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DEFENCE OFFSET POLICY

1. Preamble

- 1.1. "Defence Offset Policy" is issued by Ministry of Defence Production (MoDP), Government of Pakistan.
- 1.2. As per aforesaid policy, all foreign suppliers, whether State owned/Private/Semi Government/Defence conglomerates/ Group of Companies / Consortia's etc entering into a contract with Ministry of Defence Production for supply of defence goods & services for the Armed Forces of Pakistan shall be mandated/obliged to sign, execute & implement an "Offset Contract", as and when the Supply contract(s) exceeds the prescribed limit as stipulated in the said policy.
- 1.3. As per policy, all foreign suppliers those who supply Defence goods & services to MoDP through their local agents, local representatives and local defence companies or otherwise shall be mandated to sign, execute and implement the "Offset Program(s)" as stated above.
- 1.4. The "Defence Offset Policy" and the "Offset Contract / Agreement" shall be signed executed & implemented strictly in accordance with the policy.
- 1.5. The "Defence Offset Policy" shall be effective with effect from **15-10-14**. Ministry of Defence Production (MoDP) shall be the single offset authority for management of "Offset" Program(s), in the country accruing out of defence procurement(s).
- 1.6. Ministry of Defence Production (MoDP) reserves the right to effect amendment(s) in the policy as and when required and to decide about their date of being effective.

2. Offset Contract

- 2.1. Offset contract is the contract signed between the Contractor and DP organization/DPEs, duly represented by Offset Contract Concluding Authority (OCCA) as a sequel to the Procurement Agreements/Contracts which determines the terms & conditions' regarding the realization of contractor's offset obligations.

- 2.2. Offset contract becomes obligatory when the threshold of Procurement Agreement / Contract(s) equal to or exceeds US\$ 15 Mn.

Objectives

- 3.1. To offset the negative effect of purchase (through foreign procurement contract) on the Trade Balance of the Country.
- 3.2. Adding value to the local economy.
- 3.3. Build local capacities through TOT, Foreign Investments, R&D activities, Technological Cooperation.
- 3.4. Earning valuable foreign exchange through exports of Defence Goods & Services
- 3.5. Develop projects in line with GoP strategic plans & consistent with National priorities.
- 3.6. Creation of commercially viable, profitable and sustainable JVs between local public/private sector & foreign investors.
- 3.7. Enhancement of existing expertise and skill profile of local executive and skilled human resource.
- 3.8. Creation of job opportunities for the nationals of Pakistan.
- 3.9. Development, support and effective coordination of local defence industry and its Infrastructure.

4. Guidelines on Offset Program

- 4.1. All definitions, interpretations, clarifications etc regarding "Request for Proposal" (RFP) "Defense Offset Policy Guidelines" Offset Contract, Associated Terminologies and Terms & Conditions mentioned therein shall be in accordance with the respective stipulations in the Offset Contract.
- 4.2. The validity of the offset contract is until the fulfillment of the liabilities of the bidder in the scope of the offset contract.

4.3. In case of any variance of opinion on above between the Bidder/Contractor and Offset Department of MoDP the decision of Secretary MoDP shall be firm and final.

4.4. The decision of Secretary MoDP shall not be challenged in any court of law.

5. **Scope of Offset Programme**

5.1. The scope of offset programme shall be confined to areas of defence related activities.

5.2. The identified areas are stipulated as under:-

5.2.1 **Category 'A'**:- These are Offset Programs relating directly to the core business of the foreign supplier e.g a procurement contract for acquisition of weapons.

5.2.2 **Category 'B'**:- Defence, Aeronautics/Aerospace goods and services: - the identified areas are as under:

- (1) Platforms
- (2) Systems
- (3) Software
- (4) Subsystems
- (5) Parts / components

5.2.3 **Category 'C'**:-

- (1) Technological Cooperation
- (2) New and/or expanded investment
- (3) R&D activities In Defence, Aeronautics and Aerospace Industry and/or other fields requiring high technology
- (4) The identified areas are:-
 - (a) System Integration
 - (b) Network, Information, Satellite, Sensor Systems
 - (c) Electronic Warfare
 - (d) Missile, Guidance, Control
 - (e) Other (Defence, Aeronautic/Aerospace High Technology).
 - (f) Investment in Advanced Technology Projects.

6. **Applicability**

- 6.1. The offset programs shall be applicable to all defence contracts signed between DPs and DPEs of Ministry of Defence Production and Foreign Contractors as defined in Clause 1.

7. **Preparation and Submission of Offset Proposal**

- 7.1 The bidder's offset proposal shall be prepared in accordance with the principles stated in IT/RFP including the 'Offset Contract' and the annexes which shall be provided to the bidder as an Annex to the IT/RFP, and the other information and documents required in the RFP.
- 7.2 The bidder's offset proposal shall be submitted to MoDP together with the response to the IT/RFP but in a separate file and inside a sealed envelope.
- 7.3. The appendices in the "Offset Contract" located in the 'IT/RFP' shall be filled by the bidder and every page of offset contract shall be initiated and sealed by authorized representative of the bidder.
- 7.4. The related annexes of 'Offset Contract" shall be prepared by the contractor/bidder in accordance with the content and format stated in IT/RFP in complete manner and every page shall be initialed and sealed by the authorized representative of the bidder.

