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**STANDING COMMITTEE ON DEFENCE
(2008-2009)**

(FOURTEENTH LOK SABHA)

MINISTRY OF DEFENCE

**INDIGENISATION OF DEFENCE PRODUCTION –
PUBLIC-PRIVATE PARTNERSHIP**

THIRTY-THIRD REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2008/Agrahayana, 1930 (Saka)

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PUBLIC-PRIVATE PARTNERSHIP**

Presented to Lok Sabha on 19.12.2008

Laid in Rajya Sabha on 19.12.2008



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NEW DELHI**

December, 2008/ Agrahayana, 1930 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE ON DEFENCE (2008-09)

Shri Balasaheb Vikhe Patil - Chairman

MEMBERS

LOK SABHA

2. Shri Vijay Bahuguna
3. Shri S. Bangarappa
4. Shri Milind Murli Deora
5. Shri Santosh Gangwar
6. Shri Jigajinagi Ramesh Chandappa
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28. Shri K.B. Shanappa
29. Shri Arun Shourie
30. Smt. Viplove Thakur
31. Shri M.V. Mysura Reddy

* Consequent upon his disqualification from Lok Sabha w.e.f. 3.10.2008.

** Ceased to be a member of this Committee due to his retirement from Rajya Sabha w.e.f. 29.11.2008.

*** Ceased to be a member of this Committee due to his retirement from Rajya Sabha w.e.f. 25.11.2008.

SECRETARIAT

1. Shri Rajeev Sharma - Director
2. Shri D.R. Shekhar - Deputy Secretary
3. Shri Rahul Singh - Committee Officer

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INTRODUCTION

I, the Chairman, Standing Committee on Defence (2008-09) having been authorised by the Committee to submit the Report on their behalf do present this Thirty-third Report on the subject 'Indigenisation of Defence Production-Public Private Partnership'.

2. The Committee selected the above subject for examination during the year 2006-07. As the examination of the subject remained inconclusive, it was selected by the Standing Committee on Defence for examination during the years 2007-08 and 2008-09.

3. During their examination of the subject, the Committee took briefing and evidence of the representatives of the Ministry of Defence on 30 November 2006, 10 May 2007, 11 January 2008 and 26 September 2008 on the various aspects. At their sitting held on 18 December 2006, the Committee also invited Dr. Vijay Kelkar as a non-official expert of the subject to hear his views on the recommendations made in the reports on 'Towards Strengthening Self-Reliance in Defence Preparedness' and 'Revitalizing Defence Public Sector Undertakings and Ordnance Factories' submitted by the committee constituted by the Government under his chairmanship.

4. The Committee also heard the views of the representatives of Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI) and the Associated Chambers of Commerce and Industry of India (ASSOCHAM) at their sittings held on 9 January 2007 and 3 January 2008. The Draft Report was considered and adopted by the Standing Committee on Defence (2008-09) at their sitting held on 5 November, 2008.

5. In this Report, the Committee have observed that despite several initiatives taken in the recent past for promoting indigenisation and achieving self-reliance in the defence sector, there is still heavy dependence on foreign suppliers and the goal of achieving self-reliance remains elusive despite a well established network of the defence industries in the country.

6. The Committee have also expressed their strong displeasure over the manner in which the data on the level of indigenisation in defence sector is being maintained and have desired the Ministry to apply necessary correctives in order to ensure an objective and incisive analysis of the realities of the situation.

7. The Committee have desired that a formal mechanism for sharing information on the futuristic requirements and the perspective plans of the users should be put in place in accordance with the practices adopted by certain advanced countries so as to inspire the confidence of the private industries and enable them to gear up their infrastructure well in advance.

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8. The Committee have also desired that the policy initiatives taken by the Government in the recent past for creating public-private partnership and indigenous development in defence sector should be suitably reflected in the defence procurement procedures by clearly bringing out the specific provisions made therein to facilitate indigenously developed products.

9. The Committee have also pointed out that the demand for state-of-the-art weapon systems is poised to take a quantum leap in future and any let-up at this stage in the implementation of Government's policy of achieving self-reliance through national efforts would only result in heavy dependence on foreign sources. They have, therefore, expressed the hope that concrete and positive action will be taken by the Ministry of Defence on the recommendations made in this Report with a view to optimally exploiting the industrial capabilities and the competence available within the country.

10. The Committee wish to convey their thanks to the representatives of the Ministry of Defence, Dr. Vijay Kelkar and representatives of CII, FICCI and ASSOCHAM for appearing before the Committee for tendering evidence and for furnishing the relevant information in connection with the examination of this subject.

11. For facility of reference and convenience, the observations/recommendations of the Committee have been printed as Part-II in thick type in the body of the Report.

NEW DELHI;
16 December, 2008
25 Agrahayana, 1930 (Saka)

BALASAHEB VIKHE PATIL,
Chairman,
Standing Committee on Defence.

CHAPTER I

INDIGENISATION OF DEFENCE PRODUCTION-PUBLIC-PRIVATE PARTNERSHIP

Introductory

After independence, owing to the circumstances then prevailing, the Government consciously restricted defence production to the public sector. However, the private sector has been traditionally involved in supplying raw materials, semi-finished products, parts and components, sub-assemblies and sub-systems etc. to Defence PSUs and Ordnance Factories.

1.2 According to the Ministry of Defence, it is the policy of the Government to encourage indigenisation, particularly in the field of defence to achieve self-reliance. Various new policy initiatives taken by the Government in the recent past are aimed at promoting indigenisation in defence production and with the objective of strengthening self-reliance in the defence sector. It is also to constant endeavour of the Government to achieve maximum synergy between the public and the private sector with a view to creating a competitive defence technology edge and strengthen the defence industrial base in the country.

1.3 The economic liberalization ushered in by the Government in 1991 resulted in a high degree of de-regulation and allowed the private industry to progress more rapidly. Consequently, there has been tremendous growth in the Private sector with many of Indian industries becoming global players. Considering the capital intensive nature of defence industry sector as also the need to infuse foreign technology and additional capital including Foreign Direct Investment (FDI), Government decided in May 2001 to open Defence industry for Indian private sector participation up to 100% with FDI permissible up to 26% - both subject to licensing. With this policy change, all defence related items were removed from Reserved Category and transferred to the Licensed Category. As a result, private sector can now manufacture all types of defence equipment after obtaining an Industrial Licence under the Industries (Development & Regulation)

Act, 1951. Department of Industrial Policy & Promotion (DIPP), in consultation with Ministry of Defence, issued detailed guidelines for licensing production of Arms and Ammunition in January 2002. Consequently, there has been a paradigm shift in the role of private sector in the field of indigenisation, i.e., from the role of supplier of raw materials, components, sub-systems, they have now become partners in the manufacture of complete advanced equipment/system. The basic objective of allowing private sector participation to harness available expertise in the private sector towards the total defence efforts and search for self reliance. The Government inter-alia made provision of 'Make' category under DPP-2006 and DPP-2008 to strengthen public private partnership in Defence production.

1.4 During their examination of the subject matter, the Committee have taken briefing/evidence of the representatives of the Ministry of Defence, Defence Public Sector Undertakings (DPSUs), Ordnance Factories, DRDO as well as representatives from the Confederation of Indian Industry (CII), Federation of Indian Chambers of Commerce and Industry (FICCI), Associated Chambers of Commerce and Industry of India (ASSOCHAM) and Dr. Vijay Kelkar.

CHAPTER II

EXISTING INFRASTRUCTURE OF DEFENCE PRODUCTION IN PUBLIC SECTOR

The Department of Defence Production (DDP) of the Ministry of Defence, which oversees the defence production units has a substantial infrastructure developed over the years, consisting of 39 Ordnance Factories and 8 Defence Public Sector Undertakings.

Defence Public Sector Undertakings

2.2 The following eight DPSUs under the Department of Defence Production cater to the requirements of Defence forces:

- (i) Hindustan Aeronautics Limited (HAL)
- (ii) Bharat Electronics Limited (BEL)
- (iii) Bharat Earth Movers Limited (BEML)
- (iv) Mazagon Dock Limited (MDL)
- (v) Goa Shipyard Limited (GSL)
- (vi) Garden Reach Shipbuilders & Engineers Ltd. (GRSE)
- (vii) Bharat Dynamics Limited (BDL)
- (viii) Mishra Dhatu Nigam Limited (MIDHANI).

