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Issue Brief

Rethinking India's Defence Offsets Policy

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Summary

India's experience with the defence offsets demonstrates that the central issue is not the absence of defence industrial and economic activity. The objective must shift from asking how much of the cost of a foreign acquisition returns to India to asking what capability India will acquire or create (in future) through that acquisition.

Introduction

India introduced its defence offset policy in 2005 with an ambitious objective: to use the country's substantial expenditure on foreign defence acquisitions to strengthen its domestic defence-industrial and technological base. Since then, the policy has undergone several revisions. During this period, Indian industry has received significant business through defence offsets, while the base of Indian Offset Partners (IOPs) has expanded substantially, with the private sector and Micro, Small and Medium Enterprises (MSMEs) accounting for a larger share. The defence offsets policy also contributed to manufacturing partnerships, exports and capabilities in selected areas. But it did not consistently lead to critical technology transfer, high-end manufacturing or indigenous design capabilities in Indian companies.

This experience thus raises a fundamental question: what has India acquired through offsets beyond business, production and participation in global supply chains? The policy was never intended only to generate orders for Indian companies. Its larger purpose was to leverage foreign procurement for technology acquisition, investment, industrial capacity and eventually greater indigenous capability.

The Public Accounts Committee's recent audit of the defence offsets policy has brought these implementation and outcome-related weaknesses back into focus. Apart from this, the absence of official clarification on whether offsets have been discontinued raises a larger policy question as India moves towards greater defence indigenisation and a revised version of the Defence Acquisition Procedure (DAP) is slated for finalisation.

This brief proposes continuing and modifying the offset policy, moving beyond the binary question of whether India should retain or abolish offsets. It analyses India's intent and experience with defence offsets, assesses where the existing framework has produced value and where it has fallen short, and proposes action points to modify the policy before incorporating it into the acquisition procedure.

The Intent and Evolution of India's Defence Offsets Policy

India formally introduced the Defence Offset Policy in the year 2005, based on the recommendations of the Vijay Kelkar committee.[1] It initially required a 30 per cent 'offset' for qualifying capital acquisition contracts. An offset is a mechanism generally established with the triple objectives of: (a) partially compensating for a significant outflow of a buyer country's resources in large purchases of foreign goods; (b)

[1] **"Management of Defence Offsets Ministry of Defence Public Accounts Committee (2026-27) Fiftieth Report"**, Lok Sabha Secretariat, India, 23 July 2026.

facilitating the induction of technology; and (c) adding capacities and capabilities to domestic industry.[2]

The policy was subsequently revised in 2008, 2011, 2012 and in the Defence Acquisition Procedure (DAP) 2020. The evolution of the policy shows that offsets were not merely treated as a mechanism to recover part of the value of foreign purchases. The policy aimed to use India's considerable defence-import expenditure to strengthen the domestic defence industrial base. To enable this, it permitted foreign vendors to discharge their offset obligations through direct purchases from Indian industry, investment and other forms of industrial cooperation.[3]

Indian industry has received defence business worth more than US$ 13.2 billion through offsets.[4] Further, the IOP base has expanded to more than 350 vendors, of which 95 per cent are from the private sector.[5] Also, MSMEs have benefitted through the assignment of multipliers in offset credits, with almost 40 per cent of the IOP base constituted by MSMEs.

The policy's limitations were identified surprisingly early. A 2009 assessment at IDSA argued that although India had established a formal mechanism for implementing offsets, the structure and procedures lacked sufficient thrust to energise the defence industry.[6] It also highlighted the absence of a clear technology-transfer roadmap linked to India's long-term defence-industrial objectives. The main question was how India could move from receiving offset business to acquiring strategically relevant industrial capabilities.

