

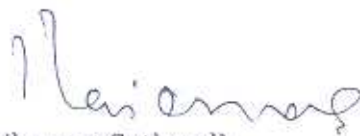
MINISTRY OF DEFENCE
(Acquisition Wing Secretariat)

Subject: Defence Procurement Procedure 2011-revision of Defence Offset Guidelines.

The revised Defence Offset Guidelines (Appendix D to Chapter I of Defence Procurement Procedure-2011), approved by DAC on 23.07.2012, are enclosed herewith.

2. The revised guidelines shall come into force from 1st August, 2012.

Encl. As above


(Rajkumar Gathwal)
Director (Acquisition)
Tel No. 23792865

To

CISC

Vice Chief of Army Staff/ Vice Chief of Naval Staff/ Vice Chief of Air Staff

All Joint Secretaries/Addl. FAs/Finance Managers/Technical Managers/DGWE/ DGCG/
ACAS(Plans)/ACNS(P&P)/Directors/Dy. Secretaries.

Copy for information to:

PS to RM, PS to RRM, Defence Secretary, Secretary(DP), SA to RM, DG(Acq), FA(DS),
AS(A), AS(B), AS(DP), FA(Acq) & AS, CGDA, Principal IFAs, Advisor to RM.

MoD ID PC- to F. No. 3(19)/D(Acq)/11-Vol.II dated 27th July, 2012

Copy also to: Director (NIC), MoD, Room No. 305-B, Sena Bhavan-with the request to upload the revised Defence Offset Guidelines on the website of MoD immediately under intimation to this Secretariat.

DEFENCE OFFSET GUIDELINES

The provisions in the Defence Procurement Procedure concerning offsets will be implemented as set out in succeeding paragraphs.

1. Objective of Defence Offsets

1.1 The key objective of the Defence Offset Policy is to leverage capital acquisitions to develop Indian defence industry by (i) fostering development of internationally competitive enterprises, (ii) augmenting capacity for Research, Design and Development related to defence products and services and (iii) encouraging development of synergistic sectors like civil aerospace, and internal security.

2. Quantum and Scope of Offsets

2.1 These provisions will apply to all Capital Acquisitions categorized as 'Buy (Global)', i.e. outright purchase from foreign/Indian vendor, or 'Buy and Make with Transfer of Technology', i.e. purchase from foreign vendor followed by Licensed Production where the estimated cost of the acquisition proposal is ₹300 crore or more. They will apply to Indian firms or their Joint Ventures under "Buy (Global)" procurements as explained in Para 5.10.

2.2 30 percent of the estimated cost of the acquisition in 'Buy (Global)' category acquisitions and 30 percent of the foreign exchange component in 'Buy and Make with ToT' category acquisitions will be the required value of the offset obligations. Offset obligations may be discharged with reference to eligible products and eligible services as described in Annexure-VI to Appendix-D.

2.3 The Defence Acquisition Council (DAC) may, after consideration by SCAPCHC, prescribe varying offset obligations above 30 percent or waive the requirement of offset obligations in

special cases. Such directions may be made applicable for a class of cases or for an individual case depending on the factors involved, such as type of acquisition, strategic importance or urgency of the acquisition, ability of Indian defence industry to absorb the offset and any other relevant factors.

2.4 The offset condition will form a part of the RFP and subsequently of the main contract. A separate offset contract will be executed simultaneously with the main contract.

2.5 These provisions will not apply to (i) procurements under the Fast Track procedure, and (ii) procurements under the 'Option' clause where an offset obligation was not stipulated in the original contract. In respect of procurements under the "Option" clause, where an offset obligation was stipulated in the original contract, the offset guidelines prevailing at the time of signing of the original contract would be applicable.

3. Avenues for Discharge of Offset Obligations

3.1 For the purpose of defence capital acquisitions, 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, i.e. Defence Public Sector Undertakings, Ordnance Factory Board and private and public sector Indian enterprises. The list of products and services eligible for discharge of offset obligations is at Annexure VI to Appendix-D.

(b) Foreign Direct Investment in joint ventures with Indian enterprises (equity investment) for the manufacture and/or maintenance of eligible products and provision of eligible services. Such investment would be subject to the guidelines/licensing requirements stipulated by the Department of Industrial Policy and Promotion.

(c) Investment in 'kind' in terms of transfer of technology (TOT) to Indian enterprises for the manufacture and/or maintenance of eligible products and provision of eligible services. This could be through joint ventures or through the non-equity route for co-production, co-development and production or licensed production of eligible products and eligible services. The investment in kind in

terms of TOT must cover all documentation, training and consultancy required for full TOT (civil infrastructure and equipment is excluded). The TOT should be provided without licence fee and there should be no restriction on domestic production, sale or export.

(d) Investment in 'kind' in Indian enterprises in terms of provision of equipment through the non-equity route for the manufacture and/or maintenance of eligible products and provision of eligible services (excluding TOT, civil infrastructure and second hand equipment).

(e) Provision of equipment and/or TOT to Government institutions and establishments engaged in the manufacture and/or maintenance of eligible products and provision of eligible services, including DRDO (as distinct from Indian enterprises). This will include augmenting capacity for Research, Design and Development, Training and Education but exclude civil infrastructure.

(f) Technology Acquisition by the Defence Research and Development Organization in areas of high technology listed in Annexure-VIII to Appendix-D.

3.2 Foreign vendors could consider creation of offset programmes in anticipation of future obligations through offset banking as per guidelines in para 5.8.

