

IN BRIEF – DEFENCE SECTOR



I. RAGHAVAN COMMITTEE TO RECOMMEND REVAMPING OF DRDO

The Government of India set up a nine-member committee in late August to revamp the Defence Research and Development Organisation (DRDO). The move comes within a decade-and-a-half of a similar exercise undertaken by the Government when many structural and procedural reforms were carried out to make the organisation more efficient, based on the recommendations of a committee set up under Dr. P Rama Rao in 2007.

The DRDO was raised in 1958 by amalgamating the Technical Development Establishments (TDEs) of the Indian Army and the Directorate of Technical Development & Production (DTDP) with the Defence Science Organisation (DSO). It has had a virtual monopoly of defence R&D since then, though lately engagement with the private sector in R&D has been on the rise.

Headed by Professor Vijay Raghavan, a former Principal Scientific Advisor to the Government of India, the committee members are drawn from diverse backgrounds: military, industry, scientific, academic and finance. According to a report by Mr. Shishir Gupta in the Hindustan Times (August 23, 2023), the committee's task is to recommend measures to:

- Restructure and redefine the role of Department of Defence Research and Development (DDR&D) and the Defence Research and Development Organisation (DRDO), their mutual relationship, as well as their outreach to academia and the industry.

- Maximise the participation of the academia, Micro, Small and Medium Enterprises (MSMEs) and start-ups in developing cutting edge technologies.
- Formulate a package of incentives and disincentives linked to performance appraisal and accountability to attract and retain scientists.
- Facilitate involvement of Non-Resident Indian (NRI) experts and foreign consultants in defence R&D and promote inter-country collaborations for development of cutting edge and disruptive defence technologies.
- Modernize administrative, personnel and financial systems for speedier execution of projects.
- Rationalise the laboratory structures and their performance evaluation process.

Faced with the daunting task of submitting its report by end-November, the Raghavan committee faces three fundamental challenges.

One, the time the Raghavan committee has is too short for it to diagnose the problems bedeviling the DRDO, which it must address. There are generalised notions galore of the DRDO's institutional inefficiency, tendency to arrogate to itself all major development projects, lack of accountability, aversion to private sector participation in Research and Development (R&D) projects, indifference to the users' requirements, and the like, but these are a poor substitute for an unequivocal diagnosis of the systemic lacunae that require rectification. Appropriate solutions cannot be found in the absence of a proper diagnosis.

Two, the Raghavan committee will also have to examine why previous institutional reforms based on the Rama Rao committee's recommendations did not help and why certain recommendations were not accepted by the Government. One such recommendation was to set up a Board of Research for Advanced Defence Sciences (BRADS) on the lines of the Defence Advanced Research Projects Agency (DARPA) of United States of America (USA). The recommendation to set up a Defence Technology Commission (DTC) and a separate commercial arm for the DRDO was also not accepted.

Private sector participation is the current mantra for achieving self-reliance in each segment of defence production, including R&D. Many schemes - not all of them under DRDO's aegis, though - are already in operation. These include funding of R&D projects out of the Defence Technology Fund and under iDEX (Innovation for Defence Excellence) scheme. Defence R&D to varying degrees by local companies is also an inbuilt feature of procurement categories such as Buy (Indian - Indian Designed, Developed and Manufactured), Make, Design and Development in association with Development-cum-Production Partner, and Strategic Partnership

model. The Raghavan committee could possibly consider how best to bring about synergy in these disjointed efforts at promoting R&D.

In her budget speech, Finance Minister Nirmala Sitharaman had announced in 2022 that 25 percent of the annual research and development budget of the Ministry of Defence, Government of India (MoD) will be reserved for private companies and start-ups to break the monopoly of the public sector on developing cutting edge military technology. It is not known if the scheme has been promulgated, but this is one area which the Raghavan committee can look into.

Three, the defence R&D allocation has come down from 6.38% of the total defence outlay in 2018-19 to 5.1% in 2023-24, while as a proportion of the Gross Domestic Product (GDP) it has slipped from 0.088% in 2017-18 to 0.078% in 2023-24. The Raghavan committee will need to keep the enduring financial constraints in view while making its recommendations. It is comparatively easy to address structural and functional issues but increasing the R&D outlay will not be easy, which is where the rub lies as defence R&D cannot be put into top gear with limited budget outlays.

The challenges faced by the Raghavan committee notwithstanding, there is an opportunity in all this for the foreign and Indian private industry, including Micro, Small and Medium Enterprises (MSMEs) and start-ups, to project their concerns and make practical suggestions which the committee, and later the MoD, may find difficult to turn down.

