

Analysis

Appendix-D to Chapter II
Defence Offset Guidelines

New or Revised Salient Features

Draft Defence Procurement Procedure 2020

Schedule of Webinars on Draft Defence Procurement Procedure 2020		
Date & Time	Topic	Link for Registration
01 April 2020 1130 Hrs	Wednesday Draft DPP 2020 Chapter I - Acquisition Categories, Acquisition Planning and Indigenous Content	Register
Friday 03 April 2020 1130 Hrs	Chapter II - Acquisition Procedures for Categories Under 'Buy', and 'Buy and Make' Schemes	Register
Monday 06 April 2020 1630 Hrs	a) Appendix to Chapter I – Indigenous Content b) Schedule to Chapter II – Guidelines for preparing RFP	Register

Draft Defence Procurement Procedure 2020

Schedule of Webinars on Draft Defence Procurement Procedure 2020		
Date & Time	Topic	Link for Registration
Wednesday 08 April 2020 1630 Hrs	Appendix D to Chapter II – Defence Offset Guidelines	Register
Friday 10 April 2020 1130 Hrs	Chapter III - Procedure for Procurement Under 'Make' and 'Innovation' Categories	Register
Saturday 11 April 2020 1630 Hrs	Chapter III A - Procedure for Acquisition of Systems Designed and Developed by DRDO / DPSU / OFB	Register
Tuesday 14 April 2020 1130 Hrs	Chapter IV - Procedure for Defence Ship Building	Register

Appendix-D to Chapter II – Defence Offset Guidelines

Objectives of Defence Offsets

- Fostering development of internationally competitive enterprises
- Augmenting capacity for Research, Design and Development related to defence products .

The objective # (iii) given in DPP 2016 , “encouraging development of synergistic sectors like civil aerospace and internal security” does not figure in draft DPP 2020.

Quantum and Scope of Offsets

- ✓ All Capital Acquisitions categorized as 'Buy (Global)', i.e. outright purchase from foreign/Indian Vendor, or 'Buy and Make' categories of procurements where the estimated cost of the acquisition proposal is ₹.2000Crore or more as on the date of accord of AoN. Will apply to Indian firms or their Joint Ventures under "Buy (Global)" procurements if IC less than 30%.
- ✓ Quantum - 30% of the estimated cost of the acquisition in 'Buy (Global)' category acquisitions and 30% of the foreign exchange component in 'Buy and Make' categories of procurements will be the required value of the offset obligations.
- ✓ The (DAC) may consider partial or full waiver of offset clause.

{These provisions are the same as in DPP 2016}

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Quantum and Scope of Offsets

- ✓ However, definition of 'Buy (Global)' category given in Chapter I, it is mentioned that –
“Foreign vendors will also need to discharge offsets in all Buy (Global) cases more than 2000 crores other than Single Vendor Cases (SVC) being progressed based on IGAs including FMS”.

{This is an explicit feature now.}

List of Eligible Products {Changed}

1. **Arms** - Small arms, mortars, cannons, guns, howitzers, anti-tank weapons.
2. **Ammunition and Explosives**
 - a) Bombs, torpedoes, rockets, missiles.
 - b) Energetic materials, explosives, propellants and pyrotechnics
3. **Armoured Vehicles** - Tracked and wheeled armoured vehicles, vehicles with ballistic protection designed for military applications, mine protected vehicles.

List of Eligible Products {Changed}

4. Naval Platforms -

- a) Vessels of war and special naval systems.
- b) Weapons, sensors, armaments, propulsion systems, machinery control systems, navigation equipment / instruments, hull forms of warships, submarines, auxiliaries related to Para 4(a) above.
- c) Other Vessels/crafts/boats related to Para 4(a) above.

5. Aircraft -

- a) Aircraft including helicopter, unmanned airborne vehicles, aero engines for military use.
- b) Maintenance, Repair and Overhaul (MRO) related to aircrafts and helicopters.

List of Eligible Products {Changed}

6. Electronics and Communication equipment - Electronics and communication equipment specially designed for military use such as electronic counter measure and countermeasure equipment surveillance and monitoring, data processing and signalling, guidance and navigation equipment, imaging equipment and night vision devices, sensors.

List of Eligible Products {Changed}

7. Other Defence Products -

- a) Forgings, castings and other unfinished products which are specially designed for products for military applications.
- b) Personal Protective Equipment.
- c) Troop Comfort Equipment.
- d) Parachutes
- e) Direct energy weapon systems, counter-measure equipment, super conductive equipment.