4. Indian Offset Partner

4.1 Indian enterprises and institutions and establishments engaged in manufacture of eligible products and/or provision of eligible services, including DRDO, are referred to as the Indian Offset Partner (IOP).

4.2 The Indian offset partner shall, besides any other regulations in force, also comply with the guidelines/licensing requirements stipulated by the Department of Industrial Policy and Promotion as applicable.

4.3 The OEM/vendor/Tier-I sub-vendor will be free to select the Indian offset partner for implementing the offset obligation provided the IOP has not been barred from doing business by the Ministry of Defence.

4.4 The agreement between the OEM/vendor/Tier-1 sub vendor and the IOP shall be subject to the laws of India.

5. Discharge of Offset Obligations

Vendor Responsibility

5.1 The Vendor of the equipment under the main procurement contract will be responsible for the fulfillment of offset obligations. The Vendor may allow his Tier-1 sub-vendors under the main procurement contract to discharge offset obligations, to the extent of their work share (by value), on behalf of the main/prime vendor. However, overall responsibility and liability for the full discharge of offset obligations shall continue to remain with the main/prime vendor. Any shortfall by the Tier-1 sub-vendor shall be made good by the main/prime vendor, failing which the vendor shall be liable for penalty and debarment as stipulated in the offset guidelines.

Period for Discharge

5.2 Offset obligations are to be discharged within a time frame that can extend beyond the period of the main procurement contract by a maximum period of two years. The period of the main contract includes the period of warranty of the equipment being procured under the main contract.

Performance Bond

5.3 Where the period for discharge of offset obligations exceeds the period of the main procurement contract, the vendor will be required to furnish an additional Performance Bond to Defence Offset Management Wing in the form of a Bank Guarantee covering the full value of the un-discharged offset obligations falling beyond the period of the main procurement contract. This Performance Bond shall be reduced annually, until full extinction, based on the pro rata value of the discharged offset obligation accepted by the Defence Offsets Management Wing (DOMW). The additional Performance Bond shall be submitted six months prior to expiry of the main Performance-cum-Warranty Bond.

5.4 In cases where the main procurement contract is signed on the basis of a Inter-Governmental Agreement(IGA) under Para-71 of Defence Procurement Procedure (e.g.) through Foreign Military Sales(FMS) by the US Government, but offset contract is signed

with the OEM/vendor, the OEM/vendor shall be required to furnish a Performance Bond equal to 5 percent of the offset obligation which is required to be fulfilled during the period of the main procurement contract. An additional Performance Bond would be required in case the period for discharge of offset obligation exceeds the period of the main procurement contract as indicated in Para 5.3 above.

Mandatory Offsets

5.5 A minimum 70 percent of the offset obligation must be discharged by any one or a combination of Paras 3.1(a), (b), (c) and (d).

5.6 Where the discharge of offset obligations is proposed in terms of Para 3.1(d), the vendor will be required to buyback a minimum 40 percent of the eligible product and/or service (by value) within the permissible period for discharge of offset obligations.

Offset Credits for ToT

5.7 Where the discharge of offset obligations is proposed in terms of Para 3.1(c) the offset credit for ToT shall be 10 percent of the value of buyback during the period of the offset contract, to the extent of value addition in India.

Offset Banking

5.8 Only contracts for direct purchase or export of eligible products or services or investments made in eligible products or services after the signing of the main procurement contract shall be reckoned for discharging offset obligations. However, pre-approved banked offset credits will be considered for discharge of offset obligations subject to a maximum of 50 percent of the total offset obligation under each procurement contract. The banked offset credits shall remain valid for a period of seven years from the date of acceptance by DOMW. Banked offset credits will not be transferable except between the main vendor and his Tier-1 sub-vendors within the same procurement contract. The main vendor will be required to submit a list of such Tier-1 sub-vendors along with the technical and commercial offset proposals. Banking of offset credits shall be permissible only in respect of offsets stipulated in Paras 3.1(a), (b), (c) and (d) of the Defence Offset guidelines. Guidelines for banking offset credits are at Annexure-VII to Appendix-D.

Value Addition

5.9 The concept of value addition will apply only for direct purchase/export of eligible products. 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.

'Buy (Global)' Procurements

5.10 For 'Buy (Global)' category procurements, if an Indian firm including a Joint Venture between an Indian Company and its foreign partner is bidding for the proposal, the clause relating to offset obligation will not be applicable if the indigenous content in the product is 50 percent or more (by value). In case the indigenous content in the product is less than 50 percent, the Indian firm or the Joint Venture has to ensure that offset obligations are fulfilled on the foreign exchange component of the contracted value. In case the indigenous content is less than 50 percent, the Indian firm or Joint Venture shall submit an undertaking to fulfill the offset obligation along with the main technical bid. Failure to submit the undertaking at that stage shall render the bid non-responsive and liable to be rejected. The undertaking shall be furnished as per format at Annexure-I to Appendix-D. Indigenous content (by value) will be determined on the basis of exchange rates prevailing on the last date for submission of the main technical bid.