The 2012 offset guidelines represented an important attempt to address some of these weaknesses. They expanded the permissible avenues for offset discharge and introduced multipliers to incentivise activities considered more valuable to India's industrial and technological development. These included investment by foreign vendors, technology transfer and critical technology acquisition by DRDO.[7] However, the revised guidelines still gave considerable leeway to foreign vendors, contained ambiguities, and lacked adequate monitoring and auditing capacity.[8]

The trajectory culminated, at least for the existing policy framework, in DAP 2020. Its offset provisions are more sophisticated than the original 2005 arrangement.

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[2] Ibid.

[3] Laxman Kumar Behera, **"Definition, Forms and Types of Offsets"**, Manohar Parrikar Institute for Defence Studies and Analyses (MP-IDSA), 18 January 2009.

[4] **"Management of Defence Offsets Ministry of Defence Public Accounts Committee (2026-27) Fiftieth Report"**, no. 1, pp. 4–5.

[5] Ibid.

[6] Laxman Kumar Behera, **"India's Defence Offset Policy"**, *Strategic Analysis*, Vol. 33, No. 2, 2009.

[7] This was one among the 13 recommendations made by a 2018 study conducted at MP-IDSA for the Ministry of Defence, Government of India, cited in the PAC Report, pp. 11–13.

[8] Laxman Kumar Behera, **"A Critique of India's Defence Offset Guidelines 2012"**, MP-IDSA, 3 September 2012.

DAP 2020 stated that the offset policy's objective is to leverage capital acquisition to foster "internationally competitive enterprises" and augment the capacity of Indian defence-related research and development.[9] The policy permitted offset obligations to be discharged through direct purchase from Indian industry, investment in defence manufacturing, foreign direct investment, joint ventures, co-production, co-development, transfer of technology, research and development and technology acquisition by DRDO. It explicitly differentiated between these avenues through a system of multipliers. Investment in defence manufacturing and certain MSME purchases receive preferential treatment, while technology acquisition by DRDO for specified critical technologies received the highest multipliers.[10] The policy therefore recognised, at least conceptually, that not all offset activity has equal strategic value.

This evolution shows that India did not create the offsets mechanism to increase domestic procurement. Nor did it subsequently redesign the mechanism merely to attract more foreign capital. The underlying intent was deeper: to use foreign procurement as leverage to develop an indigenous defence-industrial-technological ecosystem. But this intent also created a trade-off.

The easiest route for a foreign vendor subsequently was not necessarily the one that creates the greatest strategic value for India. A purchase from an Indian supplier could satisfy the offset contract obligation easily for him. A genuine technology-transfer arrangement, by contrast, requires nuanced negotiations over work-share, intellectual property rights, know-how, know-why, manufacturing processes, design authority, and long-term commercial interests. It also requires an Indian partner to be capable of absorbing the technology.

Scholarly analysis later found that the offsets policy contributed to certain exports but did not effectively catalyse foreign investment, technology transfers to India, or high-end manufacturing facilities in India. Much of the export activity associated with the offsets remained concentrated in parts and components.[11] Secondary sources also indicate that government-to-government deals were eventually exempted from offset obligations and no new offset contract was signed in the past five years.[12]

Thus, the problem is not that India failed to obtain anything at all from the offsets or that the intent was wrong. India obtained suppliers, orders, manufacturing

[9] **"Defence Acquisition Procedure 2020"**, Ministry of Defence, Government of India, 30 September 2020.

[10] Ibid. p.112. Clubbing of multipliers is not allowed. DRDO received the highest multiplier of 4.

[11] Laxman Kumar Behera, **"Indian Defence Offset Policy: An Impact Analysis"**, *Journal of Defence Studies*, Vol. 9, No. 4, 2015, pp. 111–132.

