

GOVERNMENT OF INDIA
MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE PRODUCTION
LOK SABHA
UNSTARRED QUESTION NO.1483
TO BE ANSWERED ON 10th February, 2021

FOREIGN DEFENCE INDUSTRY

1483. SHRIMATI RITA BAHUGUNA JOSHI:

Will the Minister of DEFENCE j{k k ea=h
be pleased to state:

- (a) the measures that have been taken to attract foreign defence industry in India;
- (b) the investment made by foreign defence industry in India during the last three years; and
- (c) the measures proposed to provide further fillip to these proposals?

A N S W E R

MINISTER OF STATE
IN THE MINISTRY OF DEFENCE

(SHRI SHRIPAD NAIK)

(a) To attract foreign investment in Defence Sector, Foreign Direct Investment (FDI) policy has been amended vide Press Note 4 (2020 series) dated 17.09.2020. Now, FDI in defence sector is allowed up to 74% through automatic route (from earlier 49%) for companies seeking new industrial licenses. FDI beyond 74% and up to 100% will be permitted under Government route. For existing FDI approval holders/defence licensees, infusion of fresh foreign investment up to 49% resulting in change in equity/ shareholding pattern can be done by making declaration within 30 days (earlier Government approval was required). Now, foreign investments in the defence sector shall be subject to scrutiny on grounds of National Security.

(b) So far, FDI inflows of over Rs 4191 crores have been reported by the companies operating in defence and aerospace sector. Further, FDI inflows of over Rs 2871 crores have been reported in defence and aerospace sector after 2014.

(c) Department of Defence Production (DDP) has taken many measures to provide further fillip to foreign investment and improve the Defence ecosystem. Steps taken are as per **Annexure**.

ANNEXURE REFERRED TO IN REPLY TO PART (c) OF LOK SABHA UNSTARRED QUESTION NO. 1483 FOR ANSWER ON 10.02.2021 REGARDING 'FOREIGN DEFENCE INDUSTRY'.

- i. Cabinet vide Department of Economic Affairs' OM No. 01/01/FC/2017-FIPB dated 05.06.2017 approved abolition of Foreign Investment Promotion Board (FIPB). Pursuant to the abolition, Department of Defence Production (DDP) has been made Administrative authority for Defence sector and Foreign Investment Facilitation Section (FIFS), Department for Promotion of Industry and Internal Trade (DPIIT) marks the foreign investment proposals to DDP.
- ii. DPP-2016 has been revised as Defence Acquisition Procedure (DAP)- 2020, which is driven by the tenets of Defence Reforms announced as part of 'Aatmanirbhar Bharat Abhiyan'.
- iii. In order to promote indigenous design and development of defence equipment 'Buy {Indian-IDDM (Indigenously Designed, Developed and Manufactured)}' category was introduced in 2016 and was accorded top most priority for procurement of capital equipment.
- iv. Ministry of Defence has notified a 'Negative list' of 101 items for which there would be an embargo on the import beyond the timeline indicated against them. This is a big step towards self-reliance in defence. This would offer a great opportunity to the Indian defence industry to manufacture these items using their own design and development capabilities to meet the requirements of the Armed Forces in the coming years. This list includes some high technology weapon systems like artillery guns, assault rifles, corvettes, sonar systems, transport aircrafts, light combat helicopters (LCHs), radars and many other items to fulfil the needs of our Defence Services.
- v. The 'Make' Procedure of capital procurement has been simplified. There is a provision for funding upto 70% of development cost by the Government to Indian industry under 'Make-I' category. In addition, there are specific reservations for MSMEs under the 'Make' procedure.
- vi. Procedure for 'Make-II' category (Industry funded), introduced in DPP-2016 to encourage indigenous development and manufacture of defence equipment has number of industry friendly provisions such as relaxation of eligibility criterion, minimal documentation, provision for considering proposals suggested by industry/individual etc. So far, 55 projects relating to Army, Navy & Air Force, have been accorded 'Approval in Principle', valuing about Rs. 30,000 Crores.

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- vii. The Government of India has enhanced FDI in Defence Sector up to 74% through the Automatic Route for companies seeking new defence industrial license and up to 100% by Government Route wherever it is likely to result in access to modern technology or for other reasons to be recorded. The obligatory government approval for existing FDI approval holders / current defence licensees for change in equity / shareholding pattern up to 49% FDI has been replaced with mandatory declaration for the same within 30 days of change of equity / shareholding pattern. The proposals for raising FDI beyond 49% from such companies could also be considered with Government approval.
- viii. 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.
- ix. An indigenization portal namely SRIJAN has been launched in August, 2020 for DPSUs/OFB/Services with an industry interface to provide development support to MSMEs/Startups/Industry for import substitution.
- x. “Offset portal” has been created in May, 2019 to ensure Greater transparency, efficiency and accountability in the process. Reforms in Offset policy have been included in DAP 2020, with thrust on attracting investment and Technology for Defence manufacturing.
- xi. Government has notified the ‘Strategic Partnership (SP)’ Model in May, 2017, which envisages establishment of long-term strategic partnerships with Indian entities through a transparent and competitive process, wherein they would tie up with global Original Equipment Manufacturers (OEMs) to seek technology transfers to set up domestic manufacturing infrastructure and supply chains.
- xii. 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.

- xiii. An Inter-Governmental Agreement (IGA) on “Mutual Cooperation in Joint Manufacturing of Spares, Components, Aggregates and other material related to Russian/Soviet Origin Arms and Defence Equipment” was signed in September, 2019. The objective of the IGA is to enhance the After Sales Support and operational availability of Russian origin equipment currently in service in Indian Armed Forces by organizing production of spares and components in the territory of India by Indian Industry by way of creation of Joint Ventures/Partnership with Russian Original Equipment Manufacturers (OEMs) under the framework of the “Make in India” initiative.
- xiv. Defence Products list requiring Industrial Licences has been rationalised and manufacture of most of parts or components does not require Industrial License. The initial validity of the Industrial Licence granted under the IDR Act has been increased from 03 years to 15 years with a provision to further extend it by 03 years on a case-to-case basis. About 500 Industrial Licenses have been issued so far.
- xv. 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.
