



Effectiveness of the organisation of compensation transactions in relation to armament procurements
armasuisse

Key points

The Swiss Federal Audit Office (SFAO) examined the implementation of the recommendations made in its 2007 report on compensation transactions in relation to armament procurements abroad. It also looked at the effectiveness of the organisation in order to ensure the objectives are met.

Position of the Federal Council and adoption of a new strategy

In 2008, the Federal Council expressed its position on the SFAO's recommendations, acknowledging that it was necessary to improve the framework conditions in order to boost the quality of compensation transactions and the added value for Swiss industry.

In March 2010, the Federal Council adopted the new industrial participation strategy, which includes direct and indirect compensation transactions. This sets out the main principles such as the strengthening of the industry base for defence and security, as well as the maintenance and acquisition of additional know-how. armasuisse then fleshed out this strategy by defining various criteria such as the use of multipliers and the definition of thresholds. New supervision and controlling mechanisms were adopted.

SFAO sees the adoption of these framework conditions as a real step forward. They form the basis for coherent and transparent implementation. The SFAO's strategy recommendation has been fully implemented. The Federal Council's principles have features to flesh out most of the other recommendations of the SFAO.

Criteria to be specified to ensure coherent implementation of the strategy

armasuisse prepared the strategy basis with a view to the acquisition of new fighter jets. Following the rejection of the Gripen acquisition, armasuisse does not have another project on such a large scale to assess the effects of the new strategic thrust. At the end of 2014, the volume of indirect offset transactions was extremely low at around CHF 90 million p.a.

armasuisse uses compensation transactions for the acquisition of military equipment abroad worth more than CHF 20 million. Equipment deemed to be civilian, e.g. the purchase of standard transport lorries, is not subject to compensation transactions. armasuisse can decide not to use compensation transactions if they would contribute little to strengthening the security and armament industry base. The SFAO noticed that this principle had not been applied up to now.

The framework conditions make provision for the use of multipliers to leverage the most promising compensation transactions in terms of sustainability for Swiss industry. This is standard practice in other countries. Aside from a highly criticised attempt that was abandoned, armasuisse does not use multipliers to assess direct or indirect transactions.

armasuisse adapted the form for declaring compensation transactions. The transactions whose added value in Switzerland is lower than 20% are no longer accepted. However, the SFAO believes that transactions whose added value is between 20% and 70% should be recognised on a

pro rata basis in terms of their value. At the moment, the entire transaction value is accepted from 51% of added value in Switzerland.

armasuisse offers the possibility of exchanging compensation transactions when a Swiss supplier is faced with the same obligations in another country. The SFAO noted that this practice can account for a significant proportion of indirect compensation transactions, going from 65% for one case to 90% for a second. The SFAO has not drawn general conclusions from these cases. Moreover, the foreign supplier fulfils its own obligations without any great difficulty. However, these exchanges correspond to a form of direct support for the Swiss companies subject to these obligations. Moreover, the foreign supplier fulfils its own obligations without any great difficulty. Such a practice requires greater transparency.

In another practice, armasuisse can take account of compensation transactions before the contractual period. The idea here is to ensure sustainable industrial cooperation. armasuisse can authorise a supplier to create a form of "reserves" in view of a future acquisition by the Confederation. The Gripen example shows that Saab or its sub-contractors can claim compensation transactions validated by armasuisse up to 2018. There is not much information on these practices.

Need to ensure the sustainability of the Offset Office

In 2009, armasuisse and the professional associations decided to create the Offset Office to validate indirect compensation transactions and provide information to Swiss companies. This office is financed by means of a contribution of 0.1% of the value of a transaction, paid by the beneficiary Swiss company. The SFAO believes that the principle of such a contribution is appealing, as it incites Swiss companies to present transactions that meet the offset criteria. Those that refuse to pay find that their transaction is not recognised.

The chosen solution has proved to be rather unsustainable. It is overly dependent on fluctuations in compensation transactions. As it happens, financing for this office was no longer ensured because of an ever-decreasing volume. The business model was based on an annual transaction volume of CHF 400 million to be dealt with. Confronted with the risk of a lack of liquidity and of a deficit, armasuisse decided to reduce the office's activities at the start of 2014 and then suspend them after the summer of 2014. The SFAO noted that armasuisse and the professional associations agreed at the start of 2015 to re-establish the Offset Office.

armasuisse controlling is based on the achievement in quantity terms of 100% of compensation transactions realised by the foreign supplier. A more detailed analysis on the quality of the transactions, the proportion of transactions refused or the real added value for Swiss companies is not performed.

The SFAO is aware of the low volume of compensation transactions and the difficulty of assessing the pertinence of the new strategic thrust. It recognises the efforts made to increase the coherence and transparency of compensation transactions. The SFAO has made new recommendations that are primarily adjustments. Their aim is to ensure implementation in line with the principles defined by the Federal Council. It is a case of applying the set criteria in the most complete manner possible and having the information necessary to know whether the strategy is achieving the desired effects.

Original text in French