[12] Amit Cowshish, **"PAC's Retrospective Examination of Defence Offsets Seems Odd"**, *The Wire*, 13 August 2026; Ravi Sharma, **"Modi Government's Decision to Drop Offset Clause in Defence Deals with Foreign Governments Makes No Strategic Sense"**, *Frontline*, 5 December 2020.

activity, services and, in some cases, foreign defence partnerships. The problem is that these benefits did not consistently translate into higher levels of indigenous technological capability. It enabled Indian companies manufacturing components for foreign weapons systems to become part of defence supply chains. But that did not necessarily mean that the Indian company acquired the design authority or intellectual property necessary to develop the next generation of that component/system independently. If the expectation was that offsets would build Indian capacity to move up the technological ladder progressively, that did not materialise.

The evolution of India's defence offset policy thus reveals an important gap. The policy has become sophisticated in developing ways to discharge an offset obligation. Still, it has been less successful in defining and measuring the capabilities those obligations are ultimately supposed to create. That distinction is critical when assessing the policy's actual utility.

Analysis of the Defence Offsets Policy by the Public Accounts Committee

The 159-page draft DAP 2026, published in February 2026, does not mention the offset clause.[13] But another document published by the MoD, titled 'Draft DAP 2026 Handbook for Guidelines and Annexures', mentions that "offset obligation shall be discharged by the bidder in accordance with provisions of DAP 2026".[14] This document also includes relevant formats and procedures for offset implementation. However, it does not clarify whether the offsets policy has continued or been withdrawn. The PAC report also does not clarify this aspect, while it calls for "Strategic Need for Continuity and Strengthening of Defence Offsets". [15]

The PAC's analysis found that approximately 45 per cent of offset obligations remained unfulfilled as of 18 December 2025.[16] The specific problems identified in implementation were: (a) inadequate technical evaluation of offset offers; (b) shortfall in fulfilment of offset obligations by vendors; (c) non- levy and non-recovery of penalty for shortfall in meeting offset commitments; (d) absence of linkages between offset and main contracts; and (e) non- achievement of desired outcomes.[17] However, the Committee also observed that pendency or rejection of claims reflected inadequacies in the contract-management process. It therefore recommended mandatory timelines

[13] **"Draft DAP 2026"**, Ministry of Defence, Government of India, 5 February 2026.

[14] **"Draft DAP 2026 Handbook for Guidelines and Annexures"**, Ministry of Defence, Government of India, 31 January 2026, p.380 and Annexure D.

[15] **"Management of Defence Offsets Ministry of Defence Public Accounts Committee (2026-27) Fiftieth Report"**, no. 1, p. 28.

[16] Ibid., pp. 2–3.

[17] Ibid.

and early-stage involvement of institutions such as the Controller General of Defence Accounts (CGDA) and the Defence Offset Management Wing (DOMW).[18]

The headline figure of about Rs 42,500 crore for pending obligations across 26 ongoing contracts is significant. But it should not be interpreted mechanically as Rs 42,500 crore that foreign vendors have failed to invest in India. The distinction between an obligation that has not been discharged, an offset claim that has been submitted but remains under verification, and an obligation that a vendor has ultimately failed to fulfil is important. Analysts have also argued that the PAC's findings reveal substantial weaknesses in contract administration and verification, not merely widespread vendor non-compliance.[19] If the problem were simply that foreign vendors were refusing to honour contractual commitments, the solution would have been stronger enforcement and penalties. But a part of the problem also lies in the complexity of claims management, verification, technical and human resource capabilities within the MoD, contract administration, etc. Hence, better institutional capacity is the long-term solution. The PAC's recommendation to impose timelines and involve the relevant financial and offset-management authorities early in the contracting process addresses this weakness in the system.

However, a deeper problem remains that better enforcement alone cannot solve. The PAC noted that between 2007 and March 2018, 90 per cent of the total value of offsets in the audited contracts was discharged through direct purchases. Foreign vendors could therefore fulfil a substantial part of their obligations by purchasing eligible goods or services from Indian companies. The Committee consequently recommended restricting direct purchases to a threshold and requiring at least 50 per cent of offset obligations to be fulfilled through foreign direct investment or technology transfer.

