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EDITORIAL ANALYSIS

Off With Offset Training Wheels: The End of India's Defence Offset Era

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INTERVIEW ANGLE

"Offsets were meant to buy India technology and instead bought it purchase orders. Was that a policy failure, or did the policy quietly deliver something more useful than what it promised?"

Source: Original editorial ↗ The Economic Times

Every fact web-verified against primary sources

THE LIFT LINE

India asked foreign arms makers for technology and let them pay in purchase orders. They paid in purchase orders. Twenty years on, those orders built an export industry nobody designed, and the policy that created it is being switched off.

WHY THIS EDITORIAL MATTERS FOR YOUR EXAM

Defence indigenisation is a standing GS3 theme, and this piece supplies the exact numbers, dates and instrument names that turn a generic answer into a specific one. It also models a valuable analytical habit: distinguishing what a policy **promised** from what it **produced**.

GS Paper 3: Defence industry and indigenisation; achievements of Indians in science and technology; industrial policy and the role of the private sector.

BACKGROUND AND CONTEXT

India introduced a **defence offset policy in 2005**. Under it, a foreign vendor selling India an imported defence platform above a threshold value must plough back **30 per cent of the contract value** into the Indian defence sector, through one of three routes:

1. **Reverse purchase** of Indian components and services
2. **Investment in joint ventures** in India
3. **Transfer of technology**

The policy intent was clearly the third. The permitted menu included the first.

Draft Defence Acquisition Procedure (DAP) 2026 removes offsets entirely and replaces them with a **minimum indigenous content requirement of up to 30 per cent on global buys**.

THE ANALYSIS

The Public Accounts Committee finding, and where the commentary parts company with it

The **PAC report tabled last month** recorded that, as of **December 2025**, about **45 per cent of offset obligations remain unfulfilled**, roughly **4.5 billion dollars out of 9.9 billion**. It flagged poor execution and weak monitoring, and it faulted the Ministry of Defence for failing to secure significant technology transfer.

The commentary accepts the first criticism and rejects the second, on a simple ground: **from 2007 to March 2018, 90 per cent of offset value was contracted to be discharged through direct purchases.** When a rule lets a vendor satisfy an obligation the cheap way, the vendor takes the cheap way. Blaming the ministry for the vendor's rational choice mistakes the design flaw for an administrative one.

This is the analytical move worth copying. An instrument that offers three routes to the same credit will be discharged through the least costly route. If the state wanted technology, it had to price technology differently, or require it.

What offsets actually built

MEASURE	FIGURE
First offset contract	**2007**, with Israel's **Elta Systems**
Offset contracts signed since	**56**
Business given to Indian industry	**13.2 billion dollars**
Contracts completed and closed	**20** (another 10 completed, under final audit)
Remaining obligation	**9.9 billion dollars**, to be met by **2033**
Indian Offset Partners	More than **350**
Of which MSMEs	Almost **40 per cent**
Of which private companies	More than **95 per cent**

The joint ventures are the visible legacy: **Lockheed Martin with Tata (2010**, against the 2009 C-130J obligation), **Boeing with Tata (2016**, against the 2015 AH-64E Apache sale), and **Dassault and Thales with Reliance (2017**, against the 2016 Rafale sale).

So the honest verdict is split. Offsets **failed at their stated objective** and **succeeded at an unstated one**: they pulled Indian private firms into global defence supply chains as qualified suppliers, which is a slower and less glamorous form of capability than technology transfer, and possibly a more durable one.

The winding down, and why the timing is delicate

MILESTONE	WHAT HAPPENED
2016	Offset thresholds raised nearly **sevenfold**; domestic procurement prioritised
2020	**Government-to-government** agreements and single-vendor purchases **exempted** from offsets
Last 5 years	**No offset contract signed**
Draft DAP 2026	**No offset provisions**; indigenous content of up to **30 per cent** on global buys

The effect is that **every import will now carry a Make in India component**, which is arguably a stronger instrument than an offset. The **2025 Rafale-Marine government-to-government deal** shows the model: Dassault is establishing a **Rafale fuselage manufacturing plant with Tata**, and an **MRO facility** of its own.

The number that should worry policymakers

India's defence exports have grown **56 times from 2013-14 to Rs 38,424 crore in 2025-26**, against a target of **Rs 50,000 crore by 2029**.

The paradox in that headline is that **most defence production comes from DPSUs, but most exports come from private companies**. Between 2017-18 and 2024-25 the private sector share of exports ranged between **57 and 91 per cent**.

Then, in **2025-26, the private share fell below 50 per cent for the first time since 2017-18, to 45 per cent**, because DPSU exports surged 151 per cent. Read alongside pending offset obligations falling to **under 3.2 billion dollars** and no new offset contracts coming, this is the first visible sign that the pipeline that carried private firms into global supply chains is emptying.

No official estimate exists of how much private defence export is attributable to offsets. That gap is itself a governance finding: the state cannot evaluate a policy whose principal effect it never measured.

DATA AND INSTITUTIONS VAULT

PRELIMS-GRADE FACTS:

India's defence offset policy dates to 2005; the standard obligation is 30 per cent of contract value, discharged by reverse purchase, joint-venture investment or technology transfer.

PAC report, tabled July 2026: as of December 2025, about 45 per cent of offset obligations, roughly 4.5 of 9.9 billion dollars, remain unfulfilled.

2007 to March 2018: 90 per cent of offset value was to be discharged through direct purchases.