2.3 The product range of DPSUs include aircraft and helicopters, warships, submarines, heavy vehicles and earthmovers, missiles, a variety of electronic devices and components for the defence sector, besides alloys and special purpose steel and other alloys. In keeping with the Government policy of promoting indigenisation in the defence sector, the Defence PSUs and Ordnance Factories are striving to minimize the import content and enhance the indigenous content on their production programmes. The percentage of indigenous content in the turnover of BEL and HAL during the 2006-07 was 81 and 72.4 % respectively.

2.4 Replying to a specific query of the Committee regarding indigenisation efforts made by DPSUs, the Defence Secretary during oral evidence stated as under:

“81 per cent of the Bharat Electronics total turn over, which is Rs.4,500 crore, is done by indigenous technology. About 81 per cent of the products come out of the indigenous technologies, DRDO or in-house technology. You have been continuously raising this issue in the Committee that R&D must be improved. Secretary, Defence Research had also been mentioning that the number of people working on research in DRDO also are not adequate enough. So, more resources are required and that is why all PSUs and Ordnance Factory Board have been mandated to spend maximum amount of money as well as resources to their in-house research and development. That is why you will see that larger PSUs, especially HAL and BEL are spending huge amount; HAL is spending 8 per cent of its turn over on research and BEL is spending 5 per cent of its turn over on research with the result a number of products are being indigenised. Many systems have been indigenised. They were importing certain goods earlier but now they are doing in-house production. When we started we first had a TOT from foreign countries. Only 28 per cent of the technologies we had in our hand and today in some of these projects 100 per cent is done by BEL. Similarly, 95 per cent of OFB products depend totally on indigenous technology and 95 per cent of its turn over come out of the indigenous technology. You will agree that five per cent of international work is to be done in a company. If forging has to be done, private sector does not have the facility to do heat treatment, which involves a huge investment. HAL has its own plant and give material to the private sector which does melting and conversion into various parts. So, it is a very good partnership. It is a profitable partnership for public sector as well as private sector. That is how it is flourishing.”

2.5 Elaborating further, the Defence Secretary stated during evidence:

“Sir, as far as research and new projects are concerned, we have mentioned before about ‘Make’ procedures which have set right what was not available in the defence procurement policy. We have given you a detailed presentation on ‘Make’ procedures that will give a fillip for both joint funding by the Government and the private sector. Minimum quantity is also provided to the private sector which was definitely coming in the way. That has also been addressed and similarly regarding public-private partnership, there will be user committees which will be continuously guiding how to develop this and also see what is required of that particular system and how to go about it. I am sure you will appreciate that defence products are not something which can be picked off the shelf as and when the needs are there. Now a mechanism exists and I am sure on behalf of defence services, the Chiefs of PSUs would like to mention about this.

We know it because I have been watching them as we work together. They are also very fond of private sector and they also want to encourage them. Basically the job of the Defence Department is not to ensure the welfare of one or the other but to see that the Defence Forces are prepared properly so that they can deliver the goods when required and the benefits which go to the PSUs and others are only incidental to that. Otherwise, it is the preparedness of the Defence Forces which is paramount in our off set clause also. You had mentioned the off set where ever there are large quantity off sets, they are primarily because we have also visited many countries and we have discussed with them as it is of common interest to both of us. Around 70 per cent or 75 per cent or 80 per cent off set condition you will see that clearing many of those 100 per cent or 90 per cent would be indirect off sets. There is a great difference between direct and indirect off sets. When we sit here it is not our desire to improve the garment or some other industry of India. We are sitting here to see how to improve the defence industry of India. So, that is why direct off set means the off set only to the defence products.”

2.6 As regards the steps being taken to reverse current import/indigenisation ratio of 70:30 in the next 10 to 15 years, the Ministry in their written reply, submitted the following information:

“With a vision to reverse the existing import-indigenisation ratio, several steps are being initiated by the Ministry. For example, in respect of Army, vehicles i.e. 2.5 Ton Tata Ambulances, Mahindra & Mahindra Ambulance, Maruti Gypsy, Ashok Leyland, BEML, Royal Enfield, Hindustan Motors, Hero Honda, Ambulance Force Motors, Swaraj Mazda Ambulance have been procured.

Navy has taken following steps:

- (a) The Directorate of Indigenisation (DOI) has been set up in the year 2005, under Material Branch of the Navy, in order to give a focused thrust to the indigenisation drive of the Navy.
- (b) 10-15 year forecast requirements of the Navy were handed over to the Confederation of Indian Industry (CII) for dissemination to the industry. Since, then DOI is receiving enquiries from the industry.
- (c) The necessary policies and procedures for undertaking the indigenisation activity in a structured manner have been put in place and a 15 year indigenisation plan was formulated in the year 2005 with a 3 year roll on plan. Equipment/Systems worth Rs.113.87 lakhs and Rs. 2271.25 lakhs are under indigenisation in the FY 2007-08 and FY 2008-09 respectively.
- (d) In the past two years the Navy has taken up 36 equipment and systems for indigenisation.
- (e) It is also planned to set up a self encompassing Naval Indigenisation Establishment (NIE) to deal with the indigenisation activities.”

Air Force:

- (a) "IAF has embarked upon a well conceived indigenisation plan involving PSUs as well as private industry. While major airborne equipment for these systems are being indigenised through PSUs and private vendors.
- (b) Spares are indigenised by Base Repair Depot (BRDs) for MiG 23, 29, Su-30, An-32, Mi- 8, Mi-17, Avro, Dornier, and aero engines like Viper, M-53 and R-29, Missiles, Air Defence Radars, Ground handling equipment, testers and Communication systems etc.
- (c) 98 % indigenisation of mandatory spares and 94 % of ARS spares of various fleets have been achieved in which 65 % of indigenisation was done by outsourcing to the private industry.
- (d) In the indigenisation programme of testers for SU-30, Air Force saved on cost, reduced down time and reduced dependence on Original Equipment Manufactures (OEMs) abroad.
- (e) Indigenous development of Rocket 57, Rocket S24 B, AVU-ETM Fuze, Carts 30 mm DEFA for Mirage-200 aircraft and IR Flare cartridges."

Ordnance Factories

2.7 The Ordnance Factories Organization is the largest and oldest departmentally run defence production organization in the country. It is primarily engaged in the manufacture of Defence hardware for the Armed forces.

2.8 The Ordnance Factory Board has a Chairman and 9 functional Members. Out of these, five Members head operating divisions and four Members are for Staff functions. The operating divisions are based on the main products/or group of products. The five operating divisions are:

- (i) Ammunition and Explosives (A&E)
- (ii) Armoured Vehicles (AV)
- (iii) Materials and Components (M&C)
- (iv) Ordnance Equipment Group of Factories (OEF)
- (v) Weapons, Vehicles and Equipment (WV&E)

2.9 In addition, the Government has constituted a Special Board, with representation from the Ministry of Defence, Army and Defence Research & Development Organisation for providing appropriate inputs on resource planning, upgrading technology of products & process and on various other critical issues, necessary for the efficient functioning of OFB.

The product range of Ordnance Factories is as under:

(i)	Weapon Items	Small Arms (Rifles, Pistols, Carbines, Machine Guns), Tank Guns, Anti-Tank Guns, Field Howitzers, Artillery Guns, Mortars, Air Defence Guns and Rocket Launchers.
(ii)	Ammunition Items	Ammunitions for all the above weapon systems, Rockets, Missile Warheads, Mortar Bombs, Pyro-technique (Smoke, Illuminating, Signal), Grenades and Bombs for Air Force, Naval ammunition, propellant and fuzes.
(iii)	Armoured & Transport Vehicles	Tank T-72 'Ajeya', Tank T-90 'Bhishma', Infantry Combat Vehicles, Armoured Ambulance, Bullet Proof & 48 Mine Proof Vehicles, Special Transport Vehicles and Variants.
(iv)	Troop Comfort Items	Parachute for Army & Air Force, High Altitude & Combat Clothing, Tents of Various Types, Uniforms & Clothing Items, Floats For Light Assault Bridges.
(v)	Opto Electronics	Optical Instruments and Opto- Electronic Devices/ Fire Control Instruments for Armoured Vehicles, Infantry And Artillery Systems.
(vi)	Others	Special Aluminum alloys for aviation and space industry, Field Cables, Water Bowser etc.