8. **Finalizing Procurement Proposal (Main Contract) & the Offset Proposal**

- 8.1. The procurement proposal (main contract) & offset proposal submitted by the bidder(s) shall be evaluated concurrently by respective Offset Management Committees (OMC). Offset proposal(s) of only those firms would be processed whose technical proposal(s) are accepted by the technical authorities at the Service Headquarters.
- 8.2. The proposal(s) of technically accepted firms shall then be submitted to the Authorized Selection/Award Committee for information and subsequent instructions.
- 8.3. The OMC after review shall put up their recommendations to Secy (DP) for approval in accordance with Clause 14 of this policy.

8.4. The results of contract negotiations shall be formally reported to “Authorized Selection/Award Committee” which will then formally announce the winner & advise their OCCA to take over the signing, execution, monitoring, implementing & concluding the offset program till its successful completion.

9. **Evaluation of Offset Proposals**

9.1. **Pre-Approval Principles.** Pre-approval is defined as written approval (s) required to be obtained by the Contractor from OCCA/MoDP in order to validate all planned activities to be undertaken by the contractor for fulfillment of all offset activities by OMOs.

9.2. All Pre-approval (s) shall be obtained by the Contractor in accordance with “Pre-approval principles” as stipulated in the policy.

10. **Offset Threshold**

10.1. The value fixed for all defence import deals is USD 15 Million and above .

11. **Offset Percentage Required**

11.1. Keeping in view various factors, offset percentage may vary between 20 - 40%, depending on the nature of the contract which will be finalized by the main contract awarding agency.

12. **Milestones (MS):**

12.1. **Direct Offset.** Fulfillment of offset milestone should synchronize with the payment milestones of the main contract. This implies that the payment milestones of the main contract should be set in such a fashion (as expedient as it could be) that it facilitates achieving the offset milestones.

12.2. **Indirect Offset.** Maximum within 5 Years after signing of the main contract, depending on the contract (10% within 1st yr, 20% within 2nd yr, 30% within 3rd yr, 30% within 4th yr and 10% within 5th yr) . Time line may be negotiable as per the nature of the offset program.

13. **Multipliers**

13.1. Multipliers are kept to ensure and give importance to those areas where the purchaser desires to accrue maximum benefit from the offset. Multipliers should be between 1 to 3 as per following.

13.1.1. 'Buy and Buy & Make' categories Direct offset – multiplier 1.

13.1.2 'Buy and Buy & Make' categories Direct/Indirect offset (Transfer of Technology) – multiplier 3.

13.3.3. Foreign firms to fulfill their obligation through projects such as partnering with the local public/private sector through joint venture to create profitable and sustainable enterprise in the Defence sector–multiplier 2.

14. **Offset Contract Concluding Authority (OCCA).**

14.1. Main contract will be concluded and monitored by respective DP Organization/DPEs within the delegated financial powers of their CPO. However, the proposal of Offset intended to be obtained (for main contracts beyond 15 Mn \$), will be sent to Secretary (DP) on a case file (on the lines of Purchase Proposals) covering details of offset programme as per approved policy, by all DPEs and DP Organizations of Svc HQ. Secretary (DP) may approve the programme or desire to have a presentation on the offset proposal, if required. Offset Programme will be managed and monitored by respective DPEs/DP organization. Contracts beyond the financial powers of Service Chiefs / Boards of PAC, HIT, POF will continue to be awarded by Secretary (DP) through Defence Purchase Committee. The organization presenting the purchase proposal to the Defence Purchase Committee will also present the concept and details of offset programme envisaged by them. The presentation will invariably be in two parts. Part I will cover the details of main contract and part II will cover the offset details.

15. **Length of Base Programme (BP)**

15.1. Length of the base programme will be two years beyond the delivery period of the main contract for direct offset.

15.2. For indirect offset, maximum within 5 years shall be granted after signing of the main contract.

15.3. **Offset Guarantee Letter (OGL)**. OGL will be 5% of the total value of the offset programme from any scheduled bank in Pakistan. The same will be released after one year on successful completion of the programme. The offset contract may allow the performance guarantee to reduce on prorata basis.

15.3.1 The contractor will submit to DPs/DPEs an offset guarantee letter at the amount of _____USD, which is equal to 5% of the offset liability at the time, offset contract comes into effect, according to the format in Annex-C. All the costs of the offset guarantee letter will be borne by the contractor.

15.3.2 The validity of the offset guarantee letter will be min 1 year more than the offset liability term.

15.3.3 DP organization/DPEs on behalf of MoDP, as arranged in the offset contract, reserves the right of collection by converting the offset guarantee letter to cash and record as revenue, in case of the cancellation of offset contract as a penalty.