First offset contract: 2007 with Elta Systems (Israel); 56 contracts since, worth 13.2 billion dollars to Indian industry.

Offset thresholds raised nearly 7x in 2016; G2G and single-vendor deals exempted in 2020; no offset contract in the past five years.

Draft DAP 2026 removes offsets and mandates indigenous content of up to 30 per cent on global buys.

Defence exports: Rs 38,424 crore in 2025-26, a 56-fold rise from 2013-14; target Rs 50,000 crore by 2029.

Private sector share of defence exports fell to 45 per cent in 2025-26, below half for the first time since 2017-18, as DPSU exports rose 151 per cent.

About 145 Indian firms export defence products to more than 80 countries.

The Public Accounts Committee has 22 members (15 Lok Sabha, 7 Rajya Sabha), is chaired by convention by a member of the Opposition, and examines the Comptroller and Auditor General's audit reports.

an **offset** *and an* **indigenous content requirement** *are different instruments. An offset obliges the* **foreign vendor** *to put value back into India by any of several permitted routes, and can be discharged by simply buying Indian components. An* **indigenous content mandate** *fixes the share of the* **platform itself** *that must be made in India. The second is harder to satisfy with a purchase order, which is precisely why DAP 2026 shifts to it.*

DPSU *(Defence Public Sector Undertaking) and* **OFB** *are not the same thing. The Ordnance Factory Board was* **dissolved in 2021** *and its units corporatised into* **seven new DPSUs**.

THE DEBATE

For ending offsets: they never delivered technology, they created a monitoring burden the ministry could not carry, 45 per cent of obligations sit unfulfilled, and indigenous content requirements target the real objective directly.

For retaining some form of them: offsets were the mechanism by which more than 350 Indian firms, most of them private and many MSMEs, entered global defence supply chains at all. Indigenous content mandates build **domestic production**; they do not automatically build **export access**, because a fuselage plant serving the Indian Air Force is not the same thing as a place in Dassault's global supply chain.

The unresolved question, and it is the commentary's real point: offsets were training wheels for the Indian private defence sector. Removing them is right if the sector can now ride. The 2025-26 export share suggests that is not yet settled.

HOW TO THINK ABOUT THIS

The transferable frame: **a policy is discharged through its cheapest permitted route, not its stated purpose.** Whenever you evaluate a compliance obligation, list the routes the rule allows and ask which is cheapest for the regulated party. That is what will happen, whatever the objective says.

This explains far more than defence offsets. It explains why corporate social responsibility spending clusters in the easiest categories, why environmental compensation favours compensatory afforestation over avoidance, and why local-content rules get met by final assembly.

The second, subtler lesson: **evaluate a policy against what it produced, not only against what it promised.** Offsets failed their objective and built an industrial base. Both are true, and an answer that reports only one is incomplete.

WAY FORWARD

1. **Measure what offsets actually produced**, since no official estimate exists of the share of private defence exports attributable to them, and the policy is being retired without that evidence.
2. **Build an export framework to replace the offset pipeline**, using **government-to-government agreements and sovereign guarantees** for exports, as India has done successfully for imports.
3. **Extend the C-295 model**, where the 2021 Airbus contract permits export of India-made aircraft to third countries with government approval, so domestic production lines are export-capable by design.
4. **Protect MSME suppliers through the transition**, since almost 40 per cent of Indian offset partners are MSMEs and they have the least capacity to absorb a pipeline shock.

5. **Recover the outstanding 4.5 billion dollars**, because closing the policy does not extinguish obligations that run to 2033.

PYQ LINKAGE AND PRACTICE

Connects to standing themes on **defence indigenisation**, **Make in India**, and **the role of the private sector in strategic industries**. Practice question: *"India's defence offset policy failed to deliver technology transfer but succeeded in building a supplier base. Critically examine, and assess the implications of replacing offsets with indigenous content requirements."*

Source: Off With Offset Training Wheels: The End of India's Defence Offset Era — Ujiyari.com | Free UPSC & State PCS Editorial Analysis

KEY ARGUMENTS AT A GLANCE

The Economic Times commentary argues that the Public Accounts Committee is right that about 45 per cent of India's defence offset obligations remain unfulfilled but wrong to fault the Ministry of Defence for failing to secure technology transfers through offsets, because foreign vendors were always going to discharge offsets by the cheapest permitted route, and that with draft DAP 2026 replacing offsets entirely with minimum indigenous content requirements the live question is no longer whether offsets worked but whether the Indian private defence industry that grew on offset orders can sustain exports once that pipeline runs dry.

✓ SUPPORTING

- From 2007 to March 2018, 90 per cent of the value of offsets was contracted to be discharged through direct purchases of products and services rather than technology transfer, so expecting meaningful technology transfer from the instrument was always unrealistic given that vendors could choose the route.
- Offsets nonetheless built an industrial base, giving Indian industry 13.2 billion dollars of defence business across 56 contracts and creating more than 350 Indian offset partners, almost 40 per cent of them MSMEs and more than 95 per cent private companies.
- The pipeline is closing, with no offset contract signed in the past five years and pending obligations drawn down to under 3.2 billion dollars, and 2025-26 already saw the private sector share of defence exports fall below 50 per cent for the first time since 2017-18.

✍ MAINS ANSWER FRAMEWORK

QUESTION

India introduced defence offsets in 2005 to secure technology transfer and is now replacing them with indigenous content requirements. Evaluate what offsets achieved and what the shift to indigenous content mandates implies for India's defence export ambitions. (250 words)

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