WORKING RESULTS OF OFB VALUE OF PRODUCTION AND SALES

2004-05		2005-06		2006-07	
Value of production	Value of Sales	Value of Production	Value of Sales	Value of Production	Value of Sales
8332.00	6186.65	8811.59	6891.68	8282.72	6197.35

2.10 The Ministry in their written reply have stated that Ordnance Factories have issued products worth Rs. 32,295 crores during last five years out of which share of Defence Forces is 84 percent.

2.11 Ordnance Factories have a very impressive record of indigenisation. Presently, the import content in their outlay of approximately Rs.6000 crore is only about 5 % which is in the field of armoured vehicles, in particular T-90 Tanks, where the Transfer of Technology (TOT) has been taken recently.

Extent of Indigenisation

2.12. According to the information made available by the Ministry of Defence, the service wise break up of indigenised and imported capital acquisition of the defence products in terms of value and percentage for last three years is as under:-

(Rs. in crores)

Name of Service	Financial Year	Amount			
		Import* (%age)	Indigenous (%age)	Total	
Army	2005-06	1766.96 (30.17%)	4089.38 (69.83%)	5856.34	
	2006-07	876.61 (23.40%)	2868.40 (76.60%)	3745.01	
	2007-08	2856.66 (42.67%)	3838.87 (57.33%)	6695.53	
Navy	2005-06	2571.12 (33.92%)	5007.86 (66.08%)	7578.98	
	2006-07	3157.61 (34.15%)	6087.76 (65.85%)	9245.37	
	2007-08	2010.72 (23.47%)	6555.91 (76.53%)	8566.63	
Air Force	2005-06	3173.31 (26.33 %)	8881.90 (73.67%)	12055.21	
	2006-07	1507.06 (10.83%)	12403.00 (89.17%)	13910.06	
	2007-08	5294.47 (41.88%)	7346.79 (58.12%)	12641.26	

Import* = Value of Capital acquisitions from various foreign sources (In Rs Crores).

Indigenisation** = Value of Capital acquisitions from various indigenous sources (In Rs Crores).

This information is based on code head booking on account of Free Foreign Exchange (FFE) and Non-Convertible Rupees(NCR).

2.13 In the context of examination of another related subject, the Ministry of Defence submitted the following information in respect of Indian Army:-

“India being the largest importer of weapons & equipment, definitely stands not very high in the indigenous manufacture capability. It is, in the recent years, that the indigenous technology has got impetus due to inclusion of technology transfer in various contracts. However, India lags behind USA, Russia, most European countries, China and South Korea. The ratio of Cash Outgo for Import/Indigenous Procurement for Army Capital Acquisitions during last 10 years (9th and 10th Plan) is 40:60.

2.14 In reply to a question on Indigenisation of Defence Production, the Defence Secretary informed the Committee during evidence as under:

“The other point is, indigenisation is slightly complex issue. For example, if you take the light combat aircraft or the advanced light helicopter, these are heavily depending on foreign components. I understand that the foreign component is 55 per cent of it. Systems, materials, engines are imported. Even then you can describe it as an indigenous effort and capability but we should not lose sight of the fact that throughout the world, there is heavy interdependence on other countries and companies. To be fully indigenous, independent and self-sufficient in the manner that you suggest may not be feasible in many years.”

2.15 In reply to a specific query about the components taken into consideration by the Ministry of Defence for defining ‘Indigenisation’ of a defence product, the Ministry in their written note stated as under: -

“Indigenisation of a defence product is done on a case to case basis in respect of each scheme of capital acquisition.”

2.16 Elaborating further, another representative of the Ministry during evidence informed the Committee as under:

“For 2006-07, the share of indigenously produced items in defence production was about 77 per cent.... I am giving the figure which has been submitted to the Parliament. I have the figures for the last three years. In 2006-07, the total purchases was for Rs.33,356; out of that Rs.25,647 crore was indigenous equipment, and the imported one was Rs.7,710..... That is the figures that I am submitting.”

2.17 In reply to a question on indigenisation of Defence production and inclusion of the same in DPP – 2008, the Secretary (Defence Production) deposed before the Committee:

“Sir, this book indicates the various procedures of procurement. As far as procurement overall policy is concerned, it is concerned with our threat perception and what kind of an equipment or weapons system is required by others in our neighbours. On indigenisation we had made a presentation last time. Whenever we acquire an advanced new weapon system, then the indigenisation level is low and then we progressively indigenise. To give you an example, we have now absolved the technology for MiG. If we are making, MiG they are nearly 85 per cent indigenous. But if we go in for a fifth generation fighter aircraft today, because that is what may be required by the Forces, then the indigenisation level will be low and then progressively we will indigenise. So, when we talk of indigenisation we should see it in terms of the weapons systems where we have acquired indigenisation capability because in a low-level technology we can achieve 100 per cent indigenisation. But if you move to the next level of technology which is a higher technology then we have to start again. This is a submission that I had made last time also and I had made a presentation that in some areas we have been able to do very good indigenisation like in small arms. Now, T-72 etc. are 95 per cent indigenised. The small arms ammunition is indigenised. But when we go into new areas, it is different”.

2.18 When the Committee asked on indigenisation of equipment in Army, representative of the Army deposed as under:

“It is 60 per cent indigenised. If you take in terms of quantity, quantity is much higher, but when you take in terms of funds, it is 60 per cent indigenised.... Quantity-wise the indigenisation content is almost 80 per cent.”

2.19 On a later date another representative of Army deposed as under:

“Sir, we are buying between 54 per cent and 78 per cent indigenous content in the last five years”.

2.20 On the aspect of indigenisation of equipment in Air Force, representative of the Air Force deposed as under :

“Out of the total Air Force capital budget for 2006-07, about 88.7 per cent is indigenous, and 11.24 per cent is imported. But this may be slightly misleading because our main dealings are with HAL. These figures do not include the import content of the HAL part. As far as revenue is concerned, it is about 60:40. Sir, 60 per cent is indigenous and 40 per cent is imported. Our BRD has made very great strides but only in limited areas like the Auto Replenishment System (ARS) items, some testers etc. We have made great strides there. But they are less than one lakh or little more than one lakh.

As far as ammunition is concerned, once again we would love to have everything Indian but low-end and high-end is the same problem that Army and Navy is facing. We have got 1000-kg. bombs, 68-mm rockets. They are already being used. But high-end things like air-to-air missiles are still under development. We still have to go because it is time-bound.”

2.21 On a later date another representative of Air Force deposed as under:

“Our average, for the last five years, has been 60 per cent, 53 per cent, 93 per cent, 82 per cent and 65 per cent capital procurement from indigenous sources”.

2.22 When Committee asked about the extent of indigenisation of products in HAL, a representative of the HAL informed the Committee as under :

“I do not know but the percentage is very less. I would venture to say that imported component is about 30-35 per cent. So, the indigenous content is much higher. Most important is that the aircraft is designed in India. All components are made in India. LCA has got 40,000 components. We are making them. All systems are being made in India. Whatever components that were earlier being imported are all being indigenised in India.”

2.23 On the issue of indigenisation of naval products in Mazgaon Dock Limited (MDL), a representative of the MDL informed the Committee as under:

“It is 57 per cent by value. But actually in terms of items, it will cross about 73 per cent because some of the value is going into the missile systems which we are so far importing. But from the next Destroyer onwards to some 15 Alaphabet that we are building now, when Brahmos comes in and the long range SAM, which is being jointly developed by the DRDO and the foreign country, comes in, the indigenous content will certainly shoot up much better.”

