

GOVERNMENT OF INDIA
MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE PRODUCTION
LOK SABHA
UNSTARRED QUESTION NO.2646
TO BE ANSWERED ON 4th December, 2019

PRIVATE PARTICIPATION IN DEFENCE MANUFACTURING

2646. COL. RAJYAVARDHAN RATHORE:

Will the Minister of DEFENCE be pleased to state:

- (a) the steps being taken to promote Indian private defence industry and to ensure that there is level playing field between private industry and Defence Public Sector Undertakings (DPSUs) in large Defence Procurements;
- (b) the quantum of investment by the private sector in defence manufacture during the last five years;
- (c) whether the Indian private defence industry matured to be at par with DPSUs and if so, the criteria/procedure and security protocol adopted while awarding tenders/projects to private firms; and
- (d) whether the tenders are still being awarded on nomination to DPSUs, if so, the reasons therefor and the total value of such tenders awarded over the last five years?

A N S W E R

MINISTER OF STATE
IN THE MINISTRY OF DEFENCE

रक्षा राज्य मंत्री

(SHRI SHRIPAD NAIK)

(श्री श्रीपाद नाईक)

(a) to (d): A statement is attached.

STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (d) OF LOK SABHA UNSTARRED QUESTION NO. 2646 FOR ANSWER ON 04.12.2019 REGARDING 'PRIVATE PARTICIPATION IN DEFENCE MANUFACTURING'

(a) to (d) In May, 2001, the Defence Industry sector, which was hitherto reserved for the public sector, was opened up to 100% for Indian private sector participation through licensing. 452 licenses for manufacturing of defence items have been issued so far. As per Department for Policy of Industry and Internal Trade (DPIIT), Ministry of Commerce & Industry the proposed investments as provided by the companies in their license application for Defence Sector is Rs 13,743.53 crores in the last five years [from 2015 to 2019 (upto 26.11.2019)].

2. Many steps have been taken by government to promote Indian private defence industry and to ensure that there is level playing field between the private industry and Defence Public Sector Undertakings in large Defence procurements:-

- The Government has promulgated the Strategic Partnership (SP) model under which select Indian firms will be roped in to build military platforms like, fighter jets, helicopters and armoured fighting vehicles/main battle tanks in India in strategic partnerships with Indian Defence Majors through a transparent and competitive process wherein they would tie up with global OEMs to seek technology transfers to set up domestic manufacturing infrastructure and global supply chains.
- Defence Procurement Procedure (DPP) has been revised in 2016 wherein specific provisions have been introduced for stimulating growth of the domestic defence industry.
- A new category of procurement 'Buy {Indian-IDDMM (Indigenously Designed, Developed and Manufactured)}' has been introduced in DPP-2016 to promote indigenous design and development of defence equipment. It has been accorded top most priority for procurement of capital equipment. Besides this, preference has been accorded to 'Buy (Indian)', 'Buy and Make (Indian)' & 'Make' categories of capital acquisition over 'Buy (Global)' & 'Buy & Make (Global)' categories.
- The 'Make' Procedure has been simplified with provisions for funding of 90% of development cost by the Government to Indian industry and reserving Government funded Make-I projects not exceeding development cost of Rs.10 Crore & procurement cost Rs. 50 Cr per year for MSMEs. The industry funded Make-II Projects not exceeding development cost of Rs.3 Crore & procurement cost Rs. 50 Cr per year have also been reserved for MSMEs.

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- Separate procedure for 'Make-II' category has been notified under DPP to encourage indigenous development and manufacture of defence equipment. Number of industry friendly provisions such as relaxation of eligibility criterion, minimal documentation, provision for considering proposals suggested by industry/individual etc. have been introduced in this procedure.
 - Few initiatives that have been taken, inter-alia, include making test facilities with the government entities available to the private sector and provisions for payment through Letter of Credit (LC) to Indian Vendors in global tenders.
 - Exchange Rate Variation protection has been made applicable for Indian private sector on par with Public Sector Undertakings for all categories of capital acquisitions.
 - The preferential treatment given to Defence Public Sector Undertakings in excise duty/custom duty has been discontinued. As per the revised policy, all Indian industries (public and private) are subject to the same kind of excise and custom duty levies.
3. Other important steps taken by government to promote Indian private defence industry are enclosed as per **Annexure**.
4. RFPs/Tenders are being awarded on nomination basis to defence public sector undertakings taking into consideration the capability and capacity available in the country for the requisite defence item. The total value of capital contracts awarded on nomination basis to the DPSUs since 2015-16 and upto October, 2019 is Rs 51,600 crore (approx).

