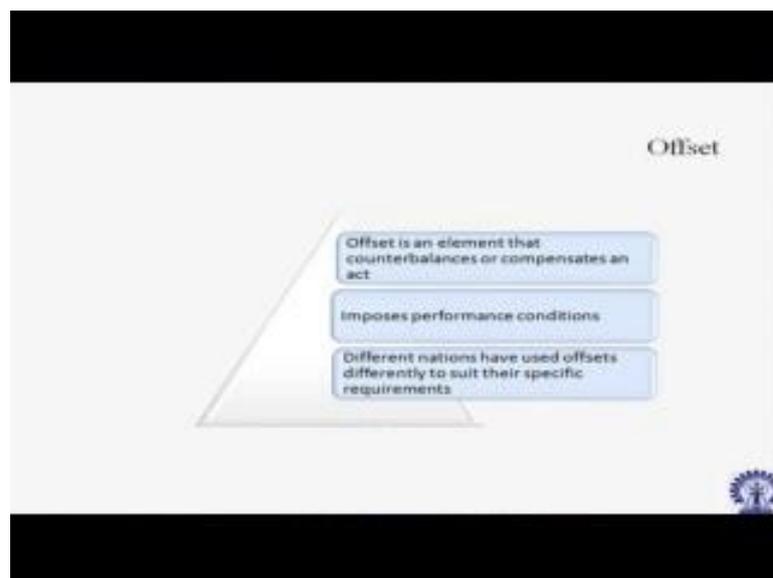


Technology Transfer through Joint Venture
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Lecture – 20
Offset and SPV

I welcome you in last lecture of this course, and lecture twentieth regarding technology transfer through strategic alliance and joint venture. And I am discussing the module with you relating to special purpose vehicle, and to be more precise I am in offset JVS and S P V. Now, you might be wondering what is this offset is all about.

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And then what is the relation of the S P V, or why I have started about this particular offset. Now you will find offset is generally used with the joint venture, and under the present government policy offset is promoted in a different segment now. Previously in India the offset was promoted for the defense manufacturing, or defense equipment manufacturing, but you will find that now the government is promoting indirect offset in a different segment.

Now, offset means, is a kind of reciprocation, relating to the procurement; that means, in

case of the procurement what happen, you basically purchase the good or imports a good from the outside country, and in case of the offset what you try to do is, you try to procure this particular good locally, or you give the guarantee that somewhere you are going to procure this particular good locally with the particular specification and the quantity on the percentage, or may be some terms which will be the part of the offset equipment itself. So, offset is an element that counter balances or compensates an act; that means, you know, let us imagine like this, if a foreign company brings a technology in India in the defense sector, and that particular technology is going to manufacture the defense vehicle, then government may assure that out of these particular manufacturing maybe 20 percent of the vehicle or 30 percent of the vehicle government will purchase.

So, it is kind of a compensating of the acts which we are doing, or imposes a performance condition; that means, you know they said that well you we will allow you to you know manufacture a particular you know product in the country, again it can be the defense product and you have to give or satisfy the internal requirement, and whatever you will be left you can go and export the particular product. So, that type of condition also possible. And you will find you know government generally promote this particular sector, but that particular market or manufacturing segment is not ready, or the government is interested to promote that particular manufacturing segment. Now you will find that this particular policy is in implementation of relating to manufacturing of electronic goods, it is relating to the defense, even you will find it is relating to some of the, you know railway equipments.

So, this kind of performance condition is being imposed around the present condition. Now, you will also find the different nation has used the offset in different manner, and there is no such you know definite model available for the offset. Only thing is that the understanding is very clear should the offset be basically a, you know try to give, kind of assurance, or try to counterbalance or compensate a particular act which I have talked to you in the beginning.