2.24 On a later date another representative of Navy deposed as under:

“As far as Navy is concerned, I think that we have been averaging between 61 per cent and 65 per cent as indigenous content of our various capital acquisitions, and it is quite substantial. Out of Rs. 8,679 crore, we have had orders up to Rs. 4,471 crore on the PSUs”.

2.25 On the issue of indigenisation of products in Ordnance Factories, a representative from the Ordnance Factory Board informed the Committee as under:

“Sir, against the ammunition requirement of Air Force, Navy and Army, we are meeting almost more than 90 per cent of the projected requirements. On the import element, our total cost of production is around 5 per cent only; if we talk in terms of ammunition production, the import element is just less than two per cent. The main weakness in ammunition, what we face today, is the electronic fuses for which we have been talking to the OEMs. But they are not willing to part with the core technology when it comes to productionisation. Sir, I would like to make one more submission. You mentioned about the rejection percentage. I would like to submit that our rejection is at par with any of the world class manufacturing units.....Sir, it depends upon the particular item, but it is around 10 per cent. On average it is around 10 per cent.”

2.26 In reply to a specific question about the extent of Indigenisation, Defence Secretary deposed during evidence:

“.....In this context, we have been analyzing that out of all our expenditure on equipment, between 30 per cent and 35 per cent is from domestic manufacturers.”

CHAPTER-III

PRIVATE SECTOR PARTICIPATION

Opening of Defence Industry to Private Sector

As brought out earlier in this Report, the Government decided in May 2001 to open Defence industry for Indian private sector participation up to 100% with FDI permissible up to 26% - both subject to licensing. With this policy change, all defence related items were removed from Reserved Category and transferred to the Licensed Category. As a result, private sector can now manufacture all types of defence equipment after obtaining an Industrial Licence under the Industries (Development & Regulation) Act, 1951. Department of Industrial Policy & Promotion (DIPP), in consultation with Ministry of Defence, issued detailed guidelines for licensing production of Arms and Ammunition in January 2002. Consequently from the role of supplier of raw materials, components, sub-systems, they have now become partners in the manufacture of complete advanced equipment/system.

3.2 During the oral evidence, the Defence Secretary informed the Committee as under:-

“Sir, for the past two years or so, we have been extensively modernizing our procurement policies. At the beginning of this process, the requirement of equipment is assessed by the three forces. It is then addressed by a group consisting of the three Vice-Chiefs, members from the DRDO, Defence Production, Finance, etc. All of them categorise the required equipment into Make, Buy and Make and Buy categories.

The whole idea is that what can be made in India should be procured from our sources within India. On the other hand, if we require in bulk and we do not have the technology for it, then it is cauterized as Buy and Make, that is, we buy some and then we produce with that technology transferred. Further, if the requirements are smaller or there is absolutely no way that we can have the requirement met in a short time frame, then we go for a categorizing that is known as Buy. After this categorization, it is brought before the Defence Acquisition Council. This Council is headed by the Raksha Mantri, and has membership consisting of the two Ministers of State, the three Chiefs of Staff, and the Secretaries. They approve these categories, and thereafter, it comes into the Annual Acquisition Plans of each Service.”

Foreign Direct Investment (FDI)

3.3 Foreign Direct Investment (FDI) in its classic definition, is defined as a company from one country making a physical investment into building a factory in another country. Its definition can be extended to include investments made to acquire lasting interest in enterprises operating outside of the economy of the investor. The FDI relationship consists of a parent enterprise and a foreign affiliate which together form a Multinational corporation (MNC). In order to qualify as FDI the investment must afford the parent enterprise control over its foreign affiliate. The UN defines control in this case as owning 10% or more of the ordinary shares or voting power of an incorporated firm or its equivalent for an unincorporated firm.

3.4 On a specific query about the benefit of FDI and its effect, if level of FDI is increased, the Ministry of Defence in their written note submitted the following information:

“The benefits of FDI will be:

- (i) There will be an increased flow of funds from foreign source under FDI.
- (ii) Employment will be generated for the local population.
- (iii) Taxes and other revenues will flow back to the local economy.

FDI levels of more than 50 per cent would imply that the management control would be with foreign investors. Therefore due to the strategic nature of the Defence Industry, there is an apprehension that such ventures would fail at critical times since there would be possibilities of withdrawal on the basis of embargoes/sanction/pressures imposed by foreign governments or international agencies.”

3.5 Elaborating on the present policy of the Government on FDI, the representative of FICCI stated during evidence as under:

“The original FDI was at 26 per cent. When the country is buying directly from the foreign suppliers, and they can produce and sell goods and services from abroad directly then there is no incentive of creating 26 per cent owned company in this country. It is because they can supply everything from abroad. With 26 per cent the intellectual capital transfer will have to happen much more. That is one issue which we need to think very carefully and see what is good for this country. It is there in the recommendations that for the ‘buy’, and ‘buy and make’ procedures also, an Indian company must be nominated as the maintenance partner at the RFP stage. That will allow real technology transfers to happen. The ‘Make’ policy today allows that all upgrades will have to happen by the Indian Companies only, but it needs to be strongly implemented.

If we are deciding to put a ban on the imports then 51 per cent, 49 per cent will automatically start to happen. At 51:49, a lot of investment will come in. If we decide that foreign company will not go on 'buy', and 'buy and make', but we will go with the make route and ask Indian companies too, and then partner the foreigners to bring in the technology gaps, foreigners having a 49 per cent stake will have to happen. At 26 per cent they will not come, but at 49 per cent they will start to roll in indoors. Not just by saying that you are now allowed to do 49 per cent, what is important is that we say that it has to be an indigenous company under the 'make' procedure to qualify for these programmes."

3.6 On the issue of increasing FDI in Defence Sector, the representative of ASSOCHAM made the following submissions:-

"Any sensitive technology cannot be given with 26% equity in a joint venture with any company sitting here. If any foreigner says you want 100% of a technology to build a particular thing. This 26% is not enough for me. How do I control it? How am I responsible? This 26% limit in Defence is a problem. I think it must be 51% or, at least, 49% will be worthwhile. You will immediately see a change. India has the capability to absorb technology. The success of Japan, which was the miracle of the last century, their technology imports were their biggest foreign exchange exports. How did they got control over the automobile industry. They got the technology quickly and they overcame and optimized and became the leaders. "

3.7 Elaborating further on FDI, Secretary (Defence Production) deposed before the Committee as under:

"In 2001-02, the Government said: "Now, the private sector should be allowed to come into this. So, then the policy framework was changed. It was said to have 100 per cent participation of the Indian companies subject to 26 per cent FDI. Prior to that, it was only the Defence public sector understandings. Increasingly, what is happening is that DPSUs are also doing a lot. Then, L&T, M&M, Tata are doing a lot of work across the board in different areas of Defence procurement. It is not limited. My colleagues from the public sector undertakings can elaborate it further. But if you talk of a complete system integration, that is to say whether anybody has the capability of building a warship or a fighter aircrafts, that kind of a capability correctly does not exist in the public sector. It will take some time to develop. These are complex systems. So, our effort is to encourage them to reach a requirement that they can be able to do it. But these are complex technologies. There are Defence areas".

Kelkar Committee

3.8 The Committee have been informed that a committee was set up by the Government under the chairmanship of Dr. Vijay L Kelkar in April 2004 to examine the current procedures and recommend changes in the acquisition process. According to the Ministry of Defence, the Terms of Reference of the Committee were as follows: -

- “(i) To examine the current procedures and recommend changes required in order to modify acquisition process on an approach based on a “product strategy” for items which need development internally or through the ToT route.
- (ii) To examine and recommend modalities of integration of the User, the Defence Ministry and the Indian Industry including both private and public in the acquisition process of products required by the Armed Forces and being procured through the “product strategy” approach.
- (iii) To examine and recommend changes required for increasing defence exports and incorporation of offsets in defence acquisition. This shall also include examination of the approaches to be adopted for seeking credit lines at beneficial/differential rates, facilitating export of Defence goods to countries, which are not economically strong.
- (iv) To set up a sub-group/sub-committees of members of the main Group to examine and make recommendations for appropriate changes in the areas indicated below:

To examine the changes required to facilitate DPSUs and Ordnance Factories to assume the role of designer and integrator, enabling them to build consortium of industries around them for product development and production.

