

What India can Learn from Global Offset Experiences

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Boeing has successfully implemented offset programmes in over 35 countries completing over \$29 billion in offset commitments and we are currently engaged in executing over 45 active programmes valued at over \$14 billion involving 18 countries. Therefore, we have some relevant experience in this area.

The Boeing Company has been following the developments in India's Defence Procurement Procedure (DPP) as it relates to defence offsets with great interest. We believe that instituting an offset policy and the associated infrastructure is a positive move for India and will serve to enhance India's position in the global aerospace domain. Current offset guidelines are structured to promote India's national industrial objectives of the sustainment and creation of aerospace and defence jobs, acceleration in the maturity of the defence technology base, an increase in indigenous capability to build and support defence platforms, and the enhanced global competitiveness of public and private sector firms of all sizes. The offset programme should serve as a vehicle for Original Equipment Manufacturers (OEMs) to partner with their Government customers to support and achieve these objectives. A successful offset programme is one where the relationship between the OEM and the local offset partners makes good business sense and is of mutual benefit to both parties. The OEM can attain productivity gains such as cost reduction, cycle time reduction and access to market-leading technologies while the offset partners can expand their portfolio of export orders, infuse needed

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technology, and meet growth objectives. As a result, the Government has helped facilitate job creation and sustenance along with an increase in the indigenous aerospace and defence manufacturing capabilities. This dynamic creates a win/win/win scenario for the three major stakeholders in the offset program – the Government, the OEM, and local industry.

Boeing is also aware that certain drawbacks exist in offset policies that need to be avoided if the policy is to be successful in serving as a catalyst for growth and productivity. Although there are many lessons the Boeing has learned from its offset experience, the paper has focused on two critical areas in achieving the policy objectives that underpin the offset guidelines, the evolution of the offset guidelines and structure of the organisation responsible for evaluation and implementation of offset programs.

Evolution of Offset Guidelines

In our experience, one of the most important lessons of defence offset programmes the company has learned is the importance of evolving offset guidelines on a constant basis. Offset guidelines are created to assist in the achievement of specific industrial policy objectives. The role of the offset guidelines is to provide a framework for successful achievement of these policy objectives. Therefore, the offset guidelines should be reviewed on a regular basis to ensure they are not excluding activities that would further the achievement of the industrial policy objectives.

An example of a country that has evolved their guidelines in support of their national policy objectives is Australia. In 2007, Australia issued a new Defence and Industry Policy Statement and revised its offset guidelines accordingly. The industrial focus of the new policy is on the acquisition and sustenance of industrial capabilities essential to meeting Australia's military self-reliance needs and in the creation of competitive opportunities for local industry as part of global supply chains based on a

best value for money analysis. The offset guidelines were revised from prescriptive obligations to programs structured to provide bid opportunities for Australian companies with no requirements levied with respect to the type or level of work to be competed or won by Australian industry.

The Australian's approach is to use the industrial engagement elements of current programs, e.g., C-17 and Super Hornet, to give Australian industry opportunities to capture business in the global aerospace and defence market. A critical part of this approach is an on-going analysis of the successes and failures of Australian industry as part of this process. The results of this analysis will assist in the determination of what corrective actions need to be taken to ensure that Australian industry will be competitive in the global market outside of the guise of offset programmes leading to long-term sustainable business relationships. These eligible opportunities include activity in both commercial and defence. The benefits of including the commercial aerospace activities in the defence offset programme activities for the Australians include the following:

- The commercial and defence aerospace markets tend to be cyclical and the highs and lows of each tend to complement each other.
- The rates on commercial aerospace projects are substantially higher.
- The technologies inherent in the products in both markets have a high degree of commonality.
- A regime typically less stringent on commercial items.

There are a number of parallels between the Australian Defence Industrial Policy and the National Policy Objectives of India. Both are focused on positioning the aerospace and defence supply base to be more competitive in the global market. Both are focused on the development of indigenous industry capabilities required to support the defence forces operational capability, and both are focused on the sustenance and creation of

aerospace and defence jobs.

With a talented and educated workforce, and a national mission defined in the highest ranks of government, India's aerospace and defence industry has embarked on a journey to become a world class indigenous manufacturer of aerospace and defence products that will meet India's current and long-term needs. If offset programmes are to be utilised as a means for India to fulfill its aspirations to be a world class manufacturer of defence aerospace products and services, and to position its aerospace and defence industry to be competitive in the global market, the defence offset guidelines should be written and interpreted in such a fashion to generate the highest probability of success. Today, India is poised to greatly enhance its indigenous capability by enhancing its aerospace domain knowledge. However, for this to be maximized, the allowance of offset policy flexibility and discretion, to allow the transfer of general domain knowledge, such as commercial aerospace work and knowledge transfer activities would be beneficial. The goal of successful offset guidelines is to stimulate ideas on the part of the OEMs that will support the national industrial policy as well as generate a favourable offset credit return.

