

# Industry Perspectives on Defence Offsets

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Defence offsets are expected to generate business in India of about \$10 billion over the next five years. Some would be in the form of tangible product and service exports while some in the form of investments made in India, and perhaps technology transfers, and yet some would be reduced through multipliers, banking, etc. We can assume that genuine export business could be \$1 to \$1.5 billion a year. Large as these may appear, in a trillion dollar economy, the direct impact is less than 0.2 per cent.

However, there is another story. The global military expenditure, running at about 4 per cent GDP (Gross Domestic Product) is about \$2400 billion. Of this, about half is for acquisitions. Even with much of this being self produced, the international trade could be about \$120 billion. India can aspire for a modest 5 per cent share of this pie, apart from meeting its own requirement. Between offsets, India's own requirement and exports, we can see a potential of over \$10 billion a year.

Globally, the defence majors are all strong players in other high-tech areas like aerospace, engineering and electronics, the reason being the commonality of dual technologies. Adding these areas, the market opportunity for India could easily be \$20 billion a year. Offsets, for India, are therefore the gateway to global defence and other high-tech markets.

What has prevented India from participating in these global markets?

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Lacks of technology, lack of experience, political barriers, major investments required in a high-risk business have all acted as entry barriers. The position of players on the other side of these barriers is however extremely attractive. With its trained manpower resources and cost factor advantages, India should be able to occupy a strong position on the global scene. Offsets are seen as the step ladder to cross over these barriers.

### Industry perspective

Global majors, who understand this context well, are naturally reluctant to start a process of technology sharing or sourcing from Indian industry, which could ultimately lead to their creating competition for themselves. Their concern is greater when dealing with DPSUs, with the MoD backing them, fearing extra-contractual arm twisting. Caps on their equity in Joint Ventures (JV) also ensure that the transfers shall not be within the family but actual steps towards creation of indigenous capabilities. Efforts will naturally be made in diluting the terms of offsets through inclusion of indirect offsets and technology transfer, multipliers, etc. At the same time, they are keen on India's business. This is India's main lever and at this point in the global market, a most powerful one.

Another important point is that to achieve the major targets aspired for, India shall have to export platforms and systems and not just standalone equipment. To do this, the effort needs to be coordinated to ensure all critical elements are developed indigenously to make a complete offering.

### Some concrete steps

- The MoD must insist on and implement the offset policy fully, in letter and in spirit and also facilitate the process between the foreign suppliers and the Indian offset partners.

- Both DPSU and private sector players must be encouraged to enter into JVs or other arrangements to obtain and absorb genuine technology, rather than simply licensed production.
- Treating this as a national campaign, the MoD must create a core think tank group comprising important defence players from DRDO, DPSUs and private industry to define critical technologies and acquire them.
- Indigenization or development of such strategic technologies must be supported by the MoD financially.
- The think tank must, along with the services' long term acquisition planning cells, draw up a long term indigenous development and production plan.
- A parallel study of the global market should be carried out and an associated export plan should also be evolved based on the domestic plan above and the global market study. 