

ROUNDTABLE

STRATEGIC PARTNERSHIP & INDIGENISATION-LOOKING AHEAD



To give a boost to the indigenous defence industry and ensure timely delivery of quality equipment to the Armed Forces, the Strategic Partnership (SP) Model was approved in May 2017 and added as an adjunct to the DPP 2016. The Model aims to invigorate defence production and gradually enhance/build indigenous capabilities in the private sector to design, develop and manufacture complex weapon systems for the future needs of the Armed Forces. The amplifying guidelines issued subsequently have laid emphasis on incentivisation of transfer of niche technology and higher indigenous content. This is expected to give a major fillip towards encouraging self-reliance and aligning the defence sector with the 'Make in India' initiative of the Government.

To examine various issues concerned with the SP Model a Roundtable was conducted on the subject by South Asia Defence and Strategic Review in concert with CENJOWS and TRILEGAL on 11 Feb 2019.

Introduction & Keynote (Setting the Context)

The welcome address was delivered by Lt Gen Vinod Bhatia, PVSM, AVSM, VSM, Director CENJOWS. He stated that despite India being a balancing power in the world order and having the fourth largest military in the world, our defence industrial base has several infirmities. He expressed that there have been several amendments in the DPP 2016 during the year 2018. In spite of being the largest importer of arms in the world, accounting for 13% of the world's defence equipment imports, 68% of India's defence equipment is obsolete. The MoD vision is to reduce imports by 50% by the year 2021. This is where the SP Model is expected to play the role of a game changer. Vice Adm Atul Jain, AVSM, VSM, DCIDS (PP&FD), HQ IDS, delivered the opening remarks and expressed concerns about the private sector not coming up the way it should have. He elaborated on the need for transaction advisors for the SP Model; so that results



as desired are achieved. He also stated that a lot has been done in past four years in field of indigenisation including looking at upgrades through SP and there have been efforts by the Government to further streamline the offset policy.

An Introduction to the SP Model was given by Mr. Yogesh Singh, Partner, TRILEGAL. The discussions on the SP Model centered around the key concerns and challenges with the policy, especially in the backdrop of the Naval Utility Helicopter programme (NUH Programme) under the SP Policy.

He went on to add that we need to have a more open dialogue on the model and related issues, so that existing ambiguities are discussed and resolved. He suggested that it is imperative that institutionalised mechanisms are strengthened to facilitate successful implementation of the model. Further, while the SP Policy brings with it a fresh perspective on defence procurement and has been hailed by the Indian Government as an enabler of “Make in India”, the Indian Government must consider bringing through additional clarity in the policy to address various issues being faced by stakeholders. Furthermore, he expressed that there is a need for a roadmap of assured orders/first priority to be given to the selected SP to incentivize the SP to make the requisite investments to set up a manufacturing ecosystem in India.



SESSION 1: JVs & Tie ups in Defence (Policy and practice since 2014)

The session was moderated by Lt Gen Lt Gen Subrata Saha, PVSM, UYSM, YSM, VSM**, Member NSAB.

Presentations were made by Mr. Delano Furtado-Partner, TRILEGAL. The issues that emerged during the session are as under:-

- A lot has been done since 2014 to ease FDI in the defence sector which is presently 49% under the automatic route and thereafter requires government approval on a case to case basis.
- DPP 2016 is not being actualised as it was conceived, the implementation thereof needs to be given more impetus.
- SOP on IDDM is presently not in public domain; this must be done so that there is more awareness on the subject.
- Offsets are not happening the way envisaged as there are weaknesses related to execution of the same.

- We need to have a Defence Industrial Policy Document, which would help clarify issues which are currently nebulous.
- The SP model must largely be user driven, hence there is a need to integrate the developer with the user right at the inception of a programme.
- Public & Private Sectors are in same space. There must be clarity on what is required/expected of each.
- The Indian Government should evaluate the need for ownership and control restrictions under the FDI Policy in Indian defence manufacturing companies.

SESSION 2: Technology transfer, Localization & IPR issues

Lt Gen Sanjay Verma, AVSM, VSM**, DGWE chaired the session and presentations were given by Mr Yogesh Singh – Partner, TRILEGAL & Mr Mats Palmberg – Saab Ab

The following key points emerged:

- There are immense possibilities for indigenous manufacture, provided there is a viable business case.
- Less focus should be on indigenous content from a manufacturing perspective and more focus should be directed towards acquiring capabilities in design and development. ToT has two components; the first is cost & the second is time. All aspects connected to ToT must be covered in detail to include issues related to IPR (India is presently 36/50 in the IP Index).
- DRDO and industry must work in concert and contribute insofar as identification of technical requirements is concerned.
- We must create the infrastructure and skill levels required to absorb technology. The focus should be on acquiring capabilities in conceptualizing, designing and developing and integrating system of systems.

- There must be flexibility in ToT, we should not have rigid guidelines and get strait-jacketed. Concerns regarding know how and know why should be adequately addressed.