****Components related to above category products are also eligible.

List of Eligible Products {Changed}

Removed from list

- ❖ Products under civil aerospace and internal security
- ❖ Software
- ❖ Services
- ❖ Several other defence products including many types of ammunition

Avenues for Discharge of Offsets

(offset obligations may be discharged by any one or a combination of the following methods)

- a) **Direct purchase** of, or executing export orders for, eligible products manufactured by, **or services** provided by Indian enterprises
- b) **Investment in defence manufacturing**: This could be through FDI or direct investment or joint ventures or through the non-equity route for co-production, co-development and production or licensed production of defence products.

How come?

Avenues for Discharge of Offsets

(offset obligations may be discharged by any one or a combination of the following methods)

c) **Investment in ToT to Indian enterprises for manufacture of eligible products.** The ToT should be full ToT (documentation, training, consultancy) and provided without licence fee and there should be no restriction on domestic production, sale or export.

Avenues for Discharge of Offsets

(offset obligations may be discharged by any one or a combination of the following methods)

d) Acquisition of technology through ToT to Government institutions and establishments engaged in the manufacture and/or maintenance of eligible products as listed at Annexure VII to Appendix-D, including DRDO and OFB/DPSUs (as distinct from Indian enterprises).

{New list of technology eligible for discharge of offsets under 3.1d shared. Technologies / all major military systems which are currently being imported have been covered in this list}

Avenues for Discharge of Offsets

(offset obligations may be discharged by any one or a combination of the following methods)

e) Technology Acquisition by the DRDO in areas of critical technology as listed in Annexure-VIII.

{Similar list as was given DPP 2016, but expanded. Changes within the list of critical technologies and testing facilities}

Indian Offset Partners

There is no change in definition of IOP.

- Indian enterprises and institutions and establishments engaged in the manufacture of eligible products **and/or provision of eligible services**, including DRDO, are referred to as the Indian Offset partner (IOP).
- The IOP shall, besides any other regulations in force, also comply with the guidelines/licensing requirements stipulated by the DPIIT/MHA as applicable.

How come?

Discharge of Offset Obligations

a) Responsibility.

- i. OEM & Tier-I Vendors to the extent of their workshare.
- ii. In addition, in respect of avenues for investment in defence manufacturing, ToT to Govt Institutions and establishments engaged in the manufacture and/or maintenance of eligible products as listed at Annexure VII to Appendix-D, including DRDO and OFB/DPSUs, and Technology Acquisition by DRDO offset discharge can be permitted by entities other than vendor / Tier-1 Sub-vendor on a case to case basis. {This a new feature}

b) Period of Discharge – No change w.r.t DPP 2016

Missing word

Discharge of Offset Obligations

c) Offset Credits.

- i. Investment for Defence Manufacturing – on project completion, basis value addition in India.

“Value Addition will be determined by subtracting (i) value of imported components (i.e.) import content in the product and (ii) any fees/royalty paid.

- ii. Investment in ToT

- a third-party valuation from the recognized / certified valuation firms duly accepted by the IOP to be submitted.
- **Offset credits for ToT are not subject to any buyback arrangement as was the case in DPP 2016.**

- iii. There is no mandatory requirement to discharge offsets under any particular avenue or a combination of avenues.

Discharge of Offset Obligations

d) Multipliers. {Changed}

- i. Eligible Products – 1.0
- ii. Components – 0.5

Multiplier of 1.5 when IOP is an MSME.

- iii. Investment in defence manufacturing – 1.5
- iv. Investment in Defence Corridors – 2.0
- v. ToT to Indian enterprise for manufacturing of eligible products – 2.0
- vi. ToT to DPSU / OFB as per list – 3.0
- vii. Critical Technology to DRDO – 4.0

“Clubbing of multipliers is not permitted”.

Offset Banking

Provisions for Offset Banking have been removed from the guidelines.

Submission of Offset Claims.

- ✓ The vendor shall submit offset discharge claims in the format in Annexure-V to Appendix D to the DOMW through the online portal.
- ✓ There is no six-monthly report as was prevalent under DPP 2016.

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Other guidelines such as value addition concept, valuation of offsets, management of offsets, offset discharge claims, penalties, rephrasing of offsets / change of IOP or offset component etc are same as in DPP 2016.

Draft Defence Procurement Procedure 2020

- Defence Procurement Procedure 2020 would be in supersession of Defence Procurement Procedure 2016 and will come into effect from--
- DPP 2020 will be applicable to all AoNs granted after the date it comes into effect.
- The cases for which AoNs have been granted under earlier versions of DPP, but RFPs have not been issued up to 1st April 2020, will be processed under the new DPP 2020.
- Applicability to ongoing cases will be promulgated by the Acquisition Wing based on recommendations of the SHQ. In case the SHQ concerned wants to migrate any such case under DPP-2020, approval of the applicable AoN approving authority needs to be sought.

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