



Defence Offset

An industry perspective

Applied Innovation
From ideas to business results

New Delhi
9th February 2009

Agenda



- Background
- India's Defence Industry
- Key drivers behind India's Defence Industry
- Highlights of DPP 2008 & Offset Provisions
- Industry perspective
- Recommendations & way forward





Kelkar Committee's recommendations for strengthening self-reliance in defence included the following –

- ❖ 15 year long term acquisition plan
- ❖ Provide defence R&D opportunities both with DRDO and industry
- ❖ RFP to include offset clause for contracts above Rs 300 crores
- ❖ Promote transparency in decision making
- ❖ Accreditation of Raksha Udyog Ratna
- ❖ Policy framework to promote participation of SME
- ❖ Information sharing of requirement of armed forces with the Industry
- ❖ Identification of entry points for the private sector in the acquisition process
- ❖ Encourage optimum utilization of existing capacity



Defence Industry in India



- ❖ With the Armed Force's modernization programme, India will be the second highest defence spender in APAC region within the next 5 years and the seventh largest globally by 2016
- ❖ For many years since independence, the government kept defence completely under its jurisdiction
- ❖ In 1985 MoD indicated a growing interest in increasing private sector involvement in defence production
- ❖ In 1991 the implementation of the new industrial policy provided Indian private industry opportunity to grow and expand
- ❖ Since 2001, the private sector moved from playing a subordinate role to that as a partner – Indian private sector companies are now allowed to have license to manufacture defence equipments
- ❖ Defence Industrial base comprises of DPSUs, Ofcs, DRDO and the private industry with license for defence production



Key drivers



- Indian defence industry to become self reliant & enhance India's defence industrial capability
- Transparency in the defence procurement process
- Better reliability & quality assurance





DPP 2008 & Offset Provisions

- Applicable for all acquisitions under BUY and BUY-MAKE with TOT categories, where the estimated cost of acquisition is Rs 300 crore or more
- Offset is 30% of the estimated cost in BUY (Global) category and 30% of the foreign exchange component in BUY and MAKE category
- Introduction of offset credit banking
- Provides a list of 13 categories of defence products & associated services
- Licensed production under TOT
- TOT to an Indian Public/Private firm for providing Maintenance Infrastructure – applicable for “BUY” category cases
- Guidelines for monitoring Implementation of offset contracts
- Reference made to MoD’s notification No.9(8)/2005/D(S-III) dated 9 May 2006 regarding RUR, under procurement procedure for MAKE category
- FDI continues to be capped at 26% foreign equity in manufacture of defence equipment





Industry perspective

- Review implementation of the remaining recommendations of Kelkar Committee
- Re-initiate & complete selection of RUR / Captains of the Defense Industry
- MoD to help create an environment of level playing field for the private players
- Protection of PSUs and OFBs from domestic players must be progressively withdrawn
- Review the FDI cap for JVs in defense production, on case to case basis – especially where the technology being transferred is critical to the nation's long term need
- The growth of our defence industry will depend on a business model where the target market is India and global
- The performance of the defence industry in India should be linked to two key parameters, % increase in indigenization (YoY) and % increase in private sector's contribution to the defence industry (YoY)





Suggestions & Way forward

MoD / GoI

- Single window clearance for setting up JV / partnerships
- Strong applicability of laws for protection of IP / patents
- Foster culture for joint working with PSU – public private partnerships
- Private industry in a level playing field with the defence public sector companies

Indian industry

- Focus on building relevant domain knowledge
- Investments in order to upgrade or create infrastructure for development & production of defence equipments
- Pursue joint research program with premier academic institutions and defence labs for IP creation
- Invest in adaptation of quality initiatives / processes
- Help build tiered industry structure

International Suppliers

- Promote joint research with Indian industry and academia
- Aligning outsourcing strategy to match the critical need / requirement of defence offset
- Facilitate and promote Indian industry in Global Offset Exchange programs



Thank you



For any query, please reach

Sambit Sinha
Account Director - Strategic Initiatives
Wipro Limited
Phone : +91 98730 89017
email : sambit.sinha@wipro.com

