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DRAFT DEFENCE PRODUCTION POLICY 2018 : OPPORTUNITIES & CHALLENGES

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Preamble

Self-reliance in defence production has been the goal of India's defence production strategy since 1960s. In pursuance of self reliance the Government had firstannounced a Defence Production Policy 2011, consequent to which significant progress in domestic defence production was achieved and the country's defence production progressively increased.

However, despite some salient achievements of our defence production ecosystem, a significant part of our defence requirements continue to be dependent on imports.

A robust defence manufacturing base is thus an imperative requirement of self reliance in defence, critical for ensuring strategic autonomy. Further a vibrant defence industrial base shall ensure availability of cost effective defence equipment along with availability of dual use technologies.

Policy Initiatives in Support of Indigenous Defence Production. In the recent past the Government has initiated a slew of measures to support indigenous defence manufacturing. The important initiatives of the Government include promulgation of Defence Procurement Procedures 2016, Strategic Partnership Model, increase in FDI, ease of licensing, denotifying several items previously produced only by OFBs for production by industry etc. In order to further propel the participation of private industry in defence manufacture the Draft Defence Production Policy 2018 has been unveiled.

The ibid policy aims to consolidate the Governments initiatives and provide a focused, structured and significant thrust to development of defence design and production capabilities indigenously.

Draft Defence Production Policy 2018.

Draft Defence Production Policy 2018 attempts to further build on the policy initiatives unveiled by the Government to promote indigenous defence manufacture coopting the various facets viz facilitating participation by private defence industry and MSMEs, indigenous R&D, role of OFB/DPSUs etc with an aim to foster development of defence design and production capabilities in the country.

Goals and Objectives : Draft Defence Production Policy 2018. The underscoring theme of the Draft Defence Production Policy 2018 is to promote home grown defence industry. It has the following goals and objectives:

(a) Create an environment that encourages a dynamic, robust and competitive defence industry as an integral part of the 'Make in India' initiative.

(b) To facilitate faster absorption of technology and create a tiered defence industrial ecosystem in the country.

(c) To reduce current dependence on imports and to achieve self-reliance in development and manufacture of 13 sets of weapon systems/platforms (including fighters, helicopters, warships, missile systems, ammunition and explosives, land systems, and electronics) latest by 2025.

Cardinals: Draft Defence Production Policy 2018.

Self-reliance is a major corner-stone on which the military capability of any nation rests. Accordingly, the Draft Defence Production Policy, aims at achieving substantive self-reliance in the R&D and production of equipment, weapon systems/platforms by creating conditions conducive for private industry to play an active role in this endeavour. The policy accordingly aims at enhancing potential of

MSMEs in indigenization and broadening the defence R&D base. The Draft Defence Production Policy 2018 is centred on the following pillars:

(a) Fostering a competitive, innovative and robust defence industry.

(b) Encouraging collaborations to acquire latest technology, manufacturing processes, skill-sets and R&D.

(c) Providing a boost to MSMEs and Start-Ups.

(d) Strengthening infrastructure, including QA/QC, testing labs, both within public and private sector.

(e) Enabling ease of doing business.

(f) Enhancing defence exports.

Salient Features of Draft Defence Production Policy : 2018.

The Draft Defence Production Policy 2018 is indeed ambitious and forward looking with a vision to put India "among the top countries of the world in the sectors of aerospace and defence industries," through a slew of measures aimed at facilitating growth of domestic defence industrial base with core focus on defence manufacturing. The salient aspects of the policy are highlighted under:-

(a) It aims to create an environment that encourages dynamic, robust and competitive defence industry as an integral part of the 'Make In India' initiative.

(b) Make India self-reliant in the defence sector and export defence hardware to Friendly Foreign Countries.

(c) The Union Government would now permit 74% of the Foreign Direct Investment in defence sector which was earlier limited to 49%.

(d) The Government aims to achieve a target of (approx) INR 30000 Crore by 2025 by exporting defence services and technologies such as Artificial Intelligence and Cyber Space thus making India a world leader in defence sector.

(e) The Government envisions to create INR 1.5 Lakh crore (approx) turnover with 25 Lakh (approx) jobs by 2025.

(f) A slew of enabling measures in support of the MSMEs and Start-Ups have been incorporated in the policy.

(g) An Intellectual Property Cell to ensure legal help and aid to identify and register Intellectual Property in cyberspace and defence sectors is planned.

Opportunities for Private Defence Industry.