Special Address: Financial Planning: Key issues

The address was delivered by Lt Gen Ajai Singh, AVSM, DGFP. He stated:-

- There is no shortage of money as the Government is providing enough money for defence.
- This year there has been an 8% increase in the defence budget.
- The concept of revised budgetary estimates as prevalent in India is a great thing as it helps overcome financial obstacles on account of escalations/unforeseen contingencies.
- Contracts are not being well negotiated leaving ambiguities in several areas.
- India is a lucrative market for foreign players because of requirement of large volumes and variety of defence equipment.

SESSION 3: New programs case study - FRCVs / Ammunitions

The discussion was moderated by Lt Gen Anil Chait, PVSM, AVSM, SM, VSM, former CISC and included presentations by Lt Gen AB Shivane, PVSM, AVSM, VSM, Advisor OFB, Dr Mayank Dwivedi, Scientist G, DRDO, Ms Kosturi Ghosh – Partner, TRILEGAL, Vikram Bhardwaj–Safran and Ms Nirupama Soundararajan – Pahle India Foundation. The following points emerged:-

- We need to stabilise our planning and execution as too many changes are being made in some of the current projects thus resulting in delays and cost over runs.

- The decision making loop needs to be so structured that inordinate delays are avoided.
- Absorption of technology needs to be ensured by putting proper mechanisms in place for the same .
- It is highly essential to have Apex and Project Management Committees for all ventures as this would ensure better integration of the OEM with the JV partner and thus help in speedy and correct execution of projects.

TAKE AWAYS

Strategic Partnership Model.

The model as conceived is designed to reduce dependence on imports and generate self-reliance in meeting national security objectives. However, there are certain inadequacies/impediments that must be obviated so that the envisaged aim of the model is achieved in entirety. It is necessary to consider enhanced FDI and control norms related to the SP, as these are the most critical aspect for OEM as far as ToT is concerned. At present OEMs are not keen on ToT at 49% FDI and lack of administrative control. The OEMs are also required to be jointly responsible along with the SP for certification and quality assurance of the platforms being supplied. Also, there are no assurances with regard to subsequent procurements and prospects.

Transfer of Technology. This is a major issue because OEMs are generally reluctant to share complete know how; this is further compounded by the aspect of sharing intellectual property rights. All aspects related to ToT must be covered in totality to include subsequent upgrades, legal issues and confidentiality. The two important aspects related to ToT viz cost and time (for transfer) must be adequately addressed.

Contracts. It is of the essence that contracts are well negotiated so that liability sharing between OEM and partner, is clearly spelt out. They must not only include know how aspects but must also include know why aspects so that holistic absorption of technology is facilitated. For the JV to be successful agreements must be as

comprehensive as possible and not have any grey areas.

DRDO and Industry. DRDOs role should be more collaborative with the private industry and both must aim to rise above turf wars. The two must work in concert to achieve a balance between technology requirements and functionality thus facilitating framing of appropriate requirements in the very nascent stages. The user must clearly spell out ToT requirements with assistance from the DRDO. The Industry must be provided with a level playing field alongside DPSU/OFBs. There should be long term commitments from the customer to develop the eco-system and supply chain system. Requisite infrastructure and skills must be created to facilitate execution of the projects.

Offsets. DPP 2016 introduced mandatory offset requirements for procurements in excess of INR 2000 crores in the Buy (Global) and Buy and Make Category. Offset Obligations can be met by way of equity investments in JVs with Indian enterprises for manufacture/maintenance of eligible products/services which presents a unique opportunity for vendors to discharge their offset obligations through joint ventures.

Business Plans. It is necessary that viable and pragmatic business plans are formulated. To this end the importance of selecting the right business partner cannot but be over emphasised. Firm commitments are required on business volumes as setting up an eco-system and supply chain innovation is virtually impossible without such a commitment.

Draft DPP 2018. There is a proposal to specifically permit FDI up to 74% under automatic route in niche technology areas. The licensing process may also be liberalized with items-except for a small negative list-being taken out of purview of licensing. As far as offsets are concerned; new investment linked avenues for discharge of offset obligations will be made available which will also enable certainty and quick discharge of offsets.

Defence Industrial Policy

Document. There is a need to frame a Defence Industrial Policy Document, which besides laying down relevant guidelines builds in accountability, which unfortunately has been the bane of our defence production thus far. The policy document should be flexible in that waivers can be given, where warranted. The model must largely be user driven, hence there is a need to integrate the developer with the user.

Way Forward. We need to reconsider FDI and control norms related to the SP, these are the most critical aspect for an OEM whilst transferring technology. The other aspects that need to be introduced are:-

- Provide flexibility to the OEM regarding accountability given no 'control' over the company.
- Consider long term commitments to the SP for the selected programmes.
- Provide measurement and evaluation criteria for different kinds and critical levels of technologies. SA