

# Offset Clause in Defence Deals

September 29, 2020

The government has decided **not to have an offset clause** (Defence Acquisition Procedure, 2020) in procurement of defence equipment if the deal is done through **inter-government agreement (IGA), government-to-government or an ab initio single vendor**. The offset clause requires a foreign vendor to invest a part of the contract value in India.

## Features of Offset Clause

- Under defence offset, a foreign supplier of equipment agrees to manufacture a given percent of his product (in terms of value) in the buying country. Sometimes this may take place with technology transfer.
- The defence offset policy is a part of **Defence Procurement and Procedure (DPP)**.
- Major feature of the 2016 offset policy is that it **increased the threshold of defence offset to Rs 2000 crore** from the previous level of Rs 300 crores under “buy” and “buy and make” categories.
- Only for those purchases of above Rs 2000 crore, the foreign company has to **ensure 30% domestic value addition in India**.

**Objectives of Defence Offset Policy is to leverage capital acquisitions to develop Indian defence industry by:**

- fostering development of internationally competitive enterprises
- augmenting capacity for Research, Design and Development related to defence products and services
- encouraging development of synergistic sectors like civil aerospace, and internal security

Offset obligations may be discharged by any one or a combination of the following methods:

- **Direct purchase of or executing export orders** for products manufactured by or services provided by Indian enterprises.
- Foreign Direct Investment in **joint ventures** with Indian enterprises
- Investment in 'kind' in terms of **transfer of technology** (TOT) to Indian enterprises
- Investment in 'kind' in Indian enterprises in terms of **provision of equipment** through the non-equity route
- Provision of equipment or TOT to **Government institutions and establishments** engaged in the manufacture and maintenance of eligible products and provision of eligible services, including DRDO