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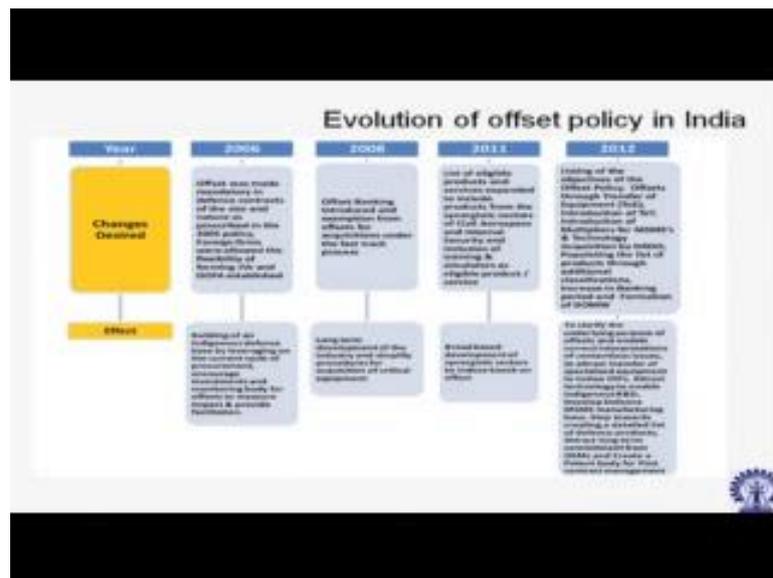
Now, what is the significance of the offset at present in India the opportunity for India to provide a growth impetus to the manufacturing sector? And I believe you might have read and you might have heard from Prime Minister. He is telling everywhere that India should be manufacturing hub, but at the same time he is telling that we have to have all the conditions right. So, that India should not be polluting the environment to be a manufacturing hub, but India should be a major manufacturing hub for the world, because India have large amount of a skilled people, at the same time India has a large you know land or the place where this particular factory can be put up, and the same time India is well connected with the different part of the world, in either trough it is port or through it is you know airports all these places. So, you know India is a very suitable place and India want to be a manufacturing hub for the world tomorrow which China could achieve.

So, that you know there can be internal growth, employment generation and so much and so forth. And for the foreign you know entrepreneurs or the you know companies who are entering into the manufacturing arrangement they feel quite comfortable, when we you know they go through or they incorporate S P V as an offset, because they always want some kind of an assurance of the technology who is they are perceiving from the legal, from the protection, from the legal and regulatory aspect or the commercial leaks

which it might be exposed off. So, if any company is bringing the technology relating to production of a defense helicopter, or maybe production of a defense truck, or maybe defense you know rifle, or a revolver and all this particular thing they might want that you know there should be a kind of a protection, they should not be entering into this particular market, or if it is an electronic goods you know there can be kind of a protection.

So, the moment you know government is giving kind of a guarantee they feel very comfortable, because please remember one of the concern which we heard in different forum or there is a discussion in the different forum, all over the world relating to India that the enforcement of intellectual property is India is not very conducive, and many people even feel very uncomfortable, when they basically talk about transfer of technology, because they are not sure about the contract enforcement as well as the enforcement of intellectual property in the country, or how much time it will take, or the time it take or the kind of remedy it gives is it commercially viable. So, these the moment you know we said that well you come out with the you know offset joint venture, it gives you a kind of a comfort though these you know foreign entrepreneur.

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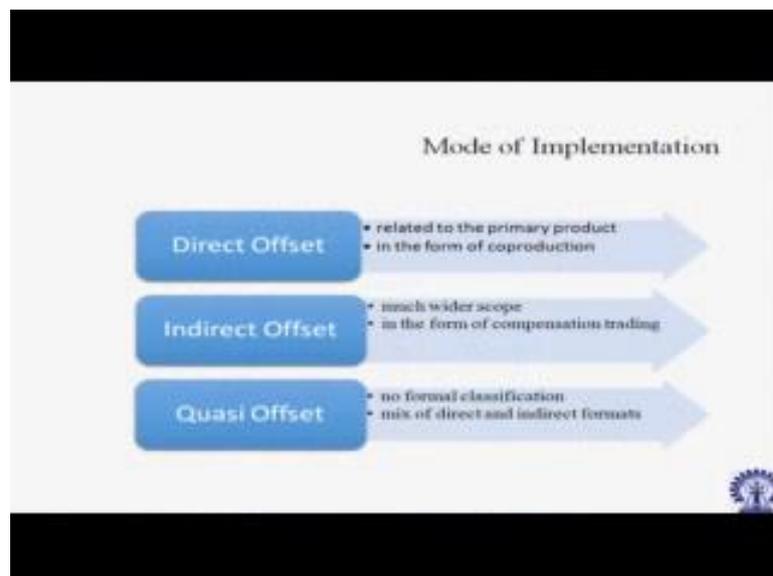


