

INDIA LEAVES OUT OFFSET CLAUSE FOR S-400

Relevant for: International Relations | Topic: India - Russia

The Rs. 40,300-crore deal between India and Russia for five S-400 air defence missile systems does not have any offset clause. India has decided to drop it so as to advance deliveries, though it was Russia that initially did not want offsets.

“They [Russia] agreed for offsets later, but we decided not to include them as it would drive up the cost and delay the delivery schedule,” a defence source said.

On schedule

As per the schedule, Russia will start deliveries after 24 months, which is 2020-end. Contract negotiations started after an inter-governmental agreement was concluded in October 2016. Speaking to a group of presspersons at Aero India 2017 in Bengaluru, Victor N. Kladov, director, international cooperation and regional policy, Rostec State Corporation of Russia, said there was no offset component in the S-400 deal and this would be a “strategic system” and “no offset package is the best choice” because it would cause delays.

Under the defence procurement procedure, deals worth Rs. 2,000 crore or more have a 30% offset clause. This is meant to bring technologies to the country and build domestic defence manufacturing capabilities. As a result, manufacturers add the cost of fulfilling the offset obligations to the deal.

Strict criteria

In an indication of the tough bargain India has to take up for a sanctions waiver under the Countering America's Adversaries through Sanctions Act (CAATSA), a spokesperson of the U.S. State Department said on Saturday that there were “strict criteria” for a waiver, and urged all its allies and partners to “forgo transactions” with Russia.

“The waiver authority is not country-specific. There are strict criteria for considering a waiver. The waiver is narrow, intended to wean countries off Russian equipment and allow for things such as spare parts for the previously purchased equipment,” the spokesperson said, without any reference to India.

The spokesperson said a focus area for the implementation of the CAATSA would be “new or qualitative upgrades in capability,” including the S-400. The recent sanctions on a Chinese government entity for an S-400 delivery underscored the seriousness of the Donald Trump administration's resolve.

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