II. MoD NOTIFIES FIFTH POSITIVE INDIGENIZATION LIST TO PROMOTE INDIGENOUS DEFENCE PRODUCTION

On October 4, the Defence Minister of India, Rajnath Singh released the fifth 'Positive Indigenization List' (PIL) of 98 items, proscribing their import from the item-specific cut-off dates which stretch from the end of this year to December 2030. The first such list of 101 items was released in August 2020, followed by the second list of 108 items in May 2021, and two lists of 101 items each in April and October 2022.

These five PILs are distinct from another four similar lists, proscribing import of items by the Defence Public Sector Undertakings, which were issued between December 2021 and May 2023.

The PILs are intended to encourage the Indian defence industry to manufacture the proscribed items by using their own design and development capabilities or adopting technologies designed and developed by the DRDO, to meet the requirements of the armed forces in the coming years.

The items included in the PILs range from complex systems like aircrafts, naval vessels, carbines, combat vehicles, heavy weight torpedoes, satellites, and specialist vehicles to sensors, weapons, missiles, radars, unmanned aerial vehicles, simulators, ammunition, and components. This should be of interest, both to the foreign original equipment manufacturers (OEMs) and the Indian companies, especially the smaller ones.

Many items in the fifth PIL - as indeed in the earlier lists - such as torque motor, air conditioning unit for Chinook helicopters, foaming agent morpene, AI based satellite image analysis, automatic range instrumentation system, 5/7.5 ton radio relay container, chaff and flares for Mig-29K and P-8I aircrafts, high capacity

radio relay, and personal rescue beacon would provide a good business opportunity to Start-ups and MSMEs.

India has been among the largest importers of arms. According to a March 2023 report of Stockholm International Peace Research Institute (SIPRI), India was the topmost importer between 2018-22, accounting for 11 per cent of the global imports. In percentage terms the imports have, however, been coming down progressively, thanks largely to the Government's policy of promoting local manufacturing through measures like notification of the PILs.

The PILs have many overseas defence companies worried about their prospects in India. While the current procurement policy indeed gives preference to indigenously designed and developed products, the MoD is not averse to transfer of technology (ToT) by foreign OEMs to the Indian companies for local manufacturing of the foreign-origin products.

The Strategic Partnership Model, introduced in 2016, specifically aims at collaboration between foreign OEMs and the Indian companies for local production of fighter aircraft, helicopters, submarines, armoured fighting vehicles/main battle tanks. Project 75 (India) for construction of diesel-electric submarines for the Indian Navy is a case in point. The project envisages ToT from an international shipyard for contract manufacturing of the submarine at a chosen Indian shipyard.

The trend that has emerged in the recent past is to have Indian companies, both from the private and public sectors, as the prime vendors in as many defence contracts as possible, permitting them, however, to establish back-end collaboration with foreign OEMs, as long as it does not come in the way of the prime vendor achieving the prescribed level of indigenous content (IC) in the locally-manufactured product.

The IC is measured in monetary terms by subtracting direct and indirect costs of all imported materials, services obtained from non-Indian entities/ citizens, and all license fees, royalties, technical fees, etc., paid out of India, from the base contract price (the total contract price less taxes and duties on the equipment/ item).

The growing primacy of the Indian companies in defence procurement programmes restricts, but does not altogether eliminate, the role of the foreign OEMs. As a matter of fact, there is no bar on the MoD awarding contracts to them under at least two specific categories: Buy (Global) and Buy (Global – Manufacture in India). All procurements under inter-governmental agreements, including procurement from the USA via Foreign Military Sales programme - fall in these categories.

It needs to be kept in view that the embargo on import of 509 items listed in the five PILs notified so far does not entail any assurance of these items being procured by the MoD. In fact, there is no indication of when, if at all, the MoD will issue the tenders for the listed items, the quantities that may be required by the armed forces, or the exact technical specifications that the product must conform to. There are multiple factors which have a bearing on this issue, budgetary constraints being one of them.

One of the MoD's objectives is to build up the domestic industry with a view to making India a defence manufacturing hub, catering not only to the domestic needs, but also becoming a part of the global supply chain. This objective is also linked with India's aspirations of increasing its defence exports to ₹ 35,000 crore (\$ 4.5 bn approximately) by 2024-25. It remains to be seen, however, if the PILs, with their focus being on meeting domestic requirements, can help in expanding India's defence exports.

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