



PHILIPPINE INTERNATIONAL TRADING CORPORATION COUNTERTRADE/ OFFSET POLICY BRIEF

Background on the Countertrade program

By leveraging on government procurement of imported equipment with reciprocal benefits to be provided by foreign suppliers, PITC generates additional exports to other countries and creates opportunities to fast-track the inflow of investments, technology, industrial cooperation, specialized training and skills. Recent examples are as follows.

- **Philippine Exports (Countertrade)**

Exports of garments and Children's dresses to the US amounting to PHP 28,506,500 (August, 2011) and Php 35,299,646 (August, 2013) were performed as fulfillment of Countertrade obligations.

The said exports were performed in compliance to the Countertrade obligations arising from the Supply contract (various types of ammunition from Serbia) awarded by the Armed Forces of the Philippines to JOAVI Philippines Corporation.

- **Inflow of Investments, Technology Transfer, Specialized Training Skills (termed as "Offsets")**

1. Investments amounting to Php 22,722,713 was made by Beiqi Motor Co. LTD of China for the construction of the FOTON Subic Showroom of the United Asia Automotive Group Inc.(UAAGI).

Said investments were performed as Countertrade requirements resulting from the Supply Contract awarded to UAAGI for the supply of Prisoners Vans (from China) to the Bureau of Jail Management and Penology (BJMP).

2. GIGI Industries (Trust Trade) has conducted various Specialized Training events to the following government agencies as beneficiaries:

- Shooting Competition for the BJMP with a credit value of Php 164,000;
- GLOCK Armourer's Course for the Philippine National Police (PNP) valued at P 7,728,920;
- GLOCK Tactical Pistol Course of the PNP (Luzon) valued at Php 7,309,041;
- GLOCK Tactical Pistol Course of the PNP (Visayas & Mindanao) valued at Php 4,028,869.

Aforementioned training events were performed as a requirement to the awarding of two (2) Contracts for the Supply of Rifles (from China) and Short Firearms (from Brazil) by the BJMP to Gigi Industries.

Legal Basis or government regulations and guidelines

Executive Order 120 and its Implementing Rules and Regulation – Directing the national government, its departments, bureaus, agencies and offices including government-owned or controlled corporations, to adopt countertrade as a supplemental trade tool with respect to the importation or procurement of foreign capital equipment, machinery, products, goods and services.

Government Procurement Policy Board (GPPB) Resolution No. 14-2005 regarding the adoption of Countertrade as supplemental trade tool in connection with government procurement.

Threshold value

At least One Million US\$ (US\$1,000,000) or its Peso equivalent of the value of the Supply Contract on capital goods, equipment, machinery, products, goods and services sourced from foreign countries.

Countertrade/Offset Agreement (How Countertrade/Offset Agreement are concluded)

Bidders/Suppliers are required to sign on Undertaking to pursue Countertrade which commits them to perform Countertrade once they are awarded the supply contract. Within ninety (90) days of the award, they are required to sign a supplemental contract i.e Countertrade Agreement with the Philippine International Trading Corporation.

Responsible government authorities and their respective areas of responsibility

The **Philippine International Trading Corporation (PITC)**, an agency under The Department of Trade and Industry is directed to coordinate with all government agencies and government –owned or controlled corporations in formulating and implementing particular strategies on countertrade or similar arrangements for any planned importation or procurement of capital goods, equipment, machinery, products, goods and services.

Countertrade/Offset requirement criteria

At least fifty percent (50%) of the Supply Contract which should be at least US\$ 1Million.

Transactions qualifying as offset (accepted offset activities)

Acceptable offset/s are investments, technology transfer, grants, research, training and other related activities such as donation for the benefit of procuring government agency or other government agency.

Exports of Philippine merchandise and services are likewise acceptable as Countertrade.

Multipliers Relative to Offset Arrangements

A multiplier is a factor applied to the actual value of certain offset transactions to calculate the credit value earned to provide firms with incentives to offer offsets that benefit targeted areas of economic growth. Multipliers are only applied to Offset activities and to Exports. There are only two (2) multipliers:

- Ten (10) for Offset activities that are beneficial directly to the procuring government agency, or
- Seven (7) if beneficial to other government agency/ies or other institutions.

Performance period for Countertrade Obligations

Suppliers are given two (2) years from the date of the Supply Contract to perform their countertrade obligations.

Confidentiality clauses

With Confidentiality clauses.

Penalties

Five percent (5%) of the unfulfilled Countertrade obligation.

Guarantees

Performance bond (guarantee equivalent to five percent (5%) of Countertrade Obligation).