Multiplier for Micro, Small and Medium Enterprises

5.11 In the discharge of offset obligations under para 3.1(a), (b), (c) and (d), a multiplier of 1.50 will be permitted where Micro, Small and Medium Enterprises are IOPs. For the purpose of offsets, Micro, Small and Medium Enterprises are defined as follows:

- (a) in the case of enterprises engaged in manufacture of goods:
- (i) a micro enterprise is that where investment in plant and machinery does not exceed Rs. 2.5 million;
 - (ii) a small enterprise is that where investment in plant and machinery is more than Rs. 2.5 million but does not exceed Rs. 50 million; and

- (iii) a medium enterprise is that where investment in plant and machinery is more than Rs. 50 million but does not exceed Rs. 100 million;
- (b) in the case of enterprises engaged in providing services:
- (i) a micro enterprise is that where investment in equipment does not exceed Rs. 1 million;
 - (ii) a small enterprise is that where investment in equipment is more than Rs. 1 million but does not exceed Rs. 20 million; and
 - (iii) a medium enterprise is that where investment in equipment is more than Rs. 20 million but does not exceed Rs. 50 million.

Note: The above monetary limits shall be subject to change as may be notified by Department of Micro, Small and Medium Enterprises, Government of India from time to time.

Multiplier for Technology Acquisition by DRDO

5.12 In the discharge of offset obligations under para 3.1(f) relating to technology acquisition by DRDO, a multiplier up to 3 will be permitted. Guidelines for this purpose are at Annexure-IX to Appendix-D. Multipliers for technology acquisition by DRDO will be assigned as under:-

- i) Multiplier of 2.0 will be applicable when the technology is offered for use by Indian Armed Forces only but without any restriction on the numbers that can be produced.
- ii) Multiplier of 2.5 will be applicable when the technology is offered for use only in Indian Market but for both military and civil applications and without any restriction on the numbers that can be produced.
- iii) Multiplier of 3.0 will be applicable when the technology is offered without any restriction and with full and unfettered rights, including right to export.

Valuation of Offsets

5.13 For the purpose of these offset guidelines, the date of discharge of offset obligations under para 3.1(a) shall be reckoned as the date of invoice or the date of final payment whichever is later. In case of equity investment under para 3.1(b) or other investments or TOT and Technology Acquisition covered under paras 3.1 (c), (d), (e) and (f), the date of completion of the transaction, based on documentary evidence, shall be reckoned as the date of discharge of offset obligation. The value of the offset components for which offset credits are sought would have to be supported by documentary evidence. Only transactions undertaken after signing of the offset contract will be reckoned for discharging offset obligations (excluding Offset Banking).

6. Management of Offsets

Acquisition Wing

6.1 The Acquisition Wing in the Department of Defence will be responsible for (i) technical and commercial evaluation of offset proposals received in response to RFPs and (ii) conclusion of offset contracts.

Defence Offsets Management Wing

6.2 The Defence Offsets Management Wing (DOMW) under the Department of Defence Production will be responsible for formulation of Defence Offset Guidelines and all matters relating to post contract management. The functions of DOMW will include:

- a) Formulation of Defence Offset guidelines
- b) Monitoring the discharge of offset obligations, including audit and review of progress reports received from vendors;
- c) Participation in Technical and Commercial evaluation of offset proposals as members of TOEC and CNC;
- d) Implementation of Offset Banking guidelines;
- e) Administration of penalties under offset contracts in consultation with Acquisition Wing;
- f) Assisting vendors in interfacing with Indian industry; and
- g) Other responsibilities assigned under the offset guidelines or entrusted by the Government.

6.3 The Defence Offsets Management Wing may avail the assistance of any appropriate entity to discharge its functions.

6.4 The DOMW will work in close collaboration with Acquisition Wing for smooth implementation of the Offset guidelines.

7. Submission of Offset proposals

7.1 Para 26 of Chapter I read with Schedule I of DPP 2011 prescribes the standard RFP document. Para 6 of the RFP format will apply when offsets are attracted. At the stage of submission of the techno-commercial proposal, the vendor will submit a written undertaking in the format at Annexure I to Appendix-D to the effect that he will meet the offset obligations laid down in the RFP as per the Defence Offset Guidelines. This undertaking will be included in the envelope containing the vendors' technical bid. It will be binding on the vendor and will clearly state that failure on the part of the vendor to comply with the offset guidelines at any stage may result in disqualification of the vendor from any further participation in the tender/contract. It may also result in imposition of penalties indicated in Para 8.13 and render the vendor liable for debarment from participating in future procurement contracts for a period up to five years as indicated in Para 8.14. Failure to submit the undertaking in Annexure-I to Appendix-D shall render the bid non-responsive and liable to be rejected.

7.2 The Technical and Commercial offset proposals have to be submitted by the vendor by a date to be specified in the RFP, which would normally be three months from the date of submission of the main technical and commercial proposals. The technical and commercial offset proposals should be submitted in two separate sealed covers to the Technical Manager of Acquisition Wing. The Technical Offset proposals and the Commercial Offset proposals should be submitted as per formats at Annexure II and Annexure III to Appendix 'D' respectively. The commercial offset proposal must provide details of the business model for proposals relating to Paras 3.1© and (d), of the offset guidelines in case offset credits are being sought under these specific provisions. The Technical and Commercial Offset proposal for Technology Acquisition by DRDO under Para 3.1(f) of the Offset Guidelines will be forwarded by the Technical Manager to DRDO. In case any offset credits are claimed under Para 3.1(f) of the Offset Guidelines, the Technical and Commercial Proposals should be submitted in a separate envelope as per format at Annexure-IX to Appendix 'D'. Failure to submit

offset proposals within the stipulated timeframe shall render the bid non-responsive and liable to be rejected. The technical and commercial offset proposals will be forwarded by the Technical Manager to the concerned Service Headquarters and Acquisition Manager respectively.

