

India Regional Offset Conference

The Implications Of Offset Penalties

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Offset Considerations - Penalties

- The DPP Establishes Penalty Requirements
 - 5% of the value of the unfulfilled portion of the annual offset obligation
- Total Risk Is Substantially Greater Than 5%

Year	1	2	3	4	5	6	7	8	9	10	Totals
Amount	100	100	100	100	100	100	100	100	100	100	1000
Performance	0	0	0	0	0	0	0	0	0	0	0
Unperformed	100	200	300	400	500	600	700	800	900	1000	
New Balance		200	300	400	500	600	700	800	900	1000	
Penalty	5	10	15	20	25	30	35	40	45	50	275
										Effective Penalty:	27.50%

This "Effective" Penalty Rate Has Unintended Consequences



Penalties – Unintended Consequences

- Risk
 - Potential Loss Disproportionate To Potential Gain
 - Risks Drive Bidding Decisions; May Preclude Getting Best Technical Solution
- Implementation Costs
 - Higher Obligations (e.g. 50%) Amplify These Risks
 - Narrow Guidelines (e.g. No Indirect) Drive High Costs
 - High Risk Drives Even Higher Acquisition Costs
 - Bank Guarantee Requirements Add Even More Costs
- Ultimately, Offset Budgets Must Be Set To Cover All Risk

The Cost Of Offsets Significantly Impact MOD Acquisitions Without Increasing Indigenous Defense Capability