

Special Address at the Defence Offsets Seminar

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Defence offsets can potentially play a transformational role in bringing about a sea change in the capabilities, infrastructure and R&D as well as the engineering and production base for Indian defence. Even while we have planned to take comprehensive stock of defence offset experiences worldwide covering both the success stories as well as pitfalls and inadequacies and a critique of the Defence Offset policy frame as it exists today post Defence Procurement Procedure 2008, the important feature to note is the resolve of the highest decision making levels in Indian MoD to seek to evolve an India specific Defence Offset Model which would usher in far reaching changes in defence capabilities, infrastructural strengths and the defence industrial base in a rapid enough time frame. Consequently, Indian MoD has displayed a dynamic and proactive response to the policy imperatives for the offset cause. Yet, as today's discussions would expectedly bring into sharp focus, urgent progress is needed in more proactive channelling of offset investment inflows into high priority areas and seriously reappraising the policy frame for licensing and direct foreign investments.

The mandatory first steps towards optimal realisation of offset benefits would be for the three defence services to take full stock of critical capability gaps in the 20-25 year time horizon given the current force

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levels and the present and likely state of the art in defence technologies and the diverse blend of capabilities that we must acquire in this period of time. Thus, clarity with regard to the most pressing deficiencies in terms of capabilities, infrastructure, including training, repair, maintenance and overhaul requirements and the R&D, engineering and production bases would alone translate into prioritised investments including through the potentially formidable offset route. The Service specific offset absorption roadmaps would thus lay a strong foundation for the pursuit of the requisite levels of domestic strength in defence R&D, manufacturing and infrastructure.

Given the sizable investments already made in the Defence PSUs and ordnance factories as well as the DRDO and their innate strengths in terms of skills, capacity for technology absorption, engineering and production infrastructure, a significant proportion of the offset inflows is likely to be channelled in their direction. It is therefore urgent and important that these organisations also do comprehensive stock taking of their core strengths and capabilities on the one hand and the expectations and the definitive long range plans of the services on the other in order to urgently enter into collaborative joint ventures with potential foreign vendors in high priority areas. Modernisation, capacity argumentation, enhanced design, engineering production capabilities, improved reliability and maintainability of equipments that gets manufactured and potential export strengths would all well arise as a result of consciously directed offset inflows into these entities.

It has clearly emerged at the same time that defence PSUs and ordnance factories alone would not be able to meet the myriad and dynamic needs of Indian defence and the time has come for close integration of the vibrant private sector in the country with the cause of defence. Thus, whether it is for outsourcing of core or non-core responsibilities, a well construed role in supply chain management and training and maintenance functions

including the emerging tasks of performance based logistics or in basic and applied research, design, engineering and production, the Indian private sector is extremely well poised currently to seize this opportunity. Offsets in this context can have an extremely favourable impact on the defence industrial base as they would facilitate a much needed osmosis of design, engineering and manufacturing efficiencies and best practices from leading armament manufacturers, R&D entities, logistics organisations and the like worldwide to their joint ventures with Indian partners in India. Further, both because of India's likely role in the comity of nations and the potentially competitive advantage in the medium and long term in terms of costs, productivity and the like, Indian private and public sector companies engaged in defence could also expect to reap a rich and steady export harvest. The buoyant services sector in India, particularly in the domain of information and communication technology, could also hope to benefit enormously through the defence offsets route.

An import dependence of the order of 70 per cent in respect of capital acquisitions for modernisation as well as for meeting the operational and maintenance needs is not sustainable in the medium and long terms whether for rapid attainment of the necessary capabilities or from the point of view of affordable and cost efficient defence. India's vision of becoming a significant power in military terms can therefore be realised only if Indian defence can tap and nurture on a lasting basis the full range of capabilities with the public and private sectors working in harmony and with synergy. Offsets can thus play a strong catalytic role in this behalf.

Let me finally touch upon one other crucial aspect of the Offset process which would influence whether offsets could radically alter the defence capability landscape in India. This pertains to the role and responsibility of the defence offsets facilitation agency or any other similar body or organisation. In close concert with industry associations such as CII, FICCI, ASSOCHAM we need to comprehensively map the current

strengths and potential of Indian industry in all key defence technology related areas. This alone would enable such a facilitation structure that I mentioned earlier to provide professionally sound choices to potential offset investors to bring in and thereafter realise quickly the full benefits of such investment inflows.

We do believe that the government would be willing to bring about such other changes in the offset policy framework as would be found compelling enough either through specific experience over a reasonable time frame or on account of materially different professional and analytical new insights in this realm. These could well pave the way for appropriate fine tuning of the policy precepts and implementation skills necessary for a successful offset programme. 