The Ministry of Defence regularly reviews and considers revisions to the offset policy as part of the DPP review process. This is an extremely forward thinking step on the part of the Indian Government. We propose that for the next DPP, consideration be given for inclusion of additional activities such as commercial aerospace work and knowledge transfer activities to be included as part of the defence offset guidelines, if it is determined that these activities support the achievement of national industrial policy objectives.

Structure of the Offset Authority

The promulgation of offset guidelines necessitates the establishment of an

organisation responsible for the interpretation and implementation of these guidelines. The primary goal of this organisation is the furtherance of the National Industrial Policy through successful consistent interpretation and implementation of the guidelines. The structure of the offset authority can have a significant impact on success of supporting this policy. One of the keys to this success is the separation of the acquisition team from the offset authority. This allows each not to be distracted by the other during the acquisition process and creates an environment where subject matter experts can be developed. This assists in the creation of an environment where consistency is achieved in the interpretation and implementation of the offset guidelines and in the evaluation of offset proposals. It also allows the offset authority to support the acquisition community in meeting procurement schedules and supports overall policy objectives by working in a collaborative environment. Also, this operational structure allows the OEMs to focus on the priorities of the offset guidelines and avoid the confusion that is often manifested when one decision body has direct responsibility for both acquisition and offset implementation. An additional benefit of this approach is that the interpretation of the offset guidelines will not vary according to the service tasked with interpreting the guidelines. This enables a consistent approach of achieving the industrial policy objectives across all offset programs. Also, having a single authority over offset related matters will lead to a greater understanding on the part of the OEMs of the expectations of the Government of India. The result of this will be offset proposals and programmes which will align more consistently with the industrial policy objectives and lead to consistent success in the implementation of offset programmes. It also gives the OEMs a single authority to which they can address offset questions and issues. Finally, as the industrial policy matures and new priorities and focus areas are identified, the offset authority can work with the OEMs to develop possible approaches to address the new areas of priority.

The United Kingdom is an example of a country that has evolved their structure for offset to best meet the objectives of the Ministry of Defence (MoD). The Industrial Participation Unit (IPU) within the MoD is responsible for implementing the UK's Industrial Participation policy. They are part of the MoD Central organisation and are seconded to the UK Trade and Investment Security Group. The IPU reports into the Central Staff at MoD headquarters which is the heart of policy making for the MoD. The Central Staff has the responsibility for the promulgation of the Defence Industrial Strategy. The IPU has the responsibility for the implementation of the MoD's Defence Industrial Strategy and the development and implementation of the Industrial Participation Policy. The IPU engages with the MoD Integrated Product Teams (IPTs) in the acquisition community to support new requirements. The IPU assesses offset proposals from OEMs and make recommendations on how the offset proposal enhances or negatively impacts the business case. They also make recommendations with respect to the quality of the offset programme offered and the relevance to the UK Defence Industrial Strategy and IP policy. Both the IPT and the IPU evaluations form the basis for overall business case analysis. In addition, the IPU negotiates offset agreements with OEMs for new contracts and has the responsibility to evaluate all credit reports against the obligation. They also take an active role in working with the OEMs throughout the period of performance to ensure successful execution and liquidation of the offset obligation.

The benefits of the UK structure allow separation of the acquisition IPT and the IPU during the acquisition process and create not only an environment where subject matter experts can be developed but also an environment where consistency is achieved in the implementation of the policy and evaluation of offset proposals. It also allows the IPU to support the acquisition community in meeting procurement schedules. The OEMs are allowed to focus on priorities of the policy and avoid the confusion that is often manifested when one decision body has direct responsibility for

both acquisition and offset implementation resulting in programmes and proposals that align more consistently with the policy and guidelines and more consistent success in implementation of offset programmes.

We have all seen in the press that there is the potential in India for a substantial number of sizeable defence procurements on the horizon. It is anticipated that there will be an offset obligation associated with each of these procurements. Having an offset organisation in place that is structured to support the acquisition community and to manage the successful implementation of the resultant obligations with the OEMs will be of great benefit in achieving the industrial policy objectives.

Therefore, based on our understanding of the Defence Procurement Procedure relative to the above, the following points are provided for consideration:

- The establishment of a single point of accountability for the entire offset process. One nodal agency within the MoD could be responsible for the evaluation of offset proposals as part of the acquisition process, approving projects during implementation and approving the offset credits gained for that project. This should result in offset programmes that are structured to support the national industrial policy objectives and have a low execution risk.
- Keep the valuation of offset projects as simple as possible and establish reasonable documentation requirements for crediting purposes. Project valuation could be mutually agreed to by the provider and recipient, before being presented to the offset authority for final approval.

In conclusion, India is poised to become a leading manufacturer and exporter of defence articles as a result of its proposed defence procurements coupled with a strong and sensible offset policy that is

focused on achieving national industrial policy objectives. The Indian MoD has already shown great foresight by introducing progressive provisions such as banking of credits. It is recommended that the offset guidelines be periodically reviewed to ensure they support the industrial policy objectives and do not exclude activity that is in furtherance of those objectives. It is also recommended that a single entity is granted to the authority to handle all offset related matters. Boeing is confident that the MoD will continue to have an evolving policy that will fulfil India's goals and maximize benefits created by or resulting from offset programmes. 