The members of that committee included three Vice-Chiefs of Armed Forces, distinguished scientists and experts, representatives of Integrated Defence Staff, Department of Defence, Department of Defence Production, DRDO, Ministry of Finance and Defence (Finance). Two major Industry Associations viz. Federation of Indian Chamber of Commerce and Industry (FICCI) & Confederation of Indian Industry (CII) were also adequately represented on the committee.

The report (Part I) of that committee, covering first three Terms of reference of the committee was submitted to the Government on 5.4.2005. Part II of the report of that committee, relating to its 4th Terms of Reference has been submitted by that committee on 10.11.2005

3.9 At the instance of the Committee, the Ministry of Defence submitted the following information on Part-I of the report of the Kelkar Committee:-

Part-I of Kelkar Committee Report

“The thrust of Part I of the Report of the Committee is ‘Towards strengthening self-reliance in Defence Preparedness’. This report takes into account increased capabilities of Indian Industry and growing globalization of Defence industry. The Committee's proposals focus on the following key issues:

- (i) Encourage involvement of country's best firms in Defence Capability Building.
- (ii) Pursue Offsets policy to bring in Technology and investment.
- (iii) Explore synergies amongst private sector DPSUs, OFs and DRDO to promote high technology capabilities.
- (iv) Create an environment for quantum jump in export of defence equipment and services.

The Committee has adopted a long-term approach to prepare a policy regime that would encourage India's best firms to enter in defence production. To promote innovation, efficiency and cost cutting, the Committee has adopted a strategic perspective in formulating proposals towards acquisition policy reforms. The recommendations of the Committee revolve around:

- Preparation of a 15-year long term plan forming the basis for acquisition programme.
- Information sharing of requirement of Armed Forces with the Industry.
- Identification of entry points for the private sector in the acquisition process.
- Accreditation and fostering of Raksha Udyog Ratna (RUR)/Champion.
- Policy framework to promote participation of Small and Medium Enterprises (SMEs) in defence production.
- New institutional architecture for defence acquisition towards setting up of a professional agency for Defence acquisition.
- Defence R&D opportunities both with DRDO and industry.
- Promote transparency in decision making.
- Optimum utilization of existing capacity.
- RFP to include an Offset Clause for contracts valued at Rs.300 crores and above.
- Re-examine the concept of Negative List for Defence exports and setting up of Export Marketing Organisation.

The Committee also suggested a strategy for implementation of its recommendations, along with a time schedule.”

3.10 The Committee also carried out an impact analysis of the recommendations made in Part I of its Report. This analysis indicates that besides providing strategic depth for Defence preparedness, the implementation of the recommendations of the Committee would also result in substantial economic benefits to the country. The measures outlined in the Report when implemented would lead to a high degree of indigenous production, resulting in increased growth in the manufacturing GDP, greater employment opportunities and substantial savings. There would be greater self-reliance in Defence Production, benefits in terms of R&D, technology spin offs, higher industrial growth, higher exports, increased competition and more employment opportunities, besides cost savings.

3.11 On being asked by the Committee regarding the status of implementation of Kelkar Committee's recommendations, the Ministry submitted the following information:

“Out of total 40 recommendations in part I of Kelkar Committee report, 26 recommendations were accepted for implementation out of which 18 have been implemented so far. 8 recommendations were accepted for implementation with certain modifications out of which 6 have been implemented so far. Out of remaining 6 which were to be deliberated upon further 2 have been implemented and 1 has been dropped after due deliberations.”

3.12 The status of implementation of the recommendation made in Part-I of the Kelkar Committee report, as furnished by the Ministry of Defence is reproduced at ***Annexure-I***

3.13 The Ministry of Defence further submitted the following information on Part-II of the report of the Kelkar Committee:-

Part-II of Kelkar Committee Report

“The Kelkar Committee constituted a sub-committee headed by Shri Jagdish Khatter, CMD of Maruti Udyog Ltd. to examine and formulate recommendations in respect of the 4th Terms of Reference of the Committee. The Sub-Committee formulated its recommendations after hearing the views of all stakeholders, which included the Armed Forces, the Chief Executive Officers (CEOs) of Defence Public Sector Undertakings (DPSUs), Director General of Ordnance Factories (DGOF), representatives of various Federations/Associations/Unions of employees and officers from Ordnance Factories and DPSUs. The Committee also had extensive interaction with the representatives of the recognized Federations/Associations/Unions and heard their views. While formulating the final recommendations, the inputs received from them have been taken into consideration by the Committee. The thrust of Part II of the Report is towards revitalizing the Defence Public Sector Undertakings and Ordnance Factories. The focus of the recommendations is on the following:

- (i) Bring in changes in management enabling the Ordnance Factories and Defence PSUs to have greater freedom and to become global players in Defence Production and be able to effectively perform the role of designer and integrator of large systems and platforms, enabling them to build consortium of industries around them for product development and production.
- (ii) Give greater freedom to Defence PSUs to form joint ventures, consortiums and to do cross investment in foreign countries for the purpose of obtaining technology.
- (iii) Adopt Vendor Development policies in all Defence PSUs on the lines currently being followed by HAL.
- (iv) Inject greater professionalism in the organization of Directorate General of Quality Assurance (DGQA) for effective quality assurance in manufacturing largely involving process audit and quality surveillance work.”

3.14 The present status of implementation of the recommendations made in Part-II of the report, as furnished by the Ministry of Defence, is at **Annexure-II**.

3.15 The Kelkar Committee in Part-II of its report 'Towards Revitalizing Defence Public Sector Undertakings and Ordnance Factories' recommended as under:

“(1) Ordnance Factories:

- (i) All Ordnance Factories should be corporatised under one single corporation under leadership of competitive management.
- (ii) This corporation should be accorded the status of Nav Ratna.
- (iii) The corporatisation could be on the lines of Bharat Sachar Nigam Ltd. (BSNL).
- (iv) The existing dispensations by the Government to Ordnance Factories should continue for a period of three years to help them to steer the changed process internally.
- (v) Corporatisation does not necessarily mean privatization.

(2) Defence Public Sector Undertakings:

- (i) HAL and BEL may be accorded the status of Nav Ratna by relaxing the eligibility conditions.
- (ii) BEML and MDL may be accorded the status of Mini Ratna by relaxing the eligibility conditions.
- (iii) All Defence PSUs except MIDHANI should be given the freedom to cross investment in foreign companies from whom they can obtain technology, which has remained out of their reach so far.
- (iv) DPSUs should explore the possibilities of mergers and formations of consortia in order to achieve optimum level of synergy and become globally competitive.”

3.16 Explaining the rationale behind his recommendations about Defence Public Sector Undertakings (DPSUs), Dr. Vijay Kelkar during his oral evidence informed the Committee as under:

“Here, I should tell you that we met the Ordnance Factories and Defence Undertakings, labour unions. They have thought a lot on this subject and I would suggest the Committee to invite and meet them. Many of them have thought a lot on this subject. You may or may not agree with their views but you may get a viewpoint. Ordnance Factories do not have their own R&D and they cannot decide on their vendors, hence, they are not efficient. They shall have more autonomy. Give them more powers and make them autonomous. Like any modern organization, let them choose their own supplier and technology. Each with Rs. 10,000 crore of annual output they do not have R&D. Even small Indian firms have their own R&D. There is a genuine demand of ordnance factories to have more powers. Once you corporatise them, I think, you should give them

adequate powers. The total strength of the ordnance factories is two lakhs. A private sector is producing ten times more than what they are producing today. This is the kind of possible gains we can get in that case. They are not allowed to produce for civilian market and they do not know their strength. Unless you give them more powers, more autonomy, I think, situation will not be improving. I think in Ordnance Factories, there is very great technological power in India which is not exploited fully. The figure of Rs. 30,000 crores is almost one per cent of the GDP. That kind of capabilities are there. And we are losing that. We are saying to corporatise them. BSNL is a good model. We should corporatise them without any employee losing their job or pension rights. Put all the pension rights there which is done by BSNL. Protect all their rights, give them more powers and accountability. That is what we have recommended for the ordnance factories.”