This is perhaps the most revealing finding of the PAC's report. It demonstrates that the main weakness was not simply non-compliance. Much of what counted as compliance under the policy had limited transformational value. The foreign vendor could satisfy its obligation by creating business for an Indian company. That company could become a supplier, increase its turnover, purchase machinery and improve its manufacturing processes. All of this is useful. But the transaction could still leave the strategically important elements of the technology outside India.

This also explains why technology transfer alone cannot be treated as a magic solution. An analysis of Indo-US defence-industrial cooperation found that, beyond technology transfer from foreign partners, India needs domestic industrial capacity to absorb that technology.[20] Without sufficient engineering, R&D, manufacturing

[18] Ibid.

[19] Amit Cowshish, **"PAC's Retrospective Examination of Defence Offsets Seems Odd"**, no. 12.

[20] Laxman Kumar Behera and G. Balachandran, **"Indo-US Defence Industry Cooperation: A Prognosis"**, *India Quarterly: A Journal of International Affairs*, Vol. 74, No. 3, 2018.

and human-capital capabilities, India will remain dependent on the foreign supplier. The result is a peculiar form of localisation where India can manufacture more of a foreign system and keep establishing "final assembly lines" without necessarily becoming more capable of designing the next generation of that system.

Has Offsets Policy Really Failed? The Case for a More Nuanced Assessment

To conclude that India's offset policy has failed altogether, however, would go too far. The record includes examples in which offset-linked industrial partnerships have produced capabilities more valuable than simple vendor-to-vendor purchases. Therefore, the offsets policy needs to be continued. The more appropriate question to look ahead is: under what conditions can offsets generate genuine defence industrial capability in India?

The PAC report notes that the cumulative turnover of 67 Indian Offset Partners after 2022 has increased despite a decrease in offset claims. This basically means that these companies have been getting orders and profits even after the offset contracts have been completed. Specific areas of impact of the offset policy on domestic defence manufacturing include thermal batteries for missiles, composite aircraft structures, radar systems, and sub-systems.[21]

A study of India's private-sector defence joint ventures with foreign original equipment manufacturers also shows that offset obligations have contributed to the emergence of manufacturing partnerships and increasingly, export-oriented production.[22] The analysis of Indo-US, Indo-French and Indo-Israeli ventures demonstrates that the relationship between offsets and industrial capability is not necessarily zero-sum.[23] Studies note that Israeli manufacturers account for a substantial share of India's offset contracts and highlight how offset-linked partnerships have evolved into manufacturing and export relationships.[24] The Indo-French experience provides another useful case. Offset-linked ventures involving French companies and Indian partners have created manufacturing capabilities in areas including missile systems, aerospace components, and smart munitions.[25] The emergence of multiple collaborative entities shows that offsets can, under certain

[21] **"Management of Defence Offsets Ministry of Defence Public Accounts Committee (2026-27) Fiftieth Report"**, no.1, p.34.

[22] **"Private Sector Defence Joint Ventures, Exports and the Role of Offsets"**, MP-IDSA, 20 June 2025.

[23] Ibid.

[24] S. Samuel C. Rajiv, **"Israel's Rising Defence Exports amidst Regional Conflicts"**, Issue Brief, MP-IDSA, 14 July 2026.

[25] S. Samuel C. Rajiv, **"India-France Defence Cooperation: BEL-Safran JV for HAMMER Smart Munitions"**, Commentary, MP-IDSA, 27 February 2026.

conditions, generate industrial relationships extending beyond the original contractual obligation.[26]

These examples matter because they show that not every offset transaction can be judged by the same yardstick. Indian defence offsets are thus not inherently ineffective; rather, their outcomes depend heavily on the structure of the relationship created around them**.** From a policy-implication perspective, some key characteristics to focus on are as follows:

First, the Indian offset partners need to possess genuine absorptive capacity. Technology transfer has little value if the recipient company lacks the engineering personnel, manufacturing infrastructure, testing facilities, and R&D capability required to absorb and subsequently improve the transferred technology. This was precisely the concern raised in the analysis of Indo-US defence-industrial cooperation.[27]

Second, the relationship needs to extend beyond the life of the original procurement contract. A one-time purchase will fulfil an offset obligation whereas a long-term industrial partnership can create a capability. When a foreign OEM has an enduring commercial interest in using an Indian partner as part of its global production network, the incentives for training, quality improvement, process transfer, and investment differ fundamentally from those involved in merely satisfying a finite offset obligation.