The Draft Defence Production Policy 2018 attempts to declutter the prevalent policies and processes and facilitate ease of doing business. It calls for increased participation of MSMEs, Start-Ups and other players from the private sector in the defence industry. The policy includes planned strategies, portals and platforms such as 'Competency Mapping', 'Defence Investor Cell' and 'Technology Perspective Capability Roadmap' to facilitate indigenisation of defence production. The document also seeks to take advantage of the fact that India is emerging as a "top destination for Research & Development (R&D) in the world". It proposes that India utilise this opportunity and catapult itself as a hub for defence related Intellectual Property (IP).

The simplified Make-II procedure of DPP 2016, would be facilitated through this draft policy and in affect lends itself as an enabler to facilitate private industries to enter defence sector. The policy also aims to liberalise the licencing policy for defence industries with the requirements for renewal of licences to be pruned and companies with a proven track record given due consideration. The policy also aims to further liberalise the FDI to 74% from the existing 49% in the defence sector.

The Draft Defence Production Policy 2018 creates an open competition in the industry. By liberalising the norms for the participation of the private industry, the policy is likely to generate the requisite push for increased productivity and innovation. The policy is aimed to accelerate domestic defence production and thereby promotes Indigenous defence production and hence will attract more investors which eventually will lead to market creation.

Through the Draft Defence Production Policy 2018, the Government aims to usher in greater synergy amongst the private and public sector. Accordingly, the policy aims at fusing together technologies from Ordnance Factory Board, Defence Public Sector Undertakings and private players. At the same time, the draft policy recognises the need to limit the role of the state run defence sector units to niche areas while simultaneously proposing several measures to boost participation of Indian MSMEs and innovators. It also aims at advancing and boosting the existing public sector defence production units through skill development and overall efficient and responsive project management.

Apart from synergising all stakeholders and creating self-reliant defence sector, the policy also plans to export defence goods worth $5 billion to other countries. It also plans on setting up Defence Export Organisation in partnership with the industry and market domestically produced goods overseas.

Another incentivising feature of the policy is to allow Indian offset partners to export parts and accessories developed / manufactured under the offset discharge programme. Once implemented, it will provide one more revenue stream for the Indian offset partners.

Enabling Provisions Facilitating Participation by MSMEs and Prompting Start-Ups.

A key feature of the Draft Defence Production Policy 2018 is that it focuses on enhancing the participation by the MSMEs and promoting Start-Ups in the indigenous defence manufacture. Accordingly, the policy has incentivized the participation by the MSMEs and Start-Ups in the defence manufacturing sector. The enabling provisions of the Defence Production Policy 2018 for integration of MSMEs and Start-Ups in the Defence Industrial Base are summarized under:-

(a) Turnover and prior experience requirements for entry into the defence production sector will be done away with as long as technical and functional requirements are met.

(b) The Defence Investor Cell will provide MSMEs and other investors with guidance and assistance to resolve issues with central, state and other authorities

(c) A liberalized licensing process will be instituted where the current list of items requiring a license will be reviewed and be replaced with a smaller list.

(d) Defence corridors will be set up to organise supply chains of MSMEs and Original Equipment Manufacturers (OEMs) with testing, certification, technology transfer and export facilities

(e) The testing systems of defence organisations will be opened up to private industries. New testing facilities will also be set up. Additionally, 75% assistance to set up common testing facilities may be provided.

(f) Challenges and hackathons will be organised on specific problem areas by the Department of Defence Production and the DRDO.

(g) Defence Innovation Hubs will be set up throughout the country under the Innovation for Defence Excellence (IDeX) scheme and private venture capital will be encouraged for Start-Ups.

(h) Appropriate policies will be designed to capitalize on new technologies and the Government will have the right of the first offer on the same.

(j) An Intellectual Property Cell will be set up to provide legal and technical assistance.

(k) Intellectual property involving national security, defence, and aerospace-related technologies will be prioritized during registration.

(l) Awards and recognition will be instituted for well-performing private industry and Start Ups.

(m) Regular outreach programmes will be conducted by established stakeholders to make MSMEs aware of potential opportunities and challenges.

The Challenges For Private Defence Industry.

