

Keynote Address

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Offsets are today a common feature of international arms trade. It is estimated that offsets and related forms of counter-trade constitute 5 to 30 per cent of global trade. More than a hundred countries use the mode of offsets in their arms contracts. Business and trade analysts put the exact volume of defence offsets at the global level at over \$5 billion each year. The United States, the biggest arms exporter in recent times, is obviously one of the largest providers of offsets. In 2006 alone, it signed nearly \$3.5 billion worth of offset contracts with more than 20 companies located in 12 different countries. At the global level, the threshold of defence offsets, that is the minimum value of the contract at which offsets apply, is as low as \$0.5 million, where as offsets as a percentage of the value of arms contract is more than 100 for some countries.

India's defence offset policy has been promulgated as part of Defence Procurement Procedure (DPP). The offset policy has undergone two revisions since it was first promulgated in 2005. The latest revision was carried out recently and has been in vogue since September 1, 2008. India's offset provision applies to all Capital Acquisitions categorised as “Buy (Global)” or “Buy and Make with Transfer of Technology”, where the estimated cost of the acquisition proposal is Rs. 300 crore or more. A minimum offset of 30 per cent of the indicative cost is required in such acquisitions. The offset obligations of the foreign vendors can be met either through investment in our domestic defence industrial

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infrastructure, including defence R&D, leading to Joint Ventures, co-development and co-production of defence items, or through purchase or execution of export orders for defence goods and services produced by Indian defence enterprises, both in public and private sector.

The Ministry of Defence has set up a dedicated single window agency called Defence Offset Facilitation Agency or DOFA to facilitate offset related work. DOFA's mandate is to interact with various stakeholders, assist in implementation of the policy and suggest improvements in the offset policy.

Our offset policy has been revised a couple of times in a short duration. This reflects our commitment to take into account the genuine demands of our stakeholders into our offset policy. The policy has been designed to enable our domestic defence industry to participate actively in the complex job of defence production, and forge partnerships with international defence majors to bring in latest technologies and manufacturing efficiencies. We welcome any suggestions to further this objective.

In this context, I would like to mention some of the salient features of our revised offset policy under Defence Procurement Procedure 2008. Some of the improvements include introduction of offset banking, listing of defence products and relaxation of industrial licensing requirements. The revised policy has rationalised the industrial licensing process. The mandatory requirement of an industrial license for a domestic firm to participate in offset programmes has been relaxed. The private sector will henceforth require industrial license “only if so stipulated under the licensing requirements for defence industry issued by the Department of Industrial Policy and Promotion”. It is hoped that this will save valuable time and effort of the applicants and expedite their cases.

The new offset policy provides a list of 13 categories of defence products.

The product list has been added to help foreign as well as Indian companies in devising their offset strategies.

Under the new banking provisions, foreign vendors are now allowed to create prior offsets and bank the same to discharge their future offset obligations. This will benefit both the foreign as well as Indian companies to forge a long-term partnership, which would enhance India's defence industrial capability. The new banking guidelines allow vendors to discharge the banked credits within two financial years of the date of approval of the banked offset credits. If a foreign company generates more offsets than their stipulated obligations under the terms of the existing contract, the surplus credits can be banked and would remain valid for a period of two financial years after the conclusion of the said contract.

The Ministry of Defence fully recognises the importance of the Indian private sector in defence production. We have allowed participation of Indian private sector in defence production and also opened up our defence industry to foreign direct investment. At present, Foreign Direct Investment (FDI) is permitted up to 26 per cent.

At this point, I wish to emphasise that we would give due consideration to all pragmatic suggestions arising out of today's deliberations. Our offset policy is forward looking and dynamic. We will continue to strive to strengthen the policy and procedural framework for rapid transformation of defence capabilities and infrastructure based on offset investment inflows. 