and their workers," Herrnstadt writes. Details rarely are made public and negotiations are carried out without government oversight, but the impact can be enormous. Economists conservatively estimate the loss of thousands of manufacturing/export-sector jobs *each year* as a result of offsets.

In the long run, Herrnstadt says, such deals have a long-term effect as "suppliers are shifted outside the United States and as prime contractors ship work offshore. At the same time, other countries develop powerful companies that come back to compete fiercely with U.S.-based companies."

Despite the twin threats of job loss and technology drain, the government largely has left offsets as a private-sector program. A short-lived Presidential Commission on Offsets made some recommendations, and such various federal agencies as the Commerce Department and Defense Department occasionally nibble at the edges, Herrnstadt notes, but concludes "the result is that the U.S. private sector could be serving the interests of foreign governments without adequate oversight...and Washington has no policy of its own that 'turns the tables' by demanding offsets." He argues that policy makers should:

- Adopt policies that will enable the United States to aggressively use offsets to its own advantage.
- Strengthen and enforce prohibitions on offsets in all multilateral and bilateral trade agreements.
- Shine a light on current offset transactions in both the defense and commercial industries.
- Create a meaningful commission to devise an effective policy.

EPI's **Agenda for Shared Prosperity** is a comprehensive set of economic policies to promote economic justice as well as economic growth, from universal health care and retirement security to incomes and jobs, globalization and the nation's infrastructure and education system.

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