The Defence Research and Development Organisation (DRDO) and the Acquisition Wing of the MoD (one may also add the users to the list) are important stake holders as far as domestic arms production is concerned. These stake holders are more or less independent although each agency's action impinges vitally on defence production and self reliance. From the self-reliance percept although the Defence Procurement Policy 2016 (DPP) has attempted to harmonise the interests of the stakeholders by institutionalisng the process of categorization of the capital procurement with the underlying theme of promoting the domestic production mainly through the prioritised procurement categories that give preference to domestic industry over direct import. However, despite more than two years of its being in vogue the DPP has neither dramatically improved India's defence production capability, nor changed the culture of license production. This shortcoming could be attributed to the lack of sound defence industrial policy to promote the indigenoious defence manufacture. Apropos, the draft Defence Production Policy 2018 has to be an adjunct to the DPP 2016 to facilitate the growth of indigenous defence industry. While the policy lists out the goals and objectives of the Government however, there is a need to define structures and processes to resolve complex issues such as licensing, environmental clearances, testing and certification facilities et al involving multiple ministries/stake holders.

In the present day scenario there is lack of trust of the private defence industry towards the Governments intent of providing level playing field to the industry vis a vis the DPSUs & OFB. The draft policy,does not allay the private sector's trust deficit with the government, even though it is pitched to play a crucial role in the Make in India initiative. Notwithstanding the various promises, including that of providing open competition in contracts, the private sector is sceptical about the outcome. The trust deficit could largely be attributed to the track record of the past wherein nepotism has been shown towards the public sector companies. Although an intangible attribute however, the Draft Defence Production Policy has to built in provisions which unambiguously underscore the intent of the government along with the proposed methodology to build in trust of the industry.

Although the Draft Defence Production Policy 2018 offers a slew of enabling provisions viz increase in FDI, provisions and incentives for the private industry including MSMEs et al however, there exist a number of challenges, which if left unaddressed, may limit its usefulness.

The Draft Defence Production Policy 2018 has identified 13 different sets of defence and aerospaceproducts for indigenous manufacture, however, it lacks clarity on the likely numbers, Quantitative Requirement (QRs), time lines et al which are a prerequisite for the industry to evolve a sound "Business Model". In the absence of clarity the industry is unlikely to pledge either money or resources towards defence production.

The policy aims to achieve self reliance by promoting Start-Ups and through participation by private industry however, it does not specify the core & critical technologies which shall be government controlled and those which would be privately owned. Although the Technology Perspective Capability Road Map (TPCR) is available however, it is ambiguous on aspects of home grown technologies. This opaqueness in the policy would inhibit the private industry in undertaking R&D, an essential prerequisite for self reliance.

The policy does not address the issues of future role of the DRDO, DPSUs and OFs, which currently are the mainstay of Indian defence industry. Currently, the biggest fear of the private sector is the likely preference that may continue to be accorded to the DRDO, DPSUs, OFs in defence manufacture. Rather than recommending any bold measures to enhance the efficiency of these entities, the draft policy merely talks of the professionalization of OFs and "disinvestment of minority stakes in DPSUs". The draft policy is silent on the modus operandi and timelines of the disinvestment of minority stakes of the government. Prudent to mention, that the government presently has more than majority stakes in all the DPSUs. There is thus lack of clarity and contradiction in the proposed policy. Apropos, to allay the perceived fears of the private sector, it is advisable to list out the broad initiatives that the government proposes to ensure level playing field for all stake holders.

The draft policy faces an uphill task in so far as attracting investments is concerned. The proposed investments may run across budgetary constraints that may not allow the policy's promised investments to fructify in a time bound manner. In all, the draft policy talks of investments worth over INR 70,000 crore (approx) by 2025 which includes nearly INR 70,000 crore (approx) as additional investment to increase domestic production. While the intent of the government is unambiguously stated however, there is lack of clarity on the proposed methodology of aproportioning the proposed financial stimulus. Assuming that these investments will come largely from the defence budget, either directly or indirectly, the defence budget has to cater to an extra INR 09/10,000 crore (approx) year on year untill the targets are met. However, this may be a tall order, given the budgetary constraints which the armed forces are currently facing and the trend is likely to continue. The Defence Production Policy must therefore recommend measures to attract the planned budgetary allocations which are crucial for realization of the proposed indigenous defence industrial base.

Conclusion

Overall, the Draft Defence Production Policy 2018 policy is an ambitious and forward looking frame work however, it shall need to be supported by 'all of government approach,' to succeed. While currently the targets may seem to be ambitious but can be achieved with correct focus. The draft policy should factor the recommendation of the private sector based on the feedback received post the circulation of the draft policy. This shall enable the government to formulate a cogent policy frame work which once implemented shall deliver the desired results and usher the much awaited changes in the indigenous defence production mosaic. The proposed policy should also foster healthy competition amongst the defence manufacturers both private and government controlled thus ensuring the fructification of a robust defence industrial base, an imperative for strategic autonomy.

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