3.17 During oral evidence before the Committee, Dr. Vijay Kelkar elaborated on the important recommendations of the committee and other issues related thereto as under:

“The terms of reference of our Committee were precisely what you have outlined as the main issues before the Committee. They are: how to improve country’s self-reliance in defence preparedness, how to improve efficiency and productivity of our defence public sector units and ordnance factories. One more interesting term of reference was how to promote defence exports. It was recognized that it is important not only in terms of industry but also it had a political and strategic dimension that the country should become an exporter of defence technology.

The report first takes into account the historical development. Why did we make defence production a monopoly of the public sector? The very simple reason is that when the country became independent there was not much private industry. The only industry that was there was in the Government hands. So, it was naturally thought that defence should be in the public sector. In 1991 when the major liberalization took place, it coincided with global changes in the defence industry.

Globally, the defence industry has undergone a revolutionary change. There is an enormous amount of globalization in defence production. These two things were happening in the rest of the world. One is globalizing defence production and other is that it also has become an extremely R&D intensive industry. Small companies cannot survive. In the United States there were 22 or more large defence corporations but they got reduced to only five to seven. The same tendency is there in Europe. Even in Russia, the same process is seen. The number of Defence equipment producing systems and platforms has become smaller and smaller because of enormous amount of R&D.

Our first recommendation was to enable Indian industry to participate in defence production. Indian Defence Ministry should follow the global trend of publishing the long-term requirement of country's defence needs. The French publish a 30-year perspective. The United States publishes a 15-year perspective. Australian Defence Ministry publishes a 15-year perspective. So does UK. All major producing countries have a long-term perspective made available to general public as to what country's needs are in terms of defence capability. There is one more interesting point which an Air Marshal, one of the great Indian thinkers said. What is secret is not production but deployment of equipment. I am afraid, production is not secret. Therefore, in this country we can say that production is not secret. Where you deploy is secret but what the defence industry produce in this country is not. "

3.18 He further stated:

"Among the three Services, the most enlightened was Navy. Navy already have rudimentary 15-year plan, which makes it available. We found Navy as the most advanced of all the agencies. They have a 15-year programme I think which can be done by both the Army and Air Force.

First condition for doing what you have said is to reduce the imports and increase defence preparedness of this country. We must have long term capability requirement. We do not want to say where we are going to deploy them but they must say these are the major threats which we are facing and where capabilities will be required in this country. Army requires such kind of characteristics; may be Air Force. So, making available long-term plan is one requirement which we have recommended.

Secondly, in terms of details, we have differentiated between acquisition and purchase. Acquisition is a more wider term, which means building capabilities and I think, this Committee also give that kind of emphasis and as to what is required is not purchase but capabilities. We must record Mr. Chairman that enormous strides made by the Ministry in this area. I think, they have now very detailed kind of procedure backed acquisitions. There is a silent revolution taking place. We must help them to make progress further."

3.19 Apprising the Committee about the different public-private participation models of development in the country, Dr. Vijay Kelkar stated during evidence as under:-

"... We studied the experience of ISRO; ISRO is the most successful example of how Indian industry participates in hi-tech area; just like Army, they also wanted that; so, ISRO participated in that and created infrastructure where large amount of requirement of space industry is done by our own companies. So, let us follow the ISRO model. What is ISRO model? First they made available their own in-house technology to

Indian industry. Second, they gave long-term commitments to Indian industry. Third, throughout the whole process, they hold the hands and guide them to what they want. So, there is holding of hands between the buyer and the producer. So, they work as a team. Consequently, we have this now in space industry. Incidentally, there is a study made by Prof. U. Shankar of the Madras School of Economics, which showed that the Indian Space industry is as efficient as anything in the world. In fact, we are now sending commercial satellites. This happened with ISRO. The rates are competitive; our costs are the lowest in the world today. ISRO had done this and they have a long-term framework. This is what we have recommended. There is a body in this country which has shown success and you can do it. So, let us follow the ISRO model for defence industry where we can reduce the imports, have domestic capabilities at efficient and lowest possible cost. So, we looked at the three models – ISOR, Atomic Energy and ONGC; and we have given what we have learnt from each of the successful models for defence production. For instance, ONGC runs the training programme. So, we have recommended that the Institute of Defence Management, Ahmedabad should run specialized training programme for defence officers on purchase procedures. So, from Atomic Energy Commission, we have given the lessons; from space, we have taken lessons; all the hi-tech industries in which our own companies have shown that we can do it, we have looked at it. We have successful experience; and so, let us look at this.”

3.20 When the Committee asked whether the private industries are satisfied with the present pace of implementation of the Kelkar Committee’s recommendations, CII in their written note submitted as under:

- “(i) Ministry of Defence to notify Raksha Udyog Ratnas (RURs)
- (ii) The Armed Forces to bring out a perspective document which outlines the Technology Perspective and Capability Road Map covering at least a period of 15 years. This document should be widely publicized and made available on MOD website.
- (iii) The Ministry of Defence and particularly the Integrated Defence Staff (IDS) to bring in amendments in the constitution of the SCAPCC (Services Capital Acquisition Plan Categorisation Higher Committee) to ensure the participation of the Industry both Public and Private in Defence Acquisition.
- (iv) The constitution of the Defence Production Board needs to be amended in order to have representation of the industry incorporated.
- (v) Service Headquarters seek information in the form of RFI from prospective bidders in some ‘Buy’ and ‘Buy & Make’ cases.
- (vi) In order to provide a level playing field to private sector industry, there is a need to gradually move away from the process of nomination.

- (vii) Ministry of Defence should create a fund called 'Defence Technology Development Fund' with the Department of Defence Production (DDP) which is to be used for providing a fund to Small and Medium Enterprises (SMEs) to carry out design and development work either directly or through industry champions/ Defence PSUs/OFs.
- (viii) In the area of Aerospace development an autonomous body be set up by the Government constituted with involvement of all stake holders.
- (ix) Strategic Defence Industry Fund (SDIF) should be created on the lines of North-East Development Fund where non-lapsable pool of resources be utilized exclusively for the 'Make' category of products of Indian Industry."

3.21 In this context, the Federation of Indian Chamber of Commerce and Industry (FICCI) submitted the following information about the areas of concern which need the attention of the Government:-

- (i) "Non Notification of RURs has hindered the implementation of policy operationalisation and participation of private sector in the categorization process and sharing of long term plan.
- (ii) Not a single 'Make' category Request for Proposal (RFP) has been floated by the MoD since the operationalisation of DPP 2006.
- (iii) The intend of level playing field is only implemented under the global buy category and that too for taxes and duties at the point of sale to MoD and not for input that has been borne by the Indian Industry.
- (iv) Offset Banking has not been implemented so far.
- (v) Nomination of DPSUs producing systems under TOT with 70 % imported contains will continues. Statistics on Nominated programmes will along prove the point of the volumes being nominated while Private Industry has been denied opportunity to participate by categorizing the programmes under 'Make' instead of 'Buy & Make'
- (vi) The DPP 2005 and DPP 2006 state that warship building being a complex activity is to be given on nomination basis to the shipyards. Today private sector has the capacity and capability for taking up this complex job. However, inspite of private sector holding the requisite license for more than five years no warship construction contract has yet been awarded."

3.22 FICCI also submitted the following:

- (i) “The Department of Defence Production to be strengthen and be designated as Department of Defence Industries and Production (DDIP) responsible for developing policies for creating and enhancing industrial infrastructure for Defence. It will act as the representative of Indian Defence Industry. DDIP will prepare a 15 year long term plan to make India self reliant in Defence needs.
- (ii) The DDIP should also be held responsible to the Parliament for the unspent defence budget being surrendered at the end of each financial year.”

