Standing Committee Report Summary

Management of Defence Offsets

- The Public Accounts Committee (Chair: Mr. K. C. Venugopal) presented its report on 'Management of Defence Offsets' on July 22, 2026. The Committee examined the implementation status of offset obligations in defence contracts. The offset provision in a contract makes it obligatory on the seller (a foreign vendor) to compensate the buyer. This can be done through reverse purchase or investing in the local industry or research and development in the buyer country. The Defence Offset Policy was first introduced under the Defence Procurement Procedure (DPP) in 2005. Key observations and recommendations include:
- **Reducing deficiencies:** The Committee noted several issues with the offset policy, such as non-discharge of offset obligations, submission of incorrect offset claims, and slow pace of verification. It also noted that about 45% of offset obligations remain unfulfilled as of December 18, 2025. This is primarily because offset projects, planned when the offset contracts were signed, did not materialise. It observed that pendency or rejection of offset claims reflect inadequacies in the contract management process. It recommended: (i) mandating timelines and complying with them, and (ii) engaging the Controller General of Defence Accounts or Defence Offset Management Wing at early stages of contract preparation.
- **Rationalisation of offset avenues:** Foreign vendors can fulfil their offset obligations through various routes, such as direct purchase from Indian firms, Foreign Direct Investment (FDI) in defence manufacturing, or transfer of technology. The Committee noted that between 2007 and March 2018, 90% of the total value of offsets across audited contracts was scheduled to be discharged through direct purchases. However, investment and technology could help the Indian defence sector more than direct purchases. It recommended modifying the policy to restrict direct purchases up to a threshold, and mandating that at least 50% of offset obligations be met through FDI or technology transfer.
- **Extend offset policy to all defence acquisitions:** The offset policy currently applies to foreign vendors in the 'buy (global) category', for acquisitions worth at least Rs 2,000 crore. They are required to invest 30% of the contract value. The Committee observed that the limit of Rs 2,000 crore may exclude a lot of purchases from offset obligations. It recommended: (i) extending the policy to all capital acquisitions, and (ii) lowering the percentage of required investment from 30%. Further, it recommended ensuring that the offset partner is an Indian entity or a joint venture with an Indian entity.
- **Offset investments in targeted areas:** The Committee noted that countries such as Singapore and Taiwan had earmarked specific areas for offset investments. It recommended that the Ministry of Defence similarly focus on specific areas for offset support, based on the requirements of the Defence Research Development Organisation (DRDO) and other Indian defence manufacturers. For instance, India is not self-reliant in maintenance, repair, and overhaul of military aircraft and helicopters. The Committee recommended rationalising the list of technologies and products that may be used by foreign vendors to satisfy offset obligations. The list should include technologies actively sought by DRDO and Indian defence manufacturers. The Committee also observed that certain products in the list had matured and could remain commercially viable without support. It recommended excluding all such products from the list.
- **Rationalisation of multipliers:** Under the defence offsets policy, multipliers are used to incentivise foreign vendors to invest in certain areas. When a multiplier is applied, the actual value of the investment is multiplied by a specific factor (up to four) to determine the total offset credit received by foreign vendors. This credit can be used to fulfil offset obligations. The Committee observed that the multiplier policy is yet to generate significant outcomes. It recommended introducing a multiplier of two for key areas and technologies and removing all other multipliers.
- **Penalties for non-compliance with offset obligations:** Currently, a penalty of 5% of the unfulfilled offset obligation may be levied on the vendor in case of non-compliance. However, the Committee noted delays in discharging obligations despite this provision. It recommended that the Ministry include an indemnity clause within the policy to deter non-compliance. It also recommended linking the fulfilment of offset obligation with the performance of the main procurement contract.

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