15.3.4 In case of an increase in offset liability, the contractor shall increase the offset guarantee amount according to the new offset liability within 30 days or will submit to DP organization/DPEs a new offset guarantee letter.

15.3.5 In case of a decrease in offset liability, the proportion, which is equal to the decrease in the offset, will be released by DP organization/DPEs upon the official request of the contractor within 30 days.

15.3.6 The Bank Guarantee would be submitted by the contractor from any scheduled Pakistani bank

16. **Liquidated Damages (LD)**

16.1. LD at the rate up to 5% will be levied on the unfulfilled portion of the obligation and the LD amount shall be returned to the firm at the successful termination of the base programme. However, the LD will not be returned if the unfulfilled obligation exceeds the period equal to the original length of the base programme.

17. **Grace Period (GP).**

17.1. Not all the offset programmes will have a grace period. The head start granted to a firm to set up a project which has complex infrastructure, training or facility requirement which needs additional time for construction and assembly. Reasonable length of such grace period will be determined by the contracting authority, while ensuring that the grace period does not go beyond initial half of contract duration. The length of the grace period will depend upon the main contract and the offset required. Beyond the prescribed time limit, any additional GP shall be awarded with the approval of Secretary (DP)

18. **Must Criteria:**

18.1. Format & content of offset bank guarantee

18.2. Penalty clause (paying penalty does not relieve the commitment).

18.3. Price variation (according to main contract terms).

18.4. Law of jurisdiction as per Pakistani laws.

18.5. Arbitration is allowed.

18.6. Language is English.

19. **Offset Contract Details**

19.1. Requirement to offer offset package will be mentioned in the IT/RFP. Important details of the offset contract will be mentioned in the main contract and signing of the main contract will be contingent upon signing of offset contract. However, for any reason if this is difficult to achieve, then one of the main contract effective dates will be signing of offset contract. If there is more than one event which determines the effective date of the main contract, then the contract will come in to force on achieving the last milestones. Offset contract will be prepared separately.

20. **Management of Offset Contract**

20.1. The management of offset contract shall be the responsibility of the concerned DPEs/DP Organization which has concluded the main contract. Each DP organization will depute/nominate an Offset Management Officer (OMO) not below BPS 20, to act as Focal Point (FP). The OMO will continuously monitor the progress of the offset programme with especial reference to the milestones of both main and the offset contracts. Equal importance will be given to the offset milestone as the same is linked with the milestones of the main contracts. The OMO of DPEs/DP organizations will have a close liaison with the Technical/Specialist and User Directorates at the Service Headquarters for the implementation of offset contracts which concerns them. List of DPEs/DP Organizations are attached as Anx 'A' and Technical/Specialist Directorates and User Directorates are attached as Anx 'B'.

21. **Offset Overseeing Committees (OOC)**

21.1. The OOC will be formed at MoDP, DGDP, DGMP, under the Chairmanship of Additional Secretary (DP) and respective Directors General with members as described in Para 22 below. The Committee will oversee the programme by holding meetings on quarterly basis. Date fixed for the meeting will not be changed under normal circumstances. Under the Chairmanship of Secretary (DP), committees will present the progress of their respective programmes twice a year. Members of the OOC would be as following:-

22. **Offset Overseeing Committees.** Following OOC will be formed for offset management in various organizations under MoDP:

a. **DPE Organizations**

(1)	Chairman	Additional Secretary (DP)
(2)	Permanent Members	JS (DP) <u>OMOs</u> POF HIT PAC NRTC DEPO KS & EW

(3) Affiliated Members
 DGP(A)
 DP(N)
 DP(A)
 Rep Specialist / Technical
 Directorate & User Directorate

b. **DGDP**

(1) Chairman
 DG
 (2) Permanent Members
 DPC (OMO)
 DDPC (Army)
 ADPC (Navy)
 ADPC (Air)
 (3) Affiliated Members
 Dir DGP(A)
 DP(N)
 DP(Air)
 Rep Specialist / Technical
 Directorate & User Directorate

c. **DGMP**

(1) Chairman
 DG
 (2) Permanent Members
 DMP (Army) (OMO)
 DMP (Navy)(OMO)
 DMP (Air)(OMO)
 (3) Affiliated Members
 DG MVRDE
 DG IOP
 Dir ARDE
 Dir DGP(A)
 DP(N)
 DP(A)
 Rep Specialist / Technical
 Directorate and
 User Directorate

23. **Revision of Offset Policy**

23.1. Offset policy shall be subject to continuous revision on periodical basis from global as well as from local perspective for the purpose to / for:

23.1.1 Improve & expand infrastructure, capacities & capabilities of local private & public sector defence industries

23.1.2 Accelerate periodical technological growth & its up gradation in state owned defence industries / private enterprises

23.1.3 Acquisition of cutting edge technologies in consonance with GoP strategic plans.

23.1.4 Enhancement of exports of goods & services to potential customers

23.1.5 Attract investments in R&D induced projects / activities in state owned defence organizations/SME's universities/research institutions etc of Pakistan.