Third, the Indian partner should invest resources in becoming capable of entering global supply chains, rather than remaining dependent solely on orders generated by the Indian government. This is where exports can become an important indicator of success. An Indian facility producing solely for the domestic market may demonstrate localisation, but if it can supply foreign customers, that shows the capability has become commercially competitive.

Fourth, the offset-partnership should create opportunities for progressive technological upgrading**.** To manufacture a product under licence is valuable at one stage of industrial development. But the larger objective should be to move from assembly to manufacturing, from manufacturing to systems integration, and eventually towards design, development and independent upgrades.

India does not necessarily need to reach this final stage in every technology or in every offset contract. Nor is it realistic to expect a foreign OEM to surrender its most sensitive intellectual property merely because an offset obligation exists. But the policy can be amended to encourage Indian firms to move as far up this ladder as commercially and strategically feasible.

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[26] Ibid.

[27] **"Indo-US Defence Industry Cooperation: A Prognosis"**, no. 20.

This is also why the debate over whether offsets should be retained or abolished is somewhat misplaced.

If offsets are viewed simply as a contractual requirement imposed on foreign vendors, their value will inevitably diminish as India's procurement system shifts towards government-to-government agreements, indigenous procurement and other acquisition routes that do not mandate conventional offset obligations. The successful cases highlighted above show that the concept should not be discarded merely because the traditional offset mechanism has become less effective. India needs to retain the strategic leverage that foreign procurement and the large sums involved provide. The challenge, therefore, is to make the industrial outcomes of foreign procurement more strategic, measurable, and cumulative.

Suggested Modifications to the Defence Offsets Policy

If India's experience demonstrates anything, it is that the answer does not lie simply in raising the offset percentage, imposing more penalties on foreign vendors, or doing away with offsets. The more fundamental requirement is to change what India expects an offset to deliver.

The traditional model begins with the monetary value of an acquisition and works backwards. It starts with a specified percentage of the contract value that becomes an offset obligation, and the foreign vendor is then provided with a menu of permissible avenues through which that obligation can be discharged. DAP 2020 retained this basic architecture. For qualifying Buy (Global) acquisitions of Rs 2,000 crore or more, the offset obligation is generally 30 per cent. A more effective model could reverse this logic. Instead of asking how much of a foreign acquisition should return to India, the MoD should first determine what capability India wants to acquire or create through that procurement. The financial value of the offset should then become a means of achieving that capability.

The first step is to identify technology priorities before negotiating the offset. India cannot expect every foreign procurement to deliver frontier technology. Nor can it assume foreign OEMs will willingly transfer technologies that give them a decisive commercial or military advantage. Offset negotiations must therefore begin with a realistic assessment of what technology India actually needs, what technology can plausibly be obtained, and which Indian organisations have the capacity to absorb it. This requires a government-wide technology priority list linked to the Services' long-term capability plans/requirements and India's broader defence-industrial strategy. The critical areas such as propulsion, advanced materials, seekers, micro and nano electronics, optics and sensors, and specialised manufacturing should be identified according to actual capability gaps rather than according to whatever technology a vendor happens to offer.

The second necessary step is to move beyond the false equivalence between FDI, technology transfer and industrial participation. The PAC report mentions that the MoD could not establish the impact of FDI in defence on the offsets. Money invested through FDI in the defence sector will thus not automatically result in ToT or tech absorption. India should therefore evaluate offset proposals according to capability outcomes, rather than merely categorising them as FDI or ToT.