ANNEXURE REFERRED TO IN REPLY TO PARTS (a) TO (d) OF LOK SABHA UNSTARRED QUESTION NO. 2646 FOR ANSWER ON 04.12.2019 REGARDING 'PRIVATE PARTICIPATION IN DEFENCE MANUFACTURING'

- Make in India' initiative was launched by Hon'ble Prime Minister in September, 2014, with the primary objective of making India a global manufacturing hub, by encouraging both domestic as well as foreign OEMs to manufacture their products within the country.
- FDI Policy has been revised and under the revised policy, FDI is allowed under automatic route upto 49% and beyond 49% through Government route wherever it is likely to result in access to modern technology or for other reasons to be recorded.
- An innovation ecosystem for Defence titled Innovations for Defence Excellence (iDEX) has been launched in April, 2018. iDEX is aimed at creation of an ecosystem to foster innovation and technology development in Defence and Aerospace by engaging Industries including MSMEs, Start-ups, Individual Innovators, R&D institutes and Academia and provide them grants/funding and other support to carry out R&D which has potential for future adoption for Indian defence and aerospace needs. 24 contracts have been signed so far by the implementing agency - Defence Innovation Organisation (DIO).
- Government has notified a Policy for indigenisation of components and spares used in Defence Platforms in March, 2019 with the objective to create an industry ecosystem which is able to indigenize the imported components (including alloys & special materials) and sub-assemblies for defence equipment and platform manufactured in India.
- Government has decided to establish two defence industrial corridors to serve as an engine of economic development and growth of defence industrial base in the country. They span across Chennai, Hosur, Coimbatore, Salem and Tiruchirappalli in Tamil Nadu and spanning across Aligarh, Agra, Jhansi, Kanpur, Chitrakoot and Lucknow in Uttar Pradesh (UP).
- A Policy on 'Utilisation of Third Party Inspection Services' has been notified in May, 2018 for effective administration of inspection Services with involvement of third parties and promote Ease of Doing Business for MSMEs and private sector.
- Offset guidelines have been made flexible by allowing change of Indian Offset Partners (IOPs) and offset components, even in signed contracts. Foreign Original Equipment Manufacturers (OEMs) are now allowed to provide the details of IOPs and products after signing of contracts. In order to bring more transparency and efficiency into the Offset discharge process, "Offset portal" has been created in May, 2019.

- The Ministry has instituted a new framework titled ‘Mission Raksha Gyan Shakti’ in November, 2018 which aims to provide boost to the Intellectual Property Rights (IPR) culture in indigenous defence industry.
- Test facilities with the Government entities have been published on the MoD website to make them available to the Private sector.
- To support the growing private Industry, govt has launched a mega ‘Skill India’ programme, which is well poised to ensure adequate availability of skilled workers.
- Defence Investor Cell has been created in February, 2018 the Ministry to provide all necessary information including addressing queries related to investment opportunities, procedures and regulatory requirements for investment in the sector.
- The process for export clearance has been streamlined and made transparent & online. An Export Promotion Cell has been setup to co-ordinate and follow-up on export related action including enquiries received from various countries and facilitate private sector and public sector companies for export promotion.
- Department of Defence Production has notified 112 items under Public Procurement Order 2017 notified by Department for Promotion of Industry and Internal Trade (DPIIT). The Defence PSUs and OFB are thereby required to give preference to domestic manufacturers while procuring these items in accordance with the said policy.
- A new online portal has been developed for facilitating filing of online applications for Industrial License under Industries (Development & Regulation) – IDR Act 1951/Arms Act 1959. The link of the portal is <https://service.dipp.gov.in>. This online portal is available for Public with effect from 16.10.2018 for filing applications.
- Based on the initiative taken by Department of Defence Production to review Defence Product List for the liberalization in defence manufacturing sector, the Defence Product List has got rationalized and trimmed.
- Further, vide Press note no. 2(2019 Series) DPIIT has notified that in reference to Press note 1(2019 Series) dated 01.01.2019, no Industrial license/Arms license is required for the manufacture of any parts or any accessories in Defence sector, unless they are specifically listed in any of the Annexures of the said Press note.