23.1.6 Maximize accomplishment of offset related projects involving prestigious foreign defence companies for technological cooperation, development of genuine production technologies to bring in design, development, production etc along with necessary equipment, hardware, software & training etc.

23.1.7 Continuously improve the quality of local human resource through exposure to state of the art technologies, interactions with experts & training opportunities etc.

24. **Cancellation of Procurement / Offset Contract**

24.1. In case of default or any breach of terms and conditions of procurement contract (main contract) by the contractor, CPO after due considerations reserves the right to cancel the main contract and the offset contract as well.

24.2. The same procedure shall be applicable in case of default / breach of any terms & conditions of offset contract.

24.3. In both the cases the letter of credit in respect of procurement (main contract) shall be liquidated and offset bank guarantee shall be encashed respectively.

24.4. Secy DP may give waiver against any clause or relax any clause considered to be in the best interest of the state.

25. **Especial Instructions**

25.1. The type of Offset and its percentage will be recommended by the user.

25.2. DPE's may, in consultation and approval of Secy (DP), suggest association with any procurement agency for the purpose of indirect offset benefits as a result of big contracts being concluded by the Service HQ, such as the test equipments, spares, ToT, CKD/Lab kits or some plant & machinery and their up-gradation.

25.3. Technologies/TOT becoming out dated within next 5 to 10 years should not be acquired as offset benefit. OEM must provide technical assistance in case of any up-gradation in the product for next 10 years if agrees for TOT.

25.4. Main contract and the offset contracts must go side by side; rather they must have a relationship of interdependency. Only then we can accrue the benefits of the desired Offset.

25.5. LD on offset shall be up to 5 % (more than what is levied in contracts for goods) of the offset value for the reason that LD will have to be returned to the firm on successful completion of the base programme, provided that the delay is not more than the original length of the base programme, in that case LD amount will not be returned. When LD is imposed, the firm has to immediately submit the amount in the form of demand draft/pay order in the name of CMA (DP). Delay in submitting the LD will be taken as performance shortfall which may have other financial consequences.

25.6. The user is the best judge to recommend the areas in which the offset is to be demanded. It is therefore advised that offset having better cost benefit ratio be worked out as a jump off point.

DPE's / DP ORGANIZATIONS**Under Ministry of Defence Production**

1. Pakistan Ordnance Factories
2. Heavy Industries Taxila
3. Pakistan Aeronautical Complex
4. National Radio & Telecommunication Corporation
5. Directorate General Defence Purchase
6. Directorate General Munitions Production
 - a. Military Vehicle Research & Development Establishment
 - b. Armament Research & Development Establishment
 - c. Institute of Optronics
7. Defence Export Promotion Bureau
8. Karachi Shipyard & Engineering Works

Under Service Headquarters

1. Director General Procurement (Army)
2. Director Procurement (Navy)
3. Director Procurement (Air)

TECHNICAL/SPECIALIST DIRECTORATES

1. **General Headquarters**
 - a. Inspection and Technical Development Directorate
 - b. Electrical & Mechanical Engineers Directorate
 - c. Signal Directorate
2. **Naval Headquarters**
 - a. Directorate Gen Indigenous Development
 - b. Chief Inspector Naval Stores
 - c. Director Armament Services
3. **Air Headquarters**
 - a. Directorate of Quality & Evaluation
 - b. Directorate of Quality Control
 - c. Directorate of Quality Assurance

USER DIRECTORATES

1. **General Headquarters**

a. Infantry Directorate	d. Signal Directorate	g. EME Directorate
b. Artillery Directorate	e. Engineers Directorate	h. S & T Directorate
c. Air Defence Directorate	f. Aviation Directorate	j. MI Directorate
2. **Naval Headquarters**

a. Rep DCNS(Operations)	d. Dir NW & E	c. Rep DCNS (Supply)
b. Rep DCNS (Material)	e. Rep DGNI	
3. **Air Headquarters**

a. Rep DCAS (Support)	b. Rep DCAS (Engineers)	c. Rep VCAS
d. Rep DGAI		

**THE OFFSET CONTRACT
BETWEEN**

(Name of the main contract awarding agency)
&

(Name of the contractor)

Contents

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APPENDIX:

ANNEX 'E' Offset Guarantee letter format

ANNEX 'F' Offset Report

1. PARTIES

- 1.1. This offset contract has been signed between ----- first party(referred as purchaser) &----
-----second party(referred as supplier) in the scope of ----- project.

2. SCOPE

- 2.1. This offset contract covers the offset liabilities and the principals, which will be applied to fulfill these liabilities by the contractor.
- 2.2. The offset liabilities are essential/supplementary to the liabilities of the procurement contract unless otherwise specified.