Now, here in this chart is not procured by me it is basically standard chart taken from

some other places. and you can see this how this you know evolution of the offset policy happened in India, and it is approved 2011, but you will find still there is further development in the recent year, and you will find there is, you know more thing which is added in case of the offset policy.

Now, in case of the major duration which is taken in case of offset, is 2008 you will find there is offset banking has been introduced, so that you know there can be a financing through the S P V or the joint venture incorporation. and you know they have also talked about the list of product which is eligible for this particular offset, and you will find it relating to the civil aerospace or internal security, or you know other product which can be developed out of this particular offset, and you will find in defense sector today there is a major policy change in a related to the offset, and they have come out with a recent guideline I believe the guideline is 2015, and relating to that transfer of that technology, and how the government is ready to promote the offset through the joint venture, or the process of the incorporation. So, offset is going to be a tomorrow's attraction for the purpose of joint venture, and the incorporation of S P V.

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Now, there is a three mode generally you know standardized three mode is related to offset; the first mode is a direct offset, it is basically related to a particular product or

primary product, and in form of a co production. So, it basically targets a particular segment or particular sector. So, it is not open, but it is basically given a particular sector like you know, it might be simply production of defense helicopter something like this. Now when you talk about the indirect offset where in, you are basically giving a wider scope, and whatever the production is coming out of this particular offset, it might be utilized in different purposes. Like you know let us give the example of sensor technology. Now, sensor technology can be used for a different purposes, it can be used in defense vehicle, it can be used in a normal vehicles, it can be used for any security purposes so much so forth.

So, there in what we talk about that, there is short of a form of compensation trading; that means, you know it can be very wider in nature, and then there is a quasi offset. There is a no formal classification for the quasi offset, it is basically direct as well as indirect or mix of both kind of this offset. So, you know in generally you might have this particular three offset, and you can choose according to the segment you are entering in, and then you can look into the policies of the offset into that particular sector, and what kind of concession or the benefit which you might get out of this particular offset, because as I have told you in case of the offset there is a always as assurance.

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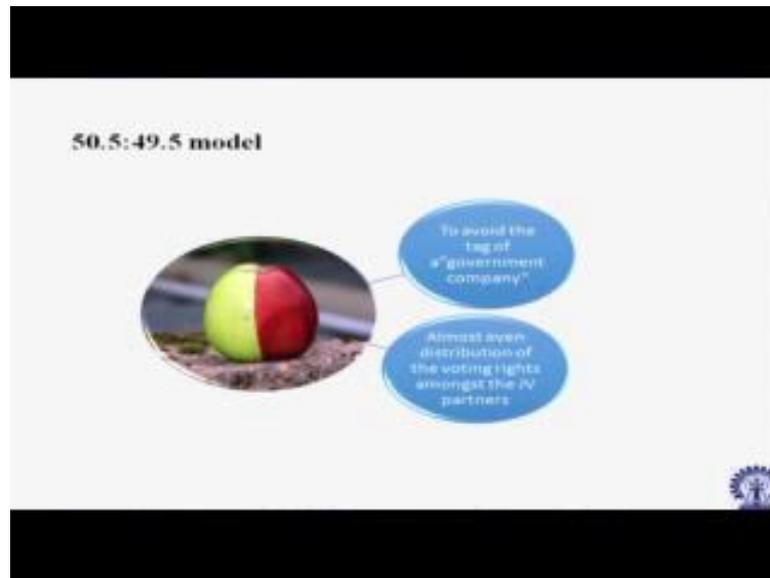
Now, here in I have listed about you know some options of discharge of offset. Now sometimes it can be a co development or co production. it can be a joint research which you wanted to do, or you wanted to build up on a particular product; like you know you might have a middle range missile, and then you think that well this particular mid range middle range missile can be further made intelligent, or it can be more specific towards the target and there is some kind of research which you can do on that.

