

Defense News Conclave

Stories of U.S. - India Defense Partnership

WEBINAR REPORT

India's Defence Offset Policy: Challenges & Opportunities

15 December 2022, 18:00 hours – 19:45 hours (IST)

SUMMARY

This Issue-specific webinar under the Defense News Conclave Project, covered the entire gamut of defence offset programs, particularly in the context of India's defence offset policy. The topic of the webinar was "India's Defence Offset Policy: Challenges & Opportunities". This webinar aimed to facilitate a meaningful dialogue among the experts and participants to better understand defence offsets, related policies of various countries, and the need to diversify the offsets to non-defence sectors for overall economic benefits and the way forward. Thus, it provided a platform for free-flowing discussions on defence offsets programs among experts and brought to the table diverse views from government, military and private sectors. The panellists analysed and answered many pressing questions that surround the defence offset policy in India like, the need for a National Offset Policy, evolution, impacts and shortcomings of the offsets policies, technology transfer, challenges and even future discourses. This virtual session saw enthusiastic participation, with over forty participants joining to hear experts deliberate on these issues. The panellists had varied and sometimes contesting views that gave the participants a broader understanding of Defense Offset Policies.

PANELLISTS

- **Subimal Bhattacharjee**, *Independent Consultant on Defence & Cyber Security and former Country Head, General Dynamics (Moderator)*
- **Kris Osborn**, *President and Editor-in-Chief, Warrior Maven - Center for Military Modernisation and Defense Editor of the National Interest (Opening Remarks)*
- **Pradeep S Mehta**, *Secretary General, CUTS International (Closing Remarks)*

- **Air Marshal M Matheswaran (Retd.)**, *Chairman and President, The Peninsula Foundation, Chennai*
- **Amit Cowshish**, *Partner, Dua Associates and former Financial Advisor (Acquisition), Ministry of Defence*
- **Kriti Upadhyaya**, *Vice President, Strategic Advisory at C2C Innovations Americas and Founding Director, Indus Tech Council*
- **Lt. Gen. Dr. Anil Kapoor (Retd.)**, *Chairman, National Advisory Committee Asset Management Society, India*
- **Partha P Roy Chowdhury**, *Commercial Lead India, Lockheed Martin*
- **Sanjay Pulipaka**, *Independent Researcher on International Politics & Security Issues and Former Senior Fellow, Delhi Policy Group*

BACKGROUND & CONTEXT

The [Defense News Conclave](#) project is being implemented by CUTS International. Supported by the U.S. Department of State (U.S. Consulate Kolkata), this project aims to create awareness about the importance of U.S.-India defence relations, particularly in the context of contemporary developments in the Indo-Pacific region. The target audience is media professionals, including journalists from all over India. The Issue-specific webinar focused on the holistic outlook of the defence offset program, its challenges and opportunities it provides for the overall economic benefit, with a particular focus on what is to be done with India's defence offset policy?

INTRODUCTION

The Master of Ceremony welcomed the Panellists, Moderator, and Participants and briefly introduced the Defense News Conclave Project to the audience. The Moderator set the tone for the session by elaborating on the evolution of defence offset policies in India since 2005. Adding onto his remarks, how it needs to be relooked as it needs to be benefitting to the overall national ecosystem. Kris Osborn, delivering the opening remarks, highlighted how new technology drives the need for new tactics, new implementations and regulation mechanism. He also called for attention to Pentagon's efforts to enhance collaboration and multi-domain connectivity by sharing information with allies and explained the idea of synergizing AI driven technology with human decision-making.

KEY TAKEAWAYS

In the opening remarks, **Kris Osborn** drew focus on the third offset strategy of the US and its focus on modernisation of military. Additionally, he mentioned that the policies of the US pay special importance to its allies and partners, US and India may combine for joint technology production and excel in the all domains of war.

Air Marshal M Matheswaran discussed the need to formulate a National Offset Policy (NOP). He highlighted how today, offsets are practised by nearly 130 countries and India is late to the game, especially in energising its private industry in defence. For any country, it is important to not to be dependent on other countries for critical technologies. He suggested that we should catch up by investing in not just indigenous research, but also in indigenous processes. Until now, India has only focused on direct offsets and this became part of counter-trade and thus, is a fundamental flaw.

Air Marshal suggested bringing in both direct and indirect offsets and maximising production in the country. There is a need to take a holistic approach in formulating a NOP (National Offset Policy) as it's a very effective tool. Noting that the problems in the current system, which declares the winner before evaluation, he called for a change. He further mentioned that offsets are one of the mechanisms through which India should leverage technological capabilities through its large purchases and fill-in the gaps as much as possible for its critical technology requirements. When focusing on US-India defence trade, we need to look at the policies and technology control regulations intimately. Without understanding this, discussions on TOT (Transfer of Technology) would be incomplete. Towards the end of his remarks, he observed that in this age of transformation and technological upgrades, platforms may be old and hence they require revamping and a holistic outlook, bringing in direct and indirect offsets would help.

Sanjay Pulipaka, whose initial remarks dwelled on India facing a complex security challenge and is at two-front war with scale of threats rising each day. Mentioning about the background of the defence manufacturing phase in India, he explained the different approaches taken by the Indian government or trends that have been followed since the 1990s which include the Socialist Approach, Constrained and Delayed Liberal Approach and the Hesitant Liberal Approach. He noted that the objective of a defence offset policy is to leverage the capital acquisitions and technologies to develop the Indian defence industry, partially compensate for a significant outflow of resources and finally, to simplify procedures and promote greater transparency.

As an independent researcher on security issues, he felt the need for a robust professional organisation that deals solely with offsets. He further mentioned that with the various multipliers introduced in Defence Acquisition Procedure (DAP) 2020, technology transfer yields a greater multiplier effect on your offsets. Nonetheless, the discharge of offsets has been less than satisfactory. This is mainly due to principles not getting implemented since necessary governance structures were not created. Pulipaka acknowledged that an offset policy is not a silver bullet, but it is one among the many policies needed to improve domestic defence manufacturing in India. Thus, it is crucial that we improve on the governance areas and create a strong organisational team that is well equipped with the necessary skills and knowledge required, including trained personnel from other ministries such as finance, and Commerce etc. Since the inception of defence offset policy in 2005, it has met with various challenges but the silver lining is how we address the challenges and turn them into opportunities in times to come.

Kriti Upadhyaya mentioned in her remarks that thus far, the government is using the “carrot and stick” approach to facilitate the obligations, and instead, should use more of an open approach by intensifying the carrot (incentives and freedom). She noted that instead of mandating offset policies, it should incentivise it. Thus, companies who take up offset policy should be given tax benefits, subsidised lands and similar incentives because doing this will broaden the investments (which are currently limited to manufacturing). She elaborated that in countries like the US, a lot of investment is coming from the private sector and there is an open approach towards governmental policies. She also highlighted that the cost advantage India has, comes from a great supply of STEM labour, something that the US is suffering with. This advantage can be used as an offset obligation and consequently bring in benefits for India. Furthermore, she called attention to the growing dual-use technology, an area where major procurements in the future are going to come from. Earlier, all military innovations were coming from the government, however today it's the private sector. For the way ahead, she noted how for an effective defence offset policy, the strategy should include getting a faster procurement timeline, giving more flexibility and reinforcing surrounding systems.

Lt. Gen. Anil Kapoor (Retd.) highlighted that the defence offsets came up from the need to develop capability. In fact, the crux of defence offsets was capability development. However, it takes time to develop capability and thus, requires a long-term view for success of this policy. Discussing about the best practices around the globe, and the important takeaways from the offset experiences of different countries, among others, he cited examples of Saudi Arabia and Israel. In these two middle eastern nations, offsets have been used effectively for agrarian sector and industrialisation of high and low techs. In his views, with the three clarion calls – *Atma Nirbhar Bharat*, *Make-in-India* and *Start-up India*, India is a cautious resurgent nation on a pathway to transformation. He concluded his intervention by stating that “*The defence offset needs to be taken into a lifestyle approach*”, which would lever life cycle sustainment.

The next discussant, **Partha P Roy Chowdhury**, stated that the aim of the offset policies in India has always been having macro objectives but no one is bothered with micro objectives. According to him, Knowledge transfer is better than Transfer of Technology (ToT) which is more long term, sustainable and effective. He supported his thought by mentioning the example of Ashok Leyland and Lockheed Martin combining to produce 100 percent make in India LSF (Light Specialist Vehicle), used by Indian Air Force as a successful example of knowledge transfer. He noted that defence offsets are not cheap and stated that “we are here to do business, not charity”. He elaborated that Offsets are not free and have an objective to fulfil. However, in India’s case, the objectives are not properly defined and there is a need for them to be stated clearly. Furthermore, there’s a need for fast processes and structural revamping of the ministry because currently, the Ministry of Defence is very slow in placing even a single order. This problem stems from the confusion around what we aim to achieve from the offset policy in the first place.

Amit Cowshish as a former MoD personnel shared his inside view. He defined the defence offset policy as “a paradox draft in an enigma” by quoting Winston Churchill. He supported the quote by

discussing some anecdotes; 1) The MoD is unable to decide whether it wants the policy to persist or to be phased out completely; 2) DAP 2020 does not explicitly talk about ToT; 3) Challenges regarding the outcomes of offset policy, and results evaluation mechanism persists. He further noted how for the first 7 years since the inception of offsets in 2005, the DPP (Defence Procurement Procedure) did not even specify what the objective of the offset policy was. By stating that MoD mentions that this policy is a liberal policy but at the same time, commands excessive control over it, this is a contradiction between the stated objectives of the policy and how it has been implemented.

In fact, we need to take a long-term approach and view in achieving our objectives. For this, it is very important to equip people managing the offset contracts with the right training and skills. Further in his remarks, he suggested that there should be an offset contract that enables the vendor and allows them freedom to achieve the objective. Summarising the challenges including lapses in offset policy, which mainly arise because objectives were never clear, text of policy is confusing and full of contradictions, focus is more on penalising the vendor and lastly, guidelines are not clear. Moreover, it is exacerbated due to excessive control and inefficiency of MoD. Thus, for an effective offset policy, these issues must be resolved first.

A lively Q&A session followed the panel discussion. Participants posed questions on diverse topics such as the relevance of offset policy in the times of self-reliance/*Atmanirbharta*, effects of DAP on defence industrial corridors, and questions related to transfer-of-technology, among others.

The session concluded with Closing Remarks by **Pradeep S Mehta**, who emphasised on the importance of diversifying offsets to non-defence sectors for overall economic benefit. Additionally, to ensure that the offset credits are used and better managed, there is a need to move the Defence Offset Facilitation Agency (DOFA) which currently functions under the MoD, out of the MoD to the Ministry of Commerce & Industry or Department of Economic Affairs, as practiced in many countries. Citing a statement released by the MoD where US\$ 2.24 billion worth of offset obligations lapsed in 2021, he concluded his remarks by mentioning that a whole of government approach is needed to reap the benefits of this policy. In the aftermath of this webinar, CUTS International to come out with recommendations and incorporate expert comments in order to take it forward as policy recommendation to the government.