3. Definitions and Abbreviations

3.1. Definitions

Project	Name of the offset programme
The eligible party	For Foreign/ Domestic Contractor; a) Contractor b) The sub-contractors as per the relevant clause of the Procurement Contract c) Necessary approval by DPs/DPEs, will be essential
Offset report	The report that is submitted by contractor to DPs/DPEs at the end of each program period, defined as in the offset contract.
Offset contract	The text, which is signed by DPs/DPEs and the contractor, and its entire appendix (s)
Offset letter of guarantee	Letter of Guarantee (Annex C) submitted to DPs/DPEs by contractor within the scope of offset contract
Procurement contract	The main procurement contract signed by DPs/DPEs in scope of the Project.
Supplier company	All domestic companies involved in the project except the ones that DPs/DPEs particularly stated in the RFP whose direct works will not be considered as Supplier Company / SME Work Share within the scope of the project.
The contractor	Legal name of the contractor

3.2. Abbreviations

GOP	-	Govt. Of Pakistan
MoD	-	Ministry of Defence
MoDP	-	Ministry of Defence Production
JS(DP)	-	Joint Secretary (Defence Production)
DCAS	-	Deputy Chief of Air Staff
DCNS	-	Deputy Chief of Naval Staff
DGAI	-	Director General Air Intelligence
DGDP	-	Directorate General Defence Purchase
DGMP	-	Directorate General Munitions Procurement
DGNI	-	Director General Naval Intelligence
DPC	-	Director Purchase (Coordination)
DGP(Army)	-	Director General Procurement (Army)
DP(Navy)	-	Director Procurement (Navy)
DP (Air)	-	Director Procurement (Air)
SME	-	Small and Medium Sized Enterprises
RFP	-	Request For Proposal
DEPO	-	Defence Evaluation of Offset Proposal
POF	-	Pakistan Ordnance Factories
KS&EW	-	Karachi Shipyard and Engineering Works
Dir NW&E	-	Director Naval Weapon & Equipment
HIT	-	Heavy Industries Taxila
DDPC	-	Deputy Director Purchase (Coordination)
PAC	-	Pakistan Aeronautical Complex
DMP	-	Director Munitions Production
EME	-	Electrical Mechanical Engineering
NRTC	-	National Radio Telecommunication Corporation
MVRDE	-	Military Vehicle Research and Development Establishment
ARDE	-	Armament Research and Development Establishment
FP	-	Focal Person
DEPB	-	Defence Export Promotion Bureau
S&T	-	Supply and Transport
MI	-	Military Intelligence
MS	-	Milestone
BP	-	Base Programme
LD	-	Liquidated Damages
GP	-	Grace Period
OMO	-	Offset Management Officer
OOC	-	Offset Overseeing Committee

OGL	-	Offset Guarantee Letter
OCCA	-	Offset Contract Concluding Authority
PVC	-	Price Variation Clause
VCAS	-	Vice Chief of Air Staff
PBG	-	Performance Bank Guarantee
CPO	-	Competent Purchase Officer
DNAV	-	Domestic Net Added Value
PBG	-	Performance Bank Guarantee
NDC	-	Non Disclosure Certificate
PP	-	Purchase Proposals

4. The Project

5. Offset Contract Validity Term

5.1. The validity of the Offset contract is until the fulfillment of the liabilities of the bidder in the scope of the Offset contract

6. The language of the Contract

- 6.1. The language of this contract is English
- 6.2. All the changes, amendments to be done in this text will be in English
- 6.3. All appendix of this text, all the reports, technical information, booklets and all printed documents, which are required in the offset contract, will be in English. However, the documents which cannot be translated (upon MoDP's decision) into english in terms of the terminologies, will be in original language duly translated and authenticated.

7. Offset Guarantee Letter

- 7.1. The contractor will submit to DPs/DPEs an offset guarantee letter at the amount of USD, which is equal to 5% of the offset liability at the time of Offset contract comes into effect, according to the format in Annex-C. All the costs of the offset guarantee letter will be borne by the contractor.
- 7.2. The validity of the offset guarantee letter will be min 1 year more than the offset liability term
- 7.3. DP organization/DPEs on behalf of MoDP, as arranged in the offset contract, reserves the right of collection by converting the offset guarantee letter to cash and record as revenue in case of the cancellation of offset contract as a penalty.
- 7.4. Within 30 days following DP organization/DPEs acceptance of the annual offset report that will be submitted by the contractor, offset guarantee letter will be released at an amount,

which equals to the realized crediting amount in every program period by DP organization/DPEs

8. **Change of the Amount of Procurement Contract Price**

- 8.1. In case of an increase in offset liability, the contractor shall increase the offset guarantee letter amount according to the new offset liability within 30 days or will submit to DP organization/DPEs a new offset guarantee letter.
- 8.2. In case of a decrease in offset liability, the proportion, which is equal to the decrease in the offset, will be released by DP organization/DPEs upon the official request of the contractor within 30 days.
- 8.3. The BG would be submitted by the contractor from any scheduled Pakistani bank.