So, you can do this particular thing. Sometimes it can be a sub contracting. sub contracting in the sense that you will manufacture best on the specification which is supplied to you, and then you are going to deliver that particular finished good to the offset, you know the venturer or the offset partner like you know, may be it might come out of the strategic partners and you will find this is quite common in in case of security intelligent, or security surveillance kind of product, and it is quite common now.

Now it can be a contract manufacturing; that means, you know technology has been transferred to you and license has been given to you, and it has been given with a specific period, and with a specific specification, and you need to you know carry forward according to this particular specification. Now it can be joint venture which I have to talk with you, or is it licensed production licensed production; that means, you know, it can be you can go on producing that particular goods which I have talked with you either under the contract manufacturing, or maybe under this sub contracting.

But when you are talking about the license production we basically understand that not only the technology has been transferred, but somehow the know, how of that particular technology or how to utilize that particular technology is been transferred, but please do remember there is always a restriction, and there is an always you know a boundary condition in this case, unlike in case of the joint venture, because in case of the joint venture what we said it is mode structure, and it is easy for absolving the technology.

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Now, in case of the offset, you will find there is a concern which many of the public sector undertakings are facing, that how can they constitute a joint venture which is not a public company, because once a joint venture is a public company, or in a you know offset the government is participating, then they are facing the problem relating to the restriction which is imposed by the government company, relating to the compliance and this compliance are generally emanate from the constitution, because they need to follow the natural justice process, even if they are going for any particular contract or negotiating the contract, or entering into a contract, or implementing the contract.

At the same time we will find, the moment the government is holding the moment is government holding more than 51 percent stake in that particular joint venture, it is identified as a government company, and there is a certain compliance requirement even under the companies act as well as other law itself. . So, this is became a concern for the many public sector undertakings who wanted to compete with other private market player, and there is a several kind of you know model which has been experimented for the purpose of the offset, as well as the S P V. One of the model which is now getting more popular is a 50.5, and 49.5.

Now to be a government company you need to be a 51 percent of the holding, and you

know if you are just having a 5 percent less holding, or 0.5 percent less holding, then in that case you basically fall short of a government company, and in this case even the government has a majority stake, the government it is not fall within the you know definition of the word government company. And it is also almost even distribution of the voting right an amongst a joint venture partner.

So, in case of the offset where the government is joining and where only the two partner is there, or in that particular circumstances they are going for this kind of a model of 50.5 and 49.5, and this particular model has been experimented only by some of the government agencies. Apart from this particular model, there are several other models which have been developed in India, and this model may be based on the sector investment cap, which has been allowed by foreign investment policy or the sector regulatory in a particular domain. So, it might be even forty thirty, or it might be even 30 25, and you know there might be remaining; that means, 80 remaining 20. So, you know there is different kind of model which you will find is happening.

When I am talking about the model it is basically the equity holding and allocation and the ownership into that particular joint venture agreement, and ultimately when you are incorporating that particular joint venture agreement in corporation or in a company joint venture company, and if you are having the offset joint venture, then in that case you have to you know follow that particular offset policy of that particular sector itself. So, if you wanted to join the offset policy. I mean if any public sector company joins an offset policy, and they wanted to stay out of the tag of the government.

So, that they can leverage their position against the other private player into the market, they should think about the equity participation and accordingly they can incorporate the company. So, this is all about the technology transferred through the joint venture, and I believe it will going to be some improve your understanding relating to this particular area, and you might further referred different documents which is publicly available on this particular segment, and also you know you can go ask more question. So, that we can you know answer it out relating to this particular issues.

Thank you.