8. Processing of Offset Proposals

Technical Evaluation

8.1 The Technical Offset Evaluation Committee (TOEC) will be constituted by the Technical Manager with approval of the Director General (Acquisition). The TOEC will include representatives of the Service Headquarters, Defence Finance, DRDO and DOMW. The Committee may also include experts, as may be deemed necessary, with approval of the Director General (Acquisition). The TOEC will be chaired by a representative of the Service Headquarters. The Member Secretary shall be nominated by Service Headquarters. The TOEC Report will be forwarded to the Technical Manager with approval of the concerned Principal Staff Officer of Service Headquarters. The Technical Manager will process the TOEC report for acceptance by Director General(Acquisition).

8.2 The TOEC will scrutinize the technical offset proposals (excluding proposals for Technology Acquisition by DRDO as per para 8.3) to ensure conformity with the offset guidelines. For this purpose, the vendor may be advised to undertake changes to bring his offset proposals in conformity with the offset guidelines. The TOEC will be expected to submit its report within 4-8 weeks of its constitution.

Technology Acquisition

8.3 Offset Proposals relating to Para 3.1(f) will be assessed by a Technology Acquisition Committee (TAC) to be constituted by the Defence Research and Development Organization with the approval of Scientific Advisor to Raksha Mantri. The assessment will cover both technical as well as financial parameters, including valuation of technology, and also indicate the timeframe and strategy for utilizing the technology. The TAC will send its recommendations, duly approved by SA to RM, to the Technical Manager within a period of 4-8 weeks of its constitution, for incorporation in the TOEC

Report. Guidelines for processing Technology Acquisition proposals are at Annexure-IX to Appendix-D.

Commercial Evaluation

8.4 The Commercial Offset Offer will contain the detailed offer specifying the value of the offset components, with a break down of the details, phasing, Indian Offset Partners and banked offset credits proposed to be utilized. The commercial offset offer will be opened along with the main commercial offer after the TOEC report has been accepted by the Director General(Acquisition). The commercial offset offer will have no bearing on determination of the L-1 vendor.

8.5 The CNC for the main procurement case will verify that the Commercial Offset Offer meets the stipulated offset obligations. Only the commercial offset offer of the L-1 vendor in the main procurement proposal will be evaluated by the CNC. The L-1 vendor may amend the commercial offset offer at this stage, to align the proposal with the technical offset proposal, if required. For evaluation of commercial offset proposals, the CNC will include a representative of DOMW as member. Representatives of DRDO, DPSUs, OFB or other Government institutions will be co-opted as members, as required, with approval of the Director General (Acquisition). The commercial valuation of Technology Acquisition by TAC (refer Para 8.3) will be incorporated in the CNC Report.

Approval Authority

8.6 All Offset proposals will be processed by the Acquisition Manager and approved by Raksha Mantri, regardless of their value. Offset proposals will also be incorporated in the note seeking approval of Competent Financial Authority (CFA) for the main procurement proposal for information of the CFA. The offset contract will be signed by the Acquisition Manager after the main procurement proposal has been approved by the Competent financial Authority. A signed copy of the offset contract will be made available to DOMW.

Model Offset Contract

8.7 A model Offset Contract is at Annexure-IV to Appendix-D. It may be varied depending on the facts and circumstances of each

case. However, any deviation from the standard terms considered necessary by the CNC should be highlighted by the Acquisition Manager while seeking approval of the Raksha Mantri. The offset contract shall be subject to the laws of India.

Six monthly Reports

8.8 The vendor shall submit six monthly reports in the format in Annexure-V to the Defence Offsets Management Wing (DOMW). DOMW may conduct an audit by a nominated officer or agency to verify the actual status of implementation.

Assignment of offset credits

8.9 Offset credits shall be assigned by DOMW after scrutiny of six monthly reports.

Re-phasing of offset obligations

8.10 A vendor may, giving reasons, request re-phasing of the offset obligations within the period of the offset contract. JS(DOMW) may allow the request, if justified, with the approval of Secretary, Defence Production. Re-phasing will not be permitted beyond the period stipulated in Para 5.2 of the guidelines.

Change in IOP or Offset Component

8.11 In exceptional cases, DOMW may recommend change in offset partner or offset component on being convinced that the change is necessary to enable the vendor to fulfill offset obligations. Any change in IOP/offset component of a Tier-1 sub-vendor will have to be forwarded to DOMW through the main/prime vendor. The overall value of offset obligations shall, however, remain unchanged. Any change in the IOP shall be approved by the Secretary (Defence Production). Any change in the offset component will require approval of the Raksha Mantri based on the recommendations of the Defence Procurement Board (DPB).

Offset Contract Amendment

8.12 Any amendments to the offset contract due to changes in paras 8.10 and 8.11 shall be incorporated by the JS, DOMW in the offset contract through a Supplementary Contract. JS(DOMW) shall

intimate such changes to the concerned Acquisition Manager immediately after they have been approved.

Penalties

8.13 If a vendor fails to fulfill the offset obligation in a particular year in accordance with the annual phasing as agreed in the offset contract, a penalty equivalent to five percent of the unfulfilled offset obligation will be levied on the vendor. The unfulfilled offset value will thereafter be re-phased over the remaining period of the offset contract. The penalty may either be paid by the vendor or recovered from the bank guarantee of the main procurement contract or deducted from the amount payable under the main procurement contract or recovered from the Performance Bond of the offset contract. The overall cap on penalty will be 20 percent of the total offset obligation during the period of the main procurement contract. There will be no cap on penalty for failure to implement offset obligations during the period beyond the main procurement contract. The penalties will be administered by DOMW in consultation with Acquisition Wing, as required.