9. **General Principles**

- 9.1. The contractor will not bring forth any cost to DPs/DPEs while carrying out the offset liability.
- 9.2. The products, which are provided by the contractor in the scope of the tenders/procurements/projects conducted by DPs and/or DPEs, will not be considered as category-A and category-B offset liabilities.
- 9.3. It will not be allowed to transfer liabilities among the categories of the offset contract, after the offset contract comes into effect.
- 9.4. The activities, which will be realized under the technology acquisition liability by the contractor, will not be considered as offset activity.
- 9.5. In case the procurement contract price is decreased or increased due to any reason, the total offset liability amount of the contractor will be decreased or increased in proportion by an amendment.

10. **Offset Liability.**

- 10.1. In the scope of the conditions and terms stated in the offset contract, the contractor will realize offset the amount of _____ USD (equivalent currency) which equals to the 20%-40% of the procurement contract price.
- 10.2. In the scope of the conditions and terms stated in the offset contract, the contractor will realize category-A offset at the amount of _____ USD (equivalent currency) which equals to the 20%-40%. percentage of the offset liability.
or
- 10.3. In the scope of the conditions and terms stated in the offset contract, the contractor will realize the . _____USD (equivalent currency) part of the activities stated in Annex-. _____, which equals to the 20%-40% % of the offset liability, as category-B offset.

or

- 10.4. In the scope of the conditions and terms stated in the offset contract, the contractor will realize the _____USD (equivalent currency) part of the activities stated in Annex-_____, which equals to the 20%-40% % of the offset liability, as category-C offset
- 10.5. This article is for the domestic contractor) the category-C offset liability will be realized through providing hardware, software, service or financial support for the training and R&D works, which will be carried out by the Pakistan industrial organizations, training and research entities, in the field of defence, homeland security, and space industry.
- 10.6. The contractor will realize the offset liability within the offset liability term.

11. **Pre Approval Principles.**

- 11.1. Main contract will be concluded and monitored by respective DP Organization/DPEs within the delegated financial powers of their CPO. However, the proposal of offset intended to be obtained (for main contracts beyond 15 Mn \$), will be sent to Secretary (DP) on a case file (on the lines of PP) covering details of offset programme as per approved policy, by all DPEs and DP Organizations of Svc HQ. Secretary (DP) may approve the programme or desire to have a presentation on the offset proposal, if required. offset programme will be managed and monitored by respective DPEs/DP organization. contracts beyond the financial powers of Service Chiefs / Boards of PAC, HIT, POF will continue to be awarded by Secretary (DP) through DPC. The organization presenting the PP to the DPC will also present the concept and details of offset programme envisaged by them. The presentation will invariably be in two parts. Part I will cover the details of main contract and part II will cover the offset details.
- 11.2. The activities, which are realized without obtaining written (official) pre approvals from concerned authority , will not be assumed as offset and credited even if they are in compliance with the other principals.

12. **Price Variation Clause (PVC)**

- 12.1. In case where the PVC is mentioned in the main contract, price increase/decrease will also affect the offset contract .

13. **Liquidated Damages (LD)**

- 13.1. LD at the rate up to 5% will be levied on the unfulfilled portion of the obligation and the LD amount shall be returned to the firm at the successful termination of the base programme. However, the LD will not be returned if the unfulfilled obligation exceeds the period equal to the original length of the base programme.

14. **Offset Reports and Meetings**

- 14.1. The contractor will submit to DPs/DPEs the reports, which present the realization status of the offset activities, in the format and content described in Annex "F" within 30 days following the completion of the concerned program period.
- 14.2. DPs/DPEs will examine the offset report and inform the contractor officially within 30 days if the report is approved.

- 14.3. In case, matters, which have to be corrected and/or explained as a consequence of the study, the contractor will be requested to revise the offset report by an official request or through a meeting. In this case, the contractor will re arrange the report so as to cover the requested correction and/or explanation and submit to DPs/DPEs within 15 days following the notification date.
- 14.4. In case deemed necessary by DPs/DPEs, a review meeting will be held with the attendance of DPs/DPEs and contractor representatives following the submission of each offset report. The place, time and the agenda of such a meeting will be determined by mutual agreement of the parties.
15. **Failure/Termination.**
- 15.1. The purchaser shall be entitled to terminate the contract at the expense for default on the part of supplier. In case the purchaser elects to terminate the contract, the purchaser shall give notice in writing to the supplier to make good the default. Should the Supplier fail to initiate proceedings in order to comply with the notice within 15 days from the date of serving of such notice, the purchaser may forthwith terminate this contract by notice in writing to the supplier without prejudice to any rights of supplier. Extra cost incurred on re-purchase from elsewhere will be on supplier account.
16. **Force Majeure**
- 16.1. The supplier will not be held responsible for any delay occurring in execution of offset contract due to events of Force Majeure such as acts of God, War, Riots, Civil commotion, Strike, Lockouts, acts of foreign government and its agencies and disturbances directly affecting the supply over which events or circumstances the Supplier has no control. In such an event the supplier shall inform the purchaser within 15 days of the happening and within the same time frame about the discontinuation of such circumstances/happening in writing. Non availability of raw material in connection with offset contract, or of import/export permit for the import/export of the contracted stores from the country of its origin, shall not constitute Force Majeure.
- 16.2. The supplier shall use his best effort to avoid or remove such circumstances and continue fulfillment of obligations as soon as such circumstances are removed/over.
- 16.3. If by reason of Force Majeure full or part of any agreed obligation is not fulfilled by the due date, then the procurement agency may adopt following options with the prior approval of competent authority with the consent of the supplier:-
- 16.3.1 The delivery period may be extended appropriately for the Force Majeure duration as established.
- 16.3.2. In case of indefinite duration of Force Majeure where the procurement agency is satisfied that contract is not likely to materialize, may cancel the contract in

consultation with concerned Service HQ without financial implication and contractual obligations on either side.

16.3.3 In case advance/down payment(s) has been made to the supplier then recovery of such amount must be ensured by the procurement agency either through encashment of BG(s) or reimbursement by the supplier before cancellation of the contract.

17. **Law of the Contract**

17.1. The law, which this offset contract is subjected to, is the material and procedural law of the Pakistan.

18. **Disputes/Arbitration**

18.1. Parties shall make their attempt to settle all disputes arising under this contract through friendly discussion and in good faith. In the event that either party shall perceive such friendly discussion to be making in sufficient progress at any time then such party may send written notice to the other party to remove the dispute(s) to final and it will be binding on both parties to settle the dispute as per arbitration defined below.

18.2. All matter of dispute or difference regarding rejection of supplies by the inspector or cancellation of the contract by the buyer, arising out of the agreement between the parties thereto, the settlement of which is not otherwise specially provided for in this agreement, shall be referred to arbitration as under.

18.3. The dispute shall be referred for adjudication to two arbitrators one to be nominated by each party, who before entering upon the reference shall appoint an umpire by mutual agreement, and if they do not agree, a judge of the Superior Court will be requested to appoint the umpire. The arbitration proceedings shall be held in Pakistan under Pakistani Law as per the Rules of Reconciliation and Arbitration of the International Chamber of Commerce.

18.4. The arbitration award will be firm and final for both parties.

18.5. In the course of arbitration the contract shall continuously be executed except that part which is under arbitration.

18.6. All proceedings under this clause shall be conducted in English language.

19. **Contract Amendments**

19.1. This offset contract can partially or completely be amended upon the mutual agreement of the parties

20. **Contract Effective Date**

20.1. Offset contract will come into force upon:-

20.2. Signing by DP organization/DPEs and the contractor according to the terms and conditions stipulated in the said contractor.

20.3. Provision of PBG.

20.4. Non Disclosure Certificate.

Purchaser

Seller

Definitions and Abbreviations**1. Definitions**

Project	Name of the offset programme
The eligible party	For Foreign/ Domestic Contractor; a) Contractor b) The sub-contractors as per the relevant clause of the Procurement Contract c) Necessary approval by DPs/DPEs, will be essential
Offset report	The report that is submitted by contractor to DPs/DPEs at the end of each program period, defined as in the offset contract.
Offset contract	The text, which is signed by DPs/DPEs and the contractor, and its entire appendix (s)
Offset letter of guarantee	Letter of Guarantee (Annex C) submitted to DPs/DPEs by contractor within the scope of offset contract
Procurement contract	The main procurement contract signed by DPs/DPEs in scope of the Project.
Supplier company	All domestic companies involved in the project except the ones that DPs/DPEs particularly stated in the RFP whose direct works will not be considered as Supplier Company / SME Work Share within the scope of the project.
The contractor	Legal name of the contractor

2. Abbreviations

GOP	-	Govt. Of Pakistan
MoD	-	Ministry of Defence
MoDP	-	Ministry of Defence Production
JS(DP)	-	Joint Secretary (Defence Production)
DCAS	-	Deputy Chief of Air Staff
DCNS	-	Deputy Chief of Naval Staff
DGAI	-	Director General Air Intelligence
DGDP	-	Directorate General Defence Purchase
DGMP	-	Directorate General Munitions Procurement
DGNI	-	Director General Naval Intelligence
DPC	-	Director Purchase (Coordination)

DGP(Army)	-	Director General Procurement (Army)
DP(Navy)	-	Director Procurement (Navy)
DP (Air)	-	Director Procurement (Air)
SME	-	Small and Medium Sized Enterprises
RFP	-	Request For Proposal
DEPO	-	Defence Evaluation of Offset Proposal
POF	-	Pakistan Ordnance Factories
KS&EW	-	Karachi Shipyard and Engineering Works
Dir NW&E	-	Director Naval Weapon & Equipment
HIT	-	Heavy Industries Taxila
DDPC	-	Deputy Director Purchase (Coordination)
PAC	-	Pakistan Aeronautical Complex
DMP	-	Director Munitions Production
EME	-	Electrical Mechanical Engineering
NRTC	-	National Radio Telecommunication Corporation
MVRDE	-	Military Vehicle Research and Development Establishment
ARDE	-	Armament Research and Development Establishment
FP	-	Focal Person
DEPB	-	Defence Export Promotion Bureau
S&T	-	Supply and Transport
MI	-	Military Intelligence
MS	-	Milestone
BP	-	Base Programme
LD	-	Liquidated Damages
GP	-	Grace Period
OMO	-	Offset Management Officer
OOC	-	Offset Overseeing Committee
OGL	-	Offset Guarantee Letter
OCCA	-	Offset Contract Concluding Authority
PVC	-	Price Variation Clause
VCAS	-	Vice Chief of Air Staff
PBG	-	Performance Bank Guarantee
CPO	-	Competent Purchase Officer
DNAV	-	Domestic Net Added Value
PBG	-	Performance Bank Guarantee
NDC	-	Non Disclosure Certificate
PP	-	Purchase Proposals

OFFSET Guarantee Letter Format

As per stated contract

To:

Letter No & Date:

Since our Bank guarantees the amount of (amount in number) _____ EURO/USD (amount in written) being the value of the Offset guarantee which has to be submitted by the (name of contractor) who signed the offset contract with _____ which is attached as annex _____ of the procurement contract No. _____ where the terms and conditions are defined regarding the _____ procurement with your administration. We, the undersigned signatory officials and deputies of the Bank, do hereby guarantee and declare in the name and for the account of the Bank that in case the contractor does not partially or completely fulfill the liabilities and the commitments according to the contract terms, the above mentioned amount shall be paid by us, withinworking days upon your first written demand in full and in cash together with the legal interest which shall accrue from the date of claim to that of actual payment to your account at a rate of _____ (EURIBOR/LIBOR +...2%) p.a. valid at the date of claim, without the necessity of protesting the contractor and obtaining his consent or a court order, and regardless of any dispute that may arise between the contractor and your Administration, and regardless of its consequences and legal results.

- This Letter of Guarantee has come into force at the date of the issue and will maintain its validity until

- In case of the indemnification of this guarantee letter, the payment will be made at the State Bank of Pakistan effective sale rate which is valid at the date of the payment

-This Bid Bond is governed and construed by Pakistan Laws.

Including the amount of this letter, the total of the valid bid bond, performance bond and the advance payment letters is ----- .

Limit of our branch. -----

The limit obtained from General Management's safety fund: -----

Total limit of our branch: -----

Name of the Bank

Name of the Branch of the Bank

Name, title, signature of the authorized Bank officials

NOTE: If the Letter of Bank Guarantee has been issued upon the counter guarantee of the foreign banks or the creditors, the name of the foreign bank or creditor that provides the counter guarantee and that the Letter of Bank Guarantee has been issued under counter guarantee shall be mentioned.

OFFSET Report Format

OFFSET Report (.... program period)		
	The concerned offset contract effective date	
	OFFSET contractor	
	The OFFSET liability percentages and amounts (category A,B,C)	
	Supplier/SME work share liability percentage and amount	

Part 1: the OFFSET activities realized before the report period			
Category-A			
Report periods	Period OFFSET liability	Realized crediting	difference
1			
2			
...			
Total			
Category-B			
Report periods	Period OFFSET liability	Realized crediting	difference
1			
2			
...			
Total			
Category-C			
Report periods	Period OFFSET	Realized crediting	difference

	liability		
1			
2			
...			
Total			

Part 2: the Category-A OFFSET activities which are realized within the report period					
No	OFFSET activity	Realizing company	Realied OFFSET amount	DNAV percentage	DNAV amount
1					
2					
...					
Total				-	

Part 3: the Category-B OFFSET activities which are realized within the report period							
No	OFFSET activity	Realizing company	The supplier benefiting	Pre approval date	Realized OFFSET amount	Crediting date	Credit given
1							
2							
...							
Total							

Part 4: the Category-C OFFSET activities which are realized within the report period							
No	OFFSET activity	Realizing company	The supplier benefiting	Pre approval date	Realized OFFSET amount	Crediting date	Credit given
1							
2							
...							
Total							

Part 5: the pre approval obtained within the report period						
No	OFFSET activity	Realizing company	The supplier benefiting	Pre approval date	Estimated OFFSET amount	Estimated credit amount
1						
2						
...						
Total						

Part 6: the OFFSET activities which have been planned but could not be realized within the report period					
No	OFFSET activity	Realizing company	The supplier benefiting	Estimated OFFSET amount	Reason for un-realization
1					
2					
...					

Part 7: the planned OFFSET activities for the next report period						
No	OFFSET activity	Realizing company	The supplier benefiting	Realization date	Estimated OFFSET amount	Estimated credit amount
1						
2						
...						
Total						

DEFENCE OFFSET POLICY