Defence Procurement Procedure – Capital Acquisition

3.23 As part of the implementation of the report of the Group of Ministers on reforming the National Security System, new Defence Procurement Management Structures and Systems were set up in the Ministry of Defence (MoD). In order to implement the provisions laid out in the new Defence Procurement Management Structures and Systems, the procedure for Defence Procurement laid down in 1992 was revised. The Defence Procurement Procedure – 2002 (DPP- 2002) came into effect from 30 December 2002 and was applicable for procurements flowing out of ‘Buy’ decision of Defence Acquisition Council (DAC). The scope of the same was enlarged in June 2003 to include procurements flowing out of ‘Buy and Make through Imported Transfer of Technology (TOT)’ decision. This procedure was reviewed and DPP- 2005 came into effect from 01 Jul 2005. The Defence Procurement Procedure – 2005, has been reviewed and revised based on experience gained in implementation and further enlarged to include procurements categorized in the ‘Make’ category.

3.24 The Ministry introduced Defence Procurement Procedure 2006 to strengthen public private sector partnership in defence production and research and development and to ensure expeditious procurement of items required by defence forces,. The Ministry of Defence subsequently introduced DPP-2008 in July, 2008 for Capital procurement.

Aim

3.25 The objective of this procedure is to ensure expeditious procurement of the approved requirements of the Armed Forces in terms of capabilities sought and time frame prescribed by optimally utilising the allocated budgetary resources. While achieving the same, it will demonstrate the highest degree of probity and public accountability, transparency in operations, free competition and impartiality. In addition, the goal of achieving self-reliance in defence equipment will be kept in mind.

Scope

3.26 The Defence Procurement Procedure - 2008 (DPP-2008) will cover all Capital Acquisitions, (except medical equipment) undertaken by the Ministry of Defence, Defence Services and Indian Coast Guard both from indigenous sources and ex-import. Defence Research and Development Organisation (DRDO), Ordnance Factory Board (OFB) and Defence Public Sector Undertakings (DPSUs) will, however, continue to follow their own procedures for procurement.

Capital Acquisitions

3.27 In DPP-2008, Capital Acquisitions are categorized as under: -

- (a) Acquisitions Covered under the 'Buy' Decision. Buy would mean an outright purchase of equipment. Based on the source of procurement, this category would be classified as 'Buy (Indian)' and 'Buy (Global)'. 'Indian' would mean Indian vendors only and 'Global' would mean foreign as well as Indian vendors. 'Buy Indian' must have minimum 30 % indigenous content if the systems are being integrated by an Indian vendor.
- (b) Acquisitions covered under the 'Buy & Make' decision would mean purchase from a foreign vendor followed by licensed production / indigenous manufacture in the country.
- (c) Acquisitions covered under the 'Make' decision would include high technology complex systems to be designed, developed and produced indigenously.

Upgrades:

3.28 All cases involving upgrade to an in service weapon system / equipment will also be covered by this procedure. Such cases could be categorized under any of the categories as given in preceding paragraph. The categorisation may be carried out depending on scope of the proposal, availability of technology indigenously and the need for seeking critical technologies from foreign vendors.

3.29 When the Committee desired to know about the progress made by the Government in introducing DPP-2008, the Ministry in their written reply to the Committee informed that DPP-2008 is introduced recently with some modifications. Salient features of DPP 2008 are as under:

(a) Transparency

Vendors will be given advance information before the issue of Request for proposal (RFP) in all procurement cases excepting those for security sensitive products. This information given on Ministry of Defence website will provide them a lead time for preparation of their offers in response to the RFP (Para 24-page 7-8 of DPP-2008). All verbal communications with the vendors during the course of trials will be confirmed in writing within a week (Para 37-Page 11-12). The result of technical/trial evaluations along with reason(s) for disqualification would also be intimated to vendors after the acceptance of technical/staff evaluation reports (Para 43-page 13). Defence Public Sector Undertakings would be required to sign Integrity pact with their sub-vendor(s) (Para 18.1 of Standard Clauses in Contract Page 108) in all cases where the procurement value exceeds Rs. 20 crores.

(b) Field Trials

In order to increase the transparency in evaluation process, qualitative requirement of the equipment under procurement, as laid down by the Services headquarters, would be analyzed right at the inception stage for the methods and agency responsible for its evaluation. Trial methodology so prepared would be incorporated in RFP for advance information of the vendors. Inclusion of trials methodology in the RFP would ensure that there is a common assumption by all agencies involved in the trial including participating vendors.

The result of trial evaluation of the parameters so far was being conveyed to the vendors verbally in the form of debriefing on a day to day basis; this has now been made mandatory to be confirmed as written communication also (Para 37 Page 11-12). This would ensure adequate information is provided to the vendors regarding the performance of their equipment and is well documented for future references. Another important aspect with regard to providing oversight on the conducted trial procedure, in large value projects, is enlarging the mandate of the Technical Oversight committee, which is responsible to see whether trials has been conducted as per prescribed procedures. Technical Oversight committee has now been mandated to oversee whether the trials have been carried out according to trial methodology given in the RFP as well as trial directive (Para 46 – Page 14).

A more broad based and multidisciplinary trial team has been proposed in DPP-2008 for cases where equipment is being procured for more than one service or if it involves transfer of technology (Para 37(b) – page 12).

(c) Encouraging Competition by Broadening the Vendor Base

In order to make broad based Service Qualitative Requirements (SQRs) Service Headquarters may obtain inputs by issuing Request For Information (RFI) on Ministry of Defence website and by corresponding with maximum manufacturers. A provision has been made for obtaining additional inputs from Defence Attaches, Internet Defence Journals/Magazines/ Exhibitions, previously contracted cases in such categories. To ensure that SQRs are broad based and would result in multi-vendor situation, a compliance table of SQRs, vis-à-vis technical parameters of available equipment in as much details as feasible, would be prepared at the stage of formulation/approval of SQRs (Para 14 – Page 5 Para 30 (b) of Draft RFP Format – Page 69 and Appendix B – page 75). If only one vendor is found compliant to the SQR5 parameters after the technical evaluation stage, a review would be carried out by the Technical Evaluation Committee (TEC) to derive causes of such single vendor situation for recommending suitable corrective measures including reformulating SQRs (Para 36 – page 11). Restriction has been laid in Repeat Order cases, limiting the quantity to be procured under Repeat Order category to 100% of the previous order (Para 64 – Page 18).

(d) Transfer of Technology for Maintenance Infrastructure

To optimally utilize assets of the Services, Para 28 of DPP-2008 has been amended to include army Base Workshops/Naval Dockyards/Air Force Repair Depots for establishing maintenance infrastructure under M-ToT provisions on a case-to-case basis at RFP stage.

(e) Quality and Reliability

To ensure better reliability and quality assurance, vendors would be required to give details of reliability model and basis of reliability prediction. The efficacy of such model will be verified during technical and environmental evaluation. A seller is required to rectify any failure in the equipment during the period of warranty. The seller however was not required to inform the cause of such a failure. Knowledge of cause of failure may be of valuable help to the user in long term maintenance of the equipment. The new provision in the warranty clause requires that the seller shall intimate the assignable cause of the failure to the user (Para 10 – page 66, Para 37 – Page 70 of RFP, Para 5 of Draft RFP Format – page 65 & 76).

(f) Enhancement of Delegation of financial powers.

The services have been given greater delegation of financial powers for capital acquisition to enhance efficiency and expedite procurement. Service Headquarters now have delegated financial powers upto Rs. 50 crores. Financial power delegated to the Defence Secretary has also been enhanced to Rs. 75 crore. Further, the Defence Procurement Board (DPB) would accord AON (Acceptance of Necessity) to cases to Rs. 100 crores (Para 18 – page 6). Only cases above Rs. 100 crores are to be brought before the Defence Acquisition Council(DAF).

(g) Highlights of changes in Offset Provisions

Rationalisation of licensing condition, introduction of offset banking listing of defence products and exemption from offset of acquisitions under fast track procedures are some of the salient features of the New Defence Offset Policy as envisaged in the Defence Procurement Procedure (DPP) – 2008.