Debarment

8.14 Any vendor failing to implement the offset obligations will be liable to be debarred from participation in future defence contracts for a period up to five years. The debarment will be decided by the Director General (Acquisition) after giving an opportunity to the vendor to present his case.

Clarifications

8.15 Any clarifications relating to offset proposals at the pre-contract stage will be provided by the Acquisition Wing in consultation with DOMW as required. Any clarifications at the post-contract stage will be provided by DOMW in consultation with Acquisition Wing as required.

8.16 Any differences or disputes with vendors will be settled through discussion. The decision of the Acquisition Wing and of the Defence Offsets Management Wing in respect of matters relating to offsets within their respective jurisdiction shall be final.

Annual Reporting to the Defence Acquisition Council

8.17 The Acquisition Wing will submit an annual report to the Defence Acquisition Council in June each year regarding the details of offset contracts signed during the previous financial year. DOMW will also submit an annual report to the Defence Acquisition Council in June each year regarding the status of implementation of all on going offset contracts during the previous financial year.

Miscellaneous Provisions

8.18 It is clarified that any general term/clause that is not included in the offset contract but is included in the main procurement contract (e.g. Force Majeure, Arbitration, jurisdiction of Indian Courts, use of undue influence, agents and agency commission, etc.) would ipso facto apply to the offset contract.

8.19 Defence Offset Guidelines will apply in harmony with and not in derogation of any rules and regulations stipulated by various agencies of the Government of India, including Department of Industrial Policy and Promotion, DG Foreign Trade and Ministry of Finance, etc.

8.20 These Defence Offset Guidelines shall come into force with effect from 1st August, 2012.

Annexure-I

(Refer to Paras 5.10 and 7.1)

UNDERTAKING TO COMPLY WITH OFFSET OBLIGATIONS

1. The Bidder -----(name of the company) hereby
 - i) Undertakes to fulfil the offset obligation as stipulated in the Request for Proposal and Defence Offset guidelines at Appendix-D to Chapter-1 of DPP.
 - ii) Undertakes to ensure timely adherence to fulfilment of offset obligations failing which the vendor will be liable for penalties as per the Defence Offset Guidelines.
 - iii) Accepts that any failure on the part of the vendor to meet offset obligations may result in debarment from participating in future procurement contracts for a period up to five years as may be decided by the Director General (Acquisition).
 - iv) Undertakes to furnish technical and commercial offset proposals as per formats at Annexure-II and III of Appendix-D within the time period stipulated in the RFP.

Note: Failure to submit the Undertaking along with the main Technical Bid shall render the bid non-responsive and liable to be rejected.

Annexure-II
(Refer to Para 7.2 of Appendix-D)

FORMAT FOR SUBMITTING TECHNICAL OFFSET OFFER

1. The bidderhereby offers the following offsets in compliance with the technical offset obligations in the RFP: -

Sl No	Eligible Offset Products / Services Being Offered	Avenue for discharge (quote sub Para of 3.1)	Multiplier applicable (quote applicable Para)	Percentage of Total Offsets	IOP /agency for discharge	Time Frame for Discharge of Offsets	Whether Related to Main Equipment Being Supplied (Yes/No)	Remarks
1								
2								

Note: Vendor to provide following along with technical offset offer: -

- a) Undertaking that IOP is an eligible offset partner as per applicable guidelines.
- b) Company profile of IOP/agency.
- c) Details with quantities of the proposed offset.
- d) Letter of IOP/agency confirming acceptance of the offset project in case of direct purchase or investment.
- e) In case banked offsets are planned to be utilised, their details certified by DOMW.
- f) List of Tier-1 sub-contractors, if any, through whom offset obligations are proposed to be discharged, with percentage of discharge.
- g) Proposals for Technology Acquisition by DRDO under para 3.1(f) of Appendix D should be submitted separately in the format at Annexure IX to Appendix D.

Annexure-III

(Refer to Para 7.2. of Appendix-D)

FORMAT FOR SUBMITTING COMMERCIAL OFFSET OFFER

1. The bidderhereby offers the following offsets in compliance with the commercial offset obligations:

Sl No	Eligible Offset Products / Services Offered	Avenue for Discharge (quote Sub Para of 3.1)	Multiplier Applicable (quote applicable Para)	Percentage of Total Offsets	Value of Offset	IOP / Agency for Discharge	Time Frame for Discharge of Offset	Whether Related To Main Equipment Supplied (Yes/No)	Remarks
1									
2									

Note: Vendor to provide following along with commercial offset offer: -

- a) Undertaking that IOP is an eligible offset partner as per applicable guidelines.
- b) Company profile of IOP/agency.
- c) Details with values of the proposed offset, including details of Tier-1 sub-contractors, if any.
- d) Letter of IOP/agency confirming acceptance of the offset project in case of direct purchase or investment.
- e) In case banked offsets are planned to be utilised, their details certified by DOMW.
- f) Value of investment "in kind" supported by documentary evidence.
- g) Details of the business model for proposals relating to Paras 3.1(c) and (d) of the offset guidelines should be indicated, as applicable

2. This annexure will also be used by the vendor to submit proposals for banking of offsets (Para 2 of Annexure VII of Appendix-D). In such cases Note (e) above will not be applicable.

Annexure IV

(Refer to Para 8.7 of Appendix-D)

OFFSET CONTRACT

Contract No. _____ Dated _____

This Offset Contract entered into this day of _____ hereinafter referred to as the "Effective Date", is by and between

(a) The President of India represented by the Joint Secretary and Acquisition Manager (Land Systems/Maritime Systems/Air) Ministry of Defence, Government of India, New Delhi, hereinafter referred to as the "Buyer" on the one part and

(b) M/s (Name of the Vendor) duly represented by _____ and incorporated under the laws of _____ having its registered office at _____ hereinafter referred to as "Seller" on the other part.

Whereas, the Seller has been awarded a Contract, Contract Number _____ dated _____ for the Project titled _____, and the Procurement Contract stipulates a total amount of _____ to be paid by the Ministry of Defence, Government of India for the provision of the seller's goods and/or services and

The Seller clearly understands and agrees to the Offset Clause given in the RFP and the Defence Offset Guidelines at Appendix-D of Chapter-1 of the Defence Procurement Procedure 2011, referred to as the Defence Offset guidelines.

Now, therefore, the Buyer and the Seller agree as follows: -

(1) The Seller understands and agrees that the Procurement contract No. _____ dated _____ is subject to the fulfilment of the offset obligations laid down in the RFP. The total amount of this Offset Obligation is _____ which is (specified) percent (# %) of the supply contract value.

(2) In the event that the Procurement contract value is increased or reduced, the Seller's Offset Obligation shall be adjusted proportionately.

(3) The Offset start date applicable to the Offset Obligations hereunder shall be the effective date of Procurement contract number _____ dated _____.

(4) The Seller agrees and promises to discharge its Offset Obligations in accordance with the Offset Schedule attached to this contract. The Offset Schedule may not be changed or amended in any way without the prior written agreement of the Defence Offsets Management Wing (DOMW).

(5) Within ninety (90) calendar days from the Effective Date of this contract, the Seller shall, in writing, provide the DOMW, Department of Defence Production, with a copy of the offset programme contracts entered into with Indian offset partners and a list of the Company's official contact persons for all matters related to this agreement and the performance of the Seller's Offset Obligation. The list shall specify the name, mailing address, street address, telephone, and facsimile numbers of the official contact and shall be limited to three (3) official contacts. Any and all communications and correspondence by the DOMW with any of the said official contacts shall be deemed as if by the Ministry of Defence with the Seller.

(6) In the event of force majeure, representative of the DOMW and the Seller's representative will meet to assess progress under the programme prior to the date of the force majeure event and determine a mutually agreeable manner and schedule for fulfilment of the Seller's remaining Offset obligations.

(7) This Contract, and any and all matters relating to the fulfilment of the Seller's Offset Obligations and performance under the programme, shall be interpreted and be subject to the Laws of the Republic of India.

(8) The provisions in the main Procurement contract No. _____ dated _____ regarding arbitration will be applicable to the offset contract.

(9) It is clarified that any general term/clause that is not included in the offset contract but is included in the main Procurement contract (e.g. Force Majeure, jurisdiction of Indian Courts, use of undue influence, agents and agency commission, etc.) would ipso facto apply to the offset contract.

Annexure-V

(Refer to Para 8.8 of Appendix-D)

**SIX MONTHLY REPORT ON
FULFILMENT OF OFFSET OBLIGATIONS**

**REPORT FOR HALF YEAR ENDING 31st December/30th June
(to be rendered by 30th January and 30th July of each
Calendar Year)**

1. MAIN CONTRACT NO AND EFFECTIVE DATE ---
2. BANKING PROJECT ID NO (In case of banking) -----
3. INDIAN OFFSET PARTNER -----
4. OFFSET CONTRACT NUMBER (not required in case of banking)
5. PRODUCT NUMBER AND NAME.....
6. SCHEDULE OF OFFSET OBLIGATIONS AND FULFILMENT

No	Eligible Products/Services Offered	Value of Offset Committed	Date by Which to be Fulfilled	Actual Value fulfilled by reporting date	Remarks including penalties, if any
(1)	(2)	(3)	(4)	(5)	(6)

7. Explanatory notes, if any
8. Supporting enclosures with respect to column 5 above for actual value fulfilled.
9. Utilization of Banked Offset credits, if any, shall be specifically indicated under column 5.
10. Value of investment "in kind" must be supported by documentary evidence.
11. In respect of Technology Acquisition proposals under para 3.1(f) of Defence Offset Guidelines, a copy of this report may also be sent to DIITM/DRDO.

Annexure VI to Appendix D

(Refer to Paras 2.2 and 3.1(a) of Appendix D)

List of Products and Services Eligible for Discharge of Offset Obligations

1. Defence Products

(a) Small arms, mortars, cannons, guns, howitzers, anti tank weapons and their ammunition including fuzes.

(b) Bombs, torpedoes, rockets, missiles, other explosive devices and charges, related equipment and accessories specially designed for military use, equipment specially designed for handling, control, operation, jamming and detection.

(c) Energetic materials, explosives, propellants and pyrotechnics.

(d) Tracked and wheeled armoured vehicles, vehicles with ballistic protection designed for military applications, armoured or protective equipment.

(e) Vessels of war, special naval systems, equipment and accessories to include following: -

- (i) Design, manufacture or upgrade of weapons, sensors, armaments, propulsion systems, machinery control systems, navigation equipment/instruments other marine equipment and hull forms of warships, submarines, auxiliaries.
- (ii) Facilities and equipment required for testing, certification, qualification and calibration of hull forms, platform, propulsion and machinery control systems, weapons sensors and related equipment including enhancement of stealth features and EMI/EMC studies for warships, submarines and auxiliaries.
- (iii) Software specially designed, developed and modified for design of all types of warships, submarines and auxiliaries or their hull forms.
- (iv) Setting up of maintenance and repair facility for equipment/weapons and sensors and other marine systems including related technical civil works.

