

**GOVERNMENT OF INDIA
DEFENCE
LOK SABHA**

UNSTARRED QUESTION NO:3440
ANSWERED ON:01.08.2014
DEFENCE OFFSET POLICY
Azad Shri Kirti (JHA)

Will the Minister of DEFENCE be pleased to state:

- (a) whether the Government has announced the Offset Policy as part of the Defence Procurement Procedure (DPP) 2005;
- (b) if so, the details objectives and salient features thereof;
- (c) whether the Government has mandated discharge of offset obligation by vendors under different categories of defence acquisitions and if so, the details thereof;
- (d) whether foreign vendors are adhering to the provisions of the said policy in defence deals and if so, the details thereof and if not, the action taken by the Government thereon; and
- (e) the steps being taken or proposed to be taken by the Government in removing the bottlenecks, if any, in the implementation of the said policy?

Answer

MINISTER OF STATE (RAO INDERJIT SINGH) IN THE MINISTRY OF DEFENCE

(a) Yes, Madam, Offset policy was first introduced as part of the Defence Procurement Procedure (DPP), 2005.

2013 indicates that the objective of the Defence Offset Policy is to leverage capital acquisitions to develop Indian defence industry by:

- i) Fostering development of internationally competitive enterprises,
- ii) Augmenting capacity for Research, Design and Development related to defence products and services and
- iii) Encouraging development of synergistic sectors like civil aerospace and internal security.

Offset provisions apply to the Capital Acquisitions categorized as 'Buy (Global)', i.e. outright purchase from foreign/Indian vendor, or 'Buy and Make with Transfer of Technology', i.e. purchase from foreign vendor followed by Licensed Production where the estimated cost of the acquisition proposal is Rs. 300 crore or more. These will also apply to Indian firms or their Joint Ventures under "Buy (Global)" procurements. 30 percent of the estimated cost of the acquisition in 'Buy (Global)' category acquisitions and 30 percent of the foreign exchange component in 'Buy and Make with ToT' category acquisitions are the required value of the offset obligations. The Defence Acquisition Council (DAC) may, after consideration by SCAPCHC, prescribe varying offset obligations above 30 percent or waive the requirement of offset obligations in special cases.

Offset obligations may be discharged with reference to eligible products and eligible services as specified in DPP, 2013. However, the provisions related to services have been kept in abeyance vide the Ministry's OM No. 9(42)/2013/OFFSETS dated 23rd May 2013.

The provisions relating to offsets do not apply to following:

- (i) Procurements under the Fast Track procedure, and
- (ii) Procurements under the 'Option' clause where offset obligation was not stipulated in the original contract.

(d) The foreign vendors are discharging their offset obligations in accordance with the signed offset contracts by and large. Till date total 24 offset contracts have been concluded amounting to approx. 4.87 Billion USD. These offset contracts are currently under implementation stage with the execution period of certain contracts extending till 2022. The Indian Offset Partners (IOP) through which the vendors are executing offset obligations are both from public and private sector. In those cases where foreign vendors are not adhering to implementation schedule of signed offset contracts, penalties @ 5% of the unfulfilled obligations are being levied as per the provisions of the offset guidelines.

(e) The offset policy guidelines, since inception, have undergone several revisions to keep pace with the emerging needs of the Indian industry. The last comprehensive revision of the offset policy undertaken in August 2012 with an aim to further streamline the offset

policy provide for creation of a dedicated agency in the form of Defence Offset Management Wing (DOMW) to address all post contract related matters. Subsequent to formation of DOMW in August 2012, a collegiate committee was set up with the approval of Hon'ble Raksha Mantri to regularly review offset contract implementation and address all related issues.