

**GOVERNMENT OF INDIA  
DEFENCE  
LOK SABHA**

UNSTARRED QUESTION NO:2289  
ANSWERED ON:07.12.2006  
CHANGES IN OFF-SET POLICY  
Adhalrao Patil Shri Shivaji;Verma Shri Ravi Prakash

**Will the Minister of DEFENCE be pleased to state:**

- (a) whether the Government has made changes in the off-set policy in the new Defence Procurement Procedure recently ;
- (b) if so, the details thereof alongwith the reasons for making such changes; and
- (c) the steps taken by the Union Government to strengthen the domestic defence industrial base through foreign investments and technology transfers ?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF DEFENCE (SHRI A.K. ANTONY)

(a)to(c) : A statement is attached.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (c) OF LOK SABHA UNSTARRED QUESTION NO. 2289 FOR ANSWER ON 7.12.2006

The procedure for implementing the offset provisions has been incorporated in the Defence Procurement Procedure (DPP) 2006, promulgated with effect from 1st September, 2006. The Off-set provision is applicable for all procurement proposals where the indicative cost is above Rs.300 crores involving the outright purchase from foreign/Indian vendors and purchase from foreign vendor followed by Licensed Production. These Off-set obligations shall be discharged directly by the direct purchase of, or executing export orders for, defence products and components manufactured or services provided by Indian Defence Industries. These offset obligations may also be discharged by direct foreign investment in Indian defence industries, and in Indian organizations engaged in research in defence Research & Development.

No changes have been made in the implementation of Off-set provisions incorporated in DPP-2006.

The following provisions have been made in DPP-2006 to strengthen the domestic defence industrial base:

- (i) Categorisation of equipment: Acquisitions covered under the 'Buy' category would be classified as 'Buy (Indian)' and 'Buy (Global)'. 'Buy (Indian)' Category must have minimum 50% indigenous content if the systems are being integrated by an Indian Vendor.
- (ii) 'Make' Procedure: The aim of the procedure is to undertake Indigenous Research, Design and Development and Production by Indian defence industries. Projects under this procedure would involve design and development of High Technology Complex Systems indigenously. These projects are to be undertaken by Raksha Udyog Ratnas (RURs)/Indian Industry/Defence Public Sector Undertakings (DPSUs)/Ordnance Factory Board (OFB)/Consortia on a level playing field. This procedure would also be adopted for all upgrades categorized as 'Make'.
- (iii) Transfer of Technology for Maintenance Infrastructure: In all 'Buy' Category cases where equipment is being brought from foreign vendors the provision of Transfer of Technology to an Indian Public/Private firm, for providing Maintenance Infrastructure would be applicable. In such cases, the foreign vendor would have to identify an Indian firm which would be responsible for providing base repairs and the requisite spares for the entire life cycle of the equipment.
- (iv) Foreign Domestic Investment (FDI) participation: With the opening of Industrial Policy in 2002, Government had allowed an FDI participation of upto 26%. Offset provision incorporated in DPP-2006 has taken cognizance of this and given offset credit for foreign vendors for a participation of FDI upto 26%, both for investment in infrastructure for manufacture and for Research & Development investments.
- (v) 'Buy & Make' category with Transfer of Technology (ToT): For high-end technology that is not readily available in India, the DPP-2006 provides for a 'Buy & Make' category with ToT, wherein the nominated production agency absorbs technology and 'Makes' a substantial portion of the acquisition, after outright purchase of minimum desirable quantity.