The third actionable step is to turn the existing multiplier system into a genuine capability-prioritisation mechanism. The DAP 2020 already contains the basics of such an approach—it provides preferential multipliers for certain activities. The next step should be to make the multiplier system more explicitly capability-based. For example, the highest incentives should be reserved for activities that create: indigenous design or engineering authority; critical manufacturing capability; advanced testing and certification capability; Indian ownership of select intellectual property; or subsequent export opportunities.

Fourth, India needs to measure an offset's success over the capability's lifecycle, not merely at the point of contract discharge. This may be the most important reform. At present, the administrative system mainly focuses on whether the vendor has fulfilled the contractual obligation. The DOMW’s system revolves around submitting discharge claims, verification, audit, and assignment of offset credits. That is necessary for financial and contractual accountability. But it is not sufficient for assessing industrial success. It is important to subsequently verify what the Indian partner can do now that it could not do before the offset—in terms of manufacturing processes, shift in design authority, entry into global supply chains and development of another product using the acquired technology. It would also be worthwhile to examine if the partnership generated exports independent of the original Indian procurement. Such indicators would allow India to distinguish offset expenditure from capability creation.

Fifth, the offsets need to be designed around long-term industrial relationships rather than individual procurement contracts. The most promising examples of India's defence-industrial cooperation will emerge when the relationship survives beyond the original procurement. Again, not every partnership will reach this final stage. Nor should the government attempt to micromanage every commercial relationship. But the policy should reward partnerships that do demonstrate such progress. This matters because the next challenge is to take this logic one step further, from product localisation to technological spinoffs for the defence and civil industry.

Finally, the institutional architecture managing the offsets and defence contracts needs strengthening. The PAC is correct to highlight delays in verification, incorrect claim verification and weaknesses in contract management. Its recommendations for defined timelines, earlier involvement of the DOMW and financial authorities and

quarterly reviews should therefore be implemented. A sophisticated online system for submitting, auditing, and assigning offset credits through the DOMW is a step in this direction. But better administration will not, by itself, produce better technology. Institutional reform therefore needs two layers: a stronger contract-management system to ensure vendors deliver what they promised, and a stronger policy-level mechanism, based on human resources with subject-specific expertise, to determine what India should seek from those vendors in the first place.

Conclusion

India's experience with the defence offsets demonstrates that the central issue is not the absence of defence industrial and economic activity. Indian defence companies through the offset route have received orders, entered foreign supply chains, established manufacturing partnerships and, in some cases, developed capabilities that have survived beyond the original procurement contract. The evidence therefore does not support treating offsets as an ineffective instrument. At the same time, the experience shows that fulfilling an offset obligation is not synonymous with creating strategic technological capability.

A system that measures success primarily through the value of purchases, investment or the closure of offset obligations may record substantial activity. At the same time, India remains dependent on foreign design authority, intellectual property and critical technologies. The objective must therefore shift from asking how much of the cost of a foreign acquisition returns to India to asking what capability India will acquire or create (in future) through that acquisition**.**

This requires a fundamental policy change. The technology priorities should be identified before offset negotiations begin; the multipliers should reward indigenous design authority, critical manufacturing, testing and certification, intellectual property and export potential; and the success of an offset should be assessed over the lifecycle of the capability.

Long-term partnerships that integrate Indian firms into global supply chains should be valued more highly than one-time transactions designed primarily to satisfy an obligation.

Equally important is institutional capacity; for better enforcement, verification and contract management are necessary. The future of offsets, therefore, should not be measured by a higher percentage, stricter penalties or simply their continuation or abolition. It should be measured by whether foreign procurement is being converted into measurable, cumulative and strategically relevant Indian capability**.** That is the standard against which any future offset framework should ultimately be judged.

About the Author



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