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Offsets fail to take off with merely 20% completion rate in a decade

By Manu Pubby

New Delhi: Defence offsets may be at the centre of the Rafale deal controversy but the initiative aimed at boosting the Indian manufacturing sector through contracts from foreign vendors has not really taken off since 2008, the latest government numbers indicate.

The offsets route — which mandates foreign companies outsource at least 30% of the value of large contracts to India — had been estimated to bring in \$11.2 billion over the 2008-2024 period, calculations by the defence ministry show. However, with more than half the period over, barely 20% of this target has been met and efforts to liberalise the policy have stalled after the Rafale controversy.

In data shared with the parliamentary standing committee on defence, the government stated that until the end of 2017, offsets worth just \$2.21 billion had been reported to be discharged by foreign vendors. The

<h2>Struggling to Take Off</h2>		<p>Rafale deal has the largest single offsets contract till now, valued at \$4 billion</p> 
<p>\$11.2B offsets obligations to be discharged between 2008 and 2024</p>	<p>Barely 20% of these, worth \$2.21 billion, discharged till December 2017</p>	<p>Total offsets contracts signed till now 42</p> 
<p>In 26% of these, foreign vendors have been fined for not meeting norms</p>		<p>\$38 million worth penalties levied; Lockheed Martin, Textron among those fined</p>
		<p>Biggest chunk of \$1 billion to go to DRDO. Controversy over Dassault offsets pact with Reliance Defence</p>

Rafale fighter jet deal has the single-largest offset contract till date, pegged at close to \$4 billion. Its manufacturers have planned to outsource work to over 70 companies for these offsets, including the Defence Research and Development Organisation.

DRDO will receive the largest chunk of over \$1 billion for a programme to develop an indigenous fighter jet engine.

As reported by ET, foreign companies have been struggling to meet offset obligations due to a multitude of reasons, including stringent rules, the inability of local companies to absorb technology and a lack of understanding as to what constitutes their discharge.

The defence ministry has stated that it signed a total of 42 defence offset contracts till date, out of which most (27) pertain to the Indian Air Force. Data shared by the government states that in 26% of these, foreign vendors have been penalised for the shortfall in annual discharge of obligations.

The total penalty that has been imposed works out to approximately \$38.19 million,” the defence ministry told the parliamentary panel.

As reported by ET, the vendors that have been imposed heavy penalties include US companies Textron and Lockheed Martin. Boeing has managed to get a temporary reprieve with the ministry allowing it more time to prove it met obligations for the naval P8I aircraft deal.

The latest effort to bring about a dynamic change by easing regulations has hit a deadlock after the Rafale controversy made policy makers take a cautious approach. The defence ministry has not moved to amend its offsets policy since May last year, when a draft was presented for comments. The proposed changes would have allowed the establishment of a fund regulated by the Securities and Exchange Board of India (Sebi) to promote startups to meet the offset obligations of foreign vendors that are worth billions of dollars. They also offered major incentives for investing in the defence manufacturing corridors of Uttar Pradesh and Tamil Nadu.

<https://economictimes.indiatimes.com/news/defence/offsets-fail-to-take-off-with-merely-20-completion-rate-in-a-decade/articleshow/67447007.cms>