(f) Aircraft, unmanned airborne vehicles, aero engines and air craft equipment, related equipment specially designed or modified for military use, parachutes and related equipment.

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

(h) Specialized equipment for military training or for simulating military scenarios, specially designed simulators for use of armaments and trainers and training aids viz. Simulators, associated equipment, software and computer based training modules.

(i) Forgings, castings and other unfinished products which are specially designed for products for military applications and troop comfort equipment.

(j) Miscellaneous equipment and materials designed for military applications, specially designed environmental test facilities and equipment for the certification, qualification, testing or production of the above products.

(k) Software specially designed or modified for the development, production or use of above items. This includes software specially designed for modelling, simulation or evaluation of military weapon systems, modelling or simulating military operation scenarios and Command, Communications, Control, Computer and Intelligence (C4I) applications.

(l) High velocity kinetic energy weapon systems and related equipment.

(m) Direct energy weapon systems, related or counter measure equipment, super conductive equipment and specially designed for components and accessories.

2. Products for Inland/Coastal Security

- (a) Arms and their ammunition including all types of close quarter weapons.
- (b) Specialised Protective Equipment for Security personnel including body armour and helmets.
- (c) Vehicles for internal security purposes including armoured vehicles, bullet proof vehicles and mine protected vehicles.
- (d) Riot control equipment and protective as well as riot control vehicles.
- (e) Specialized equipment for surveillance including hand held devices and unmanned aerial vehicles.
- (f) Equipment and devices for night fighting capability including night vision devices.
- (g) Navigational and communications equipment including secure communications.
- (h) Specialized counter terrorism equipment and gear, assault platforms, detection devices, breaching gear etc.
- (i) Specialised equipment for Harbour Security and Coastal Defence including seabed/maritime surveillance sensor chains, sonars, radars, optical devices, AIS.
- (j) Vessel Traffic Management Systems (VTMS/VATMS) and appropriate vessels/crafts/boats.
- (k) Miscellaneous maritime equipment for undertaking investigations, Boarding, Search and Seizure of ships/vessels.
- (l) Software specially designed, developed and modified for all types of Coastal and Maritime security domain awareness, operations and data exchange.
- (m) Training Aids viz simulators, associated equipment, software and computer based training modules.

3. Civil Aerospace Products

- (a) Design, Development, Manufacture and Upgrade of all types of fixed wing and rotary wing aircraft or their airframes, aero engines, avionics, instruments and related components.
- (b) Composites, forgings and castings for the products.
- (c) Training Aids viz. Simulators, associated equipment, software and computer based training modules.
- (d) Guidance and Navigation equipment.
- (e) Test facilities and equipment required for testing, certification, qualification and calibration of the above products.
- (f) Software specially designed, developed or modified for the above products.

4. Services (related to eligible products)

- (a) Maintenance, repair and overhaul.
- (b) Up gradation/life extension
- (c) Engineering, design and testing.
- (d) Software development.
- (e) Quality assurance.
- (f) Training.
- (g) Research and Development services (from government recognised R&D facilities).

Note: Investment in civil infrastructure is excluded from the list of eligible products and services, unless specifically indicated.

ANNEXURE VII TO APPENDIX-D

(Refer to paras 3.2 and 5.8 of Appendix-D)

GUIDELINES FOR OFFSET BANKING

1. Banking of offset credits shall be permissible only in respect of offsets stipulated in paras 3.1 (a), (b), (c) and (d) of Appendix-D.
2. The proposals for banking of offsets will be submitted to DOMW by the vendor in the format at Annexure-III to Appendix-D. Credits for offset banking will be provided only for contracts entered into on or after 1-9-2008. In respect of contracts entered into between 1-9-2008 and 31-3-2012, the vendor shall be required to apply for banking offset credits by 31.3.2013. In respect of contracts entered into after 31-3-2012, the vendor shall be required to apply for banking offset credits within one year of completion of the transaction.
3. A unique Project Identification Number will be allotted to each proposal by DOMW.
4. Banked offset credits are non-transferable except between the main contractor and his Tier-I sub-contractors within the same procurement contract.
5. Offset credits will be assigned for banking of offsets only after completion of the transaction. Date of completion of transaction will be the date of invoice or the date of payment whichever is later, in case of purchase of goods/services; date of financial transaction in case of equity investment; and date of commissioning of equipment/technology in India in case of investment "in kind" supported by documentary evidence. Banked offsets will be credited based on the foreign exchange value at the time of completion of the transaction.
6. Banked offset credits will be valid for a period of seven years from the date of acceptance by DOMW.
7. If a vendor is able to create more offsets than his obligation under a particular contract, the surplus offset credits can be banked and would remain valid for a period of seven years from the time surplus credits are recognized and accepted by DOMW.
8. Applications for banking of offset credits shall normally be disposed off by DOMW within 8 weeks.

Annexure VIII to Appendix-D
(Refer para 3.1(f) of Appendix-D)

**List of Critical Defence Technology Areas and Test facilities
for Acquisition by DRDO through Offsets**
(To be reviewed periodically)

Critical Technology Areas*

1. MEMs based sensors, actuators, RF devices, Focal plane arrays.
2. Nano technology based sensors and displays.
3. Miniature SAR & ISAR technologies.
4. Fiber Lasers Technology.
5. EM Rail Gun technology.
6. Shared and Conformal Apertures.
7. High efficiency flexible Solar Cells technology.
8. Super Cavitations technology.
9. Molecularly Imprinted Polymers.
10. Technologies for Hypersonic flights (Propulsion, Aerodynamics and Structures).
11. Low Observable Technologies.
12. Technologies for generating High Power Lasers.
13. High Strength, High-modulus, Carbon Fibers, Mesophase pitch-based fiber, Carbon Fiber Production Facility.
14. Pulse power network technologies.
15. THZ Technologies.

*Visit DRDO website (www.drdo.org) for more details.

Annexure-IX to Appendix-D

(Refers to para 5.12 and 8.5 of Appendix D)

GUIDELINES FOR TECHNOLOGY ACQUISITION

1. Technology Acquisition (TA) proposals are a valid method for discharge of offset obligations under para 3.1(f) of Appendix-D.
2. All offset proposals will be submitted by the vendors to the concerned Technical Manager in Acquisition Wing as per para 7.2 of the Defence Offset guidelines. Proposals submitted under para 3.1(f) of Appendix-D will be clearly indicated by the OEM and submitted in a separate envelope in the format appended to this Annexure.
3. The Directorate of Industry Interface and Technology Management (DIITM) in the DRDO will be the nodal agency for all matters related to Technology Acquisition by DRDO. All TA proposals will be forwarded by the Technical Manager to the DIITM/DRDO. Each proposal under this category will be given a unique identification number by DIITM/DRDO prefixed by "TA" to indicate Technology Acquisition.
4. DRDO will establish a Technology Acquisition Committee to be serviced by DIITM. The TAC will be a multi-disciplinary technology evaluation committee, comprising domain experts from the concerned laboratories, other national S&T laboratories, Service Headquarters, HQ IDS, members from academia and research institutions, Additional Financial Adviser (DRDO), and other organizations as deemed necessary, specific to each proposal received. TAC could seek the services of professional bodies for valuation of technology, if required.
5. TAC will process cases acceptable as valid offset proposals after initial screening. If the TAC in its assessment feels that the technology so indicated is already available and/or is of no further use by the DRDO, it may reject the proposal and intimate the Technical Manager. Recommendations of TAC will be incorporated in the TOEC report under Para 8.1 of the Offset Guidelines.
6. The TAC may call for a presentation and detailed technical discussions with the OEM/vendor to understand various aspects of the proposal. Where necessary, the TAC may visit the vendors' premises to make an assessment of the technology offered.

7. TAC will make its recommendations based on viability of the proposal, the technology implications, options for availability of the technology, range and depth of acquisition indicated, absorption capability in the country, status of IP before, on and after acquisition and a fair assessment of the cost of technology. The TAC will recommend a multiplier up to 3, with detailed justification, as indicated in Para 5.12 of the Offset guidelines.

8. Recommendations of TAC will include the following:-

(i) Merits of the Technology Acquisition proposal, including time frame for absorption, with phasing.

(ii) Value of offset credits to be assigned for the proposal with detailed justification.

(iii) Indicate the time frame, modalities and potential for utilisation of the technology.

9. Offset credits will be assigned by DOMW after completion of TA, as certified by DRDO.

10. TAC will forward its recommendations to the Technical Manager after approval by SA to RM within a period of 4-8 weeks of its constitution.

FORMAT FOR SUBMISSION OF
TECHNOLOGY ACQUISITION PROPOSALS

The format for submission of Technology Acquisition proposals should address the following aspects:

- The proposal should clearly state that it is under Technology Acquisition category.
- Background of the proposal.
- Technology offered with key elements of technology indicated.
- Components of technology and the nature of transfer.
- Basic infrastructure required for absorption including technical manpower.
- Patents held and status of IPs.
- Development status and contemporary nature of the technology.
- Status of requisite government approvals.
- Present use of said technology in home country and its Armed Forces.
- Possible applications.
- Offset credits claimed.
- Any other relevant aspect.

ACRONYMS

CCS	-	Cabinet Committee on Security
CNC	-	Contract Negotiation Committee
DAC	-	Defence Acquisition Council
DDP	-	Department of Defence Production
DIITM	-	Directorate of Industry Interface and Technology Management DRDO
DOFA	-	Defence Offsets Facilitation Agency
DOG	-	Defence Offset Guidelines
DOMW	-	Defence Offsets Management Wing
DPB	-	Defence Procurement Board
DPP	-	Defence Procurement Procedure
DPSU	-	Defence Public Sector Undertaking
DRDO	-	Defence Research and Development Organization
FDI	-	Foreign Direct Investment
IDS	-	Integrated Defence Staff
IOP	-	Indian Offset Partner
MOD	-	Ministry of Defence
MSME	-	Medium, Small and Medium Enterprises
MTOT	-	Maintenance TOT
OEM	-	Original Equipment Manufacturer
OFB	-	Ordnance Factory Board
RFP	-	Request for Proposal
SA to RM	-	Scientific Advisor to Raksha Mantri
SCAPCHC	-	Service Capital Acquisition Categorization High Committee
TA	-	Technology Acquisition by DRDO
TAC	-	Technology Acquisition Committee
TEC	-	Technical Evaluation Committee
TOC	-	Technical Oversight Committee
TOEC	-	Technical Offsets Evaluation Committee
TOT	-	Transfer of Technology