

GOVERNMENT OF INDIA
MINISTRY OF DEFENCE
DEPARTMENT OF DEFENCE PRODUCTION
LOK SABHA
UNSTARRED QUESTION NO.1432
TO BE ANSWERED ON 27th November, 2019

FDI AND PRIVATE PARTICIPATION IN DEFENCE PRODUCTION

1432. SHRI ANTO ANTONY:
SHRI UDAY PRATAP SINGH:
SHRI VIJAY KUMAR:
DR. AMAR SINGH:

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

- (a) whether the Government has recently initiated/proposes to initiate any scheme under the Make in India programme to design, develop and manufacture indigenous military equipment in collaboration with Indian private sector;
- (b) if so, the details thereof including number and name of the private firms engaged in defence productions;
- (c) whether the indigenously developed and manufactured defence equipments are competitive at international level and conform to international standard and if so, the details thereof;
- (d) whether the Government is allowing Foreign Direct Investment (FDI) in defence production sector and if so, the details thereof; and
- (e) whether the Government proposes to provide eighty per cent funding to the Research & Development projects undertaken by the private sector companies in defence production and if so, the details thereof?

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 (e): A statement is attached.

STATEMENT IN RESPECT OF PARTS (a) TO (e) OF LOK SABHA UNSTARRED QUESTION NO. 1432 REGARDING “FDI AND PRIVATE PARTICIPATION IN DEFENCE PRODUCTION” FOR ANSWER ON 27.11.19

(a) & (b): Government has taken following policy initiatives to promote indigenous design, development & manufacture of defence equipment in collaboration with Indian private sector:-

- i. A new category of procurement ‘Buy {Indian-IDDM (Indigenously Designed, Developed and Manufactured)}’ has been introduced in Defence Procurement Procedure (DPP)-2016 to promote indigenous design and development of defence equipment. It has been accorded top most priority for procurement of capital equipment.
- ii. 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.
- iii. 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.
- iv. 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.
- v. Government has notified the ‘Strategic Partnership (SP)’ Model 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.

- vi. 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.
- vii. 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.
- viii. 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).
- ix. 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.
- x. 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.
- xi. 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.
- xii. Defence Investor Cell has been created in Feb-2018. The Ministry to provide all necessary information including addressing queries related to investment opportunities, procedures and regulatory requirements for investment in the sector.
- xiii. 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.

- xiv. 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

As a result of the aforesaid initiatives undertaken, the Government in the last five years i.e. from 2014-15 to 2018-19 and current year till Sept 2019, has accorded Acceptance of Necessity (AoN) to 218 proposals, worth Rs. 409,244 Crore approximately, under various categories of Capital procurement which promotes domestic manufacturing as per DPP-2016

There are 41 Ordnance Factories, 9 Defence Public Sector Units, 275 Licensed companies and approx. 42000 vendors of OFB & DPSUs are engaged in defence production. The list of Defence Licensed companies is available in public domain at Department for Promotion of Industry and Internal Policy (DPIIT) website.

(c) The defence items are indigenously developed and manufactured conforming to Service Qualitative Requirements (SQRs) which are formulated keeping into consideration the operational requirements of Armed forces and the latest technologies available internationally. Many of defence equipment so produced are also exported to international market which is indicative of the competitiveness of indigenously developed defence products.

(d) As per the latest 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.

(e) Make-I sub-category of 'Make' procedure prescribed at Chapter-III of DPP-2016 provides that 90% of the prototype development cost will be borne by the Ministry of Defence. In addition, 'Technology Development Fund (TDF)' administered by Defence Research & Development Organisation (DRDO), provides for funding upto Rs 10 Crore across all the required technology development phases, subject to maximum of 90% of the total project cost in general; and also upto 100% funding, on case to case basis.
