

Special Address at Defence Offset Seminar

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As an introduction a few general points may be made regarding defence offsets. *Firstly*, offsets as a policy has been widely practiced all over the world. In fact most of the countries have offset policies in some form or the other whether they are developed countries or developing countries. The *second* point is that there is a cost to offsets. It is not something which has only positives. The common debates against offsets are that it is inefficient, distort and the defence procurements should be based on the quality of the product, cost, affordability and the delivery schedules. However, what is seen across that offset policy has come to stay. There are reasons for it to vary from country to country. Some of them use offsets to source a particular kind of a technology. Others want their defence industrial base to be strengthened. In some cases, it is argued that if big ticket acquisitions are being made from abroad then we must try to make them more acceptable to local polity and offsets help in making this by getting some investment from abroad and creating job opportunities within the country. The short point is that every country has to tailor the offset requirements according to it own needs and we in India have also tried make a defence offset policy which meets the requirements of our situation. There are a few elements to be considered essential while forming this policy. *Firstly*, we have to decide what would be the minimum threshold level, since there has always been a debate on this matter. The policy should state whether the minimum threshold level is Rs. 100 crores, Rs. 300 crores, Rs. 500 crores or perhaps, other figures. *Secondly*, the other point of discussion is what should be the

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percentage of offsets. As already indicated, it may go up to a 100-150 per cent India has currently 30 per cent offset requirement and in some selected cases, it can be further increased. Therefore, confirming the percentage of offset requirement is a pivotal issue. *Thirdly*, the nature of offsets to be permitted is a burning concern. Questions such as 'should we permit direct or indirect offsets? Should we include technology transfer or not? How do we value the technology?'—are relevant and ought to be dealt with. Technology transfer raises questions if multiplier should be allowed to facilitate to get certain kinds of hi-tech technologies. There are also other policy issues like whether offset credit banking should be allowed or not. Then there are certain other core issues involved in the offset policy which have to be addressed. What should be the period of performance of offset obligations? Since we are trying to attract about Rs. 45, 000 crores from defence offsets during the next five years, should the performance of offsets contract be co-terminus with the main contract and what should be the period within which offset should be allowed to be liquidated? In fact, on the civil side, unlike defence, on the purchase of civil aircrafts they have allowed a much longer period for liquidation of offsets. The policy issues must also address to the penalty provision on non-performance. Hence, whenever an offset policy is being formulated, it must always be kept in mind that certain discussion covering these aspects have to be made. India's defence offset policy was started in 2005 and the detailed guidelines were introduced in 2006. Based on the feedback that we have received from various stakeholders, certain changes have been brought about in the revised DPP-2008. The three major changes that have been brought about comprise of offset credit banking, relaxation in licensing and inclusion of the defence product list. Much effort and time must be given to serve the basic objectives for which the policy has been formulated. 