Under the existing offset guidelines, a private industry was necessarily required to have an industrial license for being entitled to participate in the offset programmes. In the revised guidelines a private industry will be required to have an industrial license only if so stipulated under the guidelines/licensing requirements for the defence industry issued by the Department of Industrial Policy and Promotion (Para 2.2 of Offsets' Provisions – Page 44).

Offset policy has been revised to include offset credit banking enabling foreign vendors to create offset programmes in anticipation of future obligations [(Para 2.1(d) – page 44). This will also enable foreign industry and their Indian offset partner to have long term arrangements to discharge offsets and will thus enhance the capacity of the Indian industry to absorb offsets. Under the banking guidelines, a vendor will be able to discharge the banked offset credits for the RFPs which have been issued within two to two and half years depending upon the date of issue of RFP. The offset obligations are to be fulfilled conterminous within the period of main contract. If a vendor is able to create more offsets than his obligations under a particular contract, the surplus offset credits can be banked and would remain valid for the period of two financial years after conclusion of the said contract.

A list of defence products have been added to facilitate the foreign vendors in implementing their offset obligations (Para 2.1a)

(h) Expeditious Procurement

Some of the important provisions made in DPP-2008 to expedite the procurement procedure are as follows:-

- i) Maximum time stipulation has been incorporated for issuance of RFP within two years of accordence of AON. In such cases, fresh AON will be considered only after re-examination of available technology and operational necessity.
- ii) Extension of time for submission of offers now has been restricted to eight weeks.
- iii) In multi-vendor cases, once L-1 vendor has been identified, normally there would be no need for any further price negotiations (Para 51 – page 15)
- iv) Increased Delegation of Financial Powers of Service HQrs.”

For 'Buy' and 'Buy & Make' Categories

3.30 A scrutiny of DPP-2008 reveals that the following procedure has been prescribed for Capital Acquisitions flowing out of 'Buy' and 'Buy and Make' categories:-

"Linkage to Acquisition Plans

Proposals for acquisition of capital assets flow out from the defence procurement planning process. This planning process will cover the long-term, medium-term and short-term perspectives as under: -

- (a) 15 years Long Term Integrated Perspective Plan (LTIPP).
- (b) 5 years Services Capital Acquisition Plan (SCAP).
- (c) Annual Acquisition Plan (AAP).

Based on the Defence Planning Guidelines, Headquarters Integrated Defence Staff (HQ IDS), in consultation with the Service Headquarters (SHQs), would formulate the 15 years Long Term Integrated Perspective Plan (LTIPP) for the Defence Forces. The Five Year Defence Plans for the services would also be formulated, by HQ IDS, which would include requirements of five years Services Capital Acquisition Plan. The SCAP should indicate the list of equipment to be acquired, keeping in view operational exigencies and the overall requirement of funds. The planning process would be under the overall guidance of the Defence Acquisition Council. Its decisions as approved by the Raksha Mantri will flow down for implementation to the Defence Procurement Board (DPB). While LTIPP and SCAP would be approved by the DAC, the AAPs would be approved by the DPB. The AAP would be a subset of the SCAP."

Annual Acquisition Plan (AAP)

Annual Acquisition Plan (AAP) of each service would be a two year roll on plan for capital acquisitions and would consist of the schemes from approved five year Services Capital Acquisition Plan (SCAP). Accordingly draft AAPs would be prepared by the SHQs taking into account the carry over schemes from the previous year AAP, schemes where AON has been accorded by DAC/DPB/SCAPCHC in the current year and schemes proposed to be placed before DAC/DPB/SCAPCHC in current/ensuing financial year.

The draft AAPs would be prepared in two parts. Part A would comprise of carry over schemes from the AAP of previous year and schemes where AON has been accorded during the year. Part B would include the cases likely to be initiated for seeking AON in the forthcoming year. The draft AAPs would be circulated to respective AM/TM/FM in Acquisition Wing and thereafter forwarded to HQ IDS by 31 December of each year by SHQs after clearing the observations of Acquisition Wing. HQ IDS will allot a unique identification number to each case and would obtain approval of final AAP from DPB by 15th April of the relevant Financial Year. Part A would be the working document for Acquisition Wing for issue of RFP and subsequent monitoring of the progress of each case. Inclusion of fresh schemes to Part A from Part B of AAP after accord of AON would be a regular process. Proposal not listed in the SCAP may only be processed after due approval of the DAC.

In consonance with schemes likely to be included in AAPs, HQ IDS would work out the annual requirement of funds for capital acquisitions of each service taking into account committed liabilities and anticipated cash outgo, likely to be incurred on account of the fresh schemes, during the ensuing financial year.

The DPB may also carry out amendments in the Annual Acquisition Plan, if considered necessary, on account of national security objectives, operational urgencies, budgetary provisions or any other exigency based on recommendations made by SHQ / HQ IDS / Department of Defence / Defence (Finance). All proposals that need to be included in the AAP owing to reasons stated above should be put up to DPB for approval prior to inclusion in the AAP. The Acquisition Wing will process all acquisition proposals incorporated in the 'Annual Acquisition Plan' under the overall guidance of the DPB."

Defence Procurement Procedure (Make)

3.31 The Defence Procurement Procedure 2002 came into effect from 30 Dec 2002 which was applicable for procurement under 'Buy' Category. The scope was further enlarged to include 'Buy and Make' procurements through imported Transfer of Technology decisions. Procedure for Indigenous Research, Design, Development and Production of systems is now being addressed under 'Make' category.

3.32 The resurgence in Indian industry today offers scope for their greater involvement in the Defence sector, due to availability of requisite skill and infrastructure for undertaking defence production and even research and development in some fields. Over the last four decades, considerable resources have been invested in setting up our Defence Research and Development infrastructure through which we have achieved enhanced capacities in the Defence sector. We are also witnessing today a significant growth of our private sector with many industries becoming global players. We have also seen a shift in the role of the private sector in the field of indigenisation. From the role of suppliers of raw-material, components, sub systems they have now become partners and manufacturers of complete advance systems. Private Sector can today harness available expertise of management, scientific and technological skills and also raise resources for investment in research and development, towards achieving our goal of self reliance in the defence preparedness of the country.

3.33 The report of the Kelkar Committee on review of Defence Procurement Procedure had recommended an integrated approach involving Users, Ministry of Defence and the Industry in the 'Make' procedure. DRDO should concentrate on projects requiring sophisticated technology of strategic, complex and security sensitive nature. Outsourcing of Research and Development work of high technology to private sector should be on the lines of parallel development for which the cost should be shared. A minimum order quantity to sustain the financial viability of development within the time schedule should be spelt out to encourage private sector participation. These recommendations of the Committee have been accepted by the Government for implementation. The procurement through indigenous development would be divided into following categories:-

- (a) Strategic, Complex and Security Sensitive Systems. These projects would be undertaken by DRDO. The development of these systems would be as per the DRDO procedure and would utilise DRDO funds for execution. These projects would be managed through Defence R&D Board.
- (b) Low Technology Mature Systems. These projects would be categorised as 'Buy Indian' and must have minimum 50 per cent indigenous content.
- (c) High Technology Complex Systems. Projects under this category would be identified as 'Make'. These projects would be undertaken by RURs/ Indian Industry / DPSUs /OFB/ Consortia on a level playing field. This procedure would also be adopted for all upgrades categorised as 'Make'

3.34 The procedure set out in succeeding paras would cover 'High Technology Complex Systems' identified under the 'Make' category. In formulating this procedure the relevant recommendations of the Kelkar Committee Report have been duly incorporated. This procedure would, however, not be applicable for innovations / developments undertaken by the Services from their respective Technology Development Funds.

Aim

3.35 The aim of this procedure is to ensure Indigenous Research, Design, Development and Production of capabilities sought by the Armed Forces in prescribed timeframe while optimally utilising the potential of Indian Industry. In addition, it would also achieve self reliance in Defence Equipment.

Scope

3.36 The Defence Procurement Procedure 'Make' will cover all capital acquisitions of High Technology Complex Systems and upgrades undertaken by indigenous Research, Design and Development. These would be undertaken by Ordnance Factory Board (OFB), Defence Public Sector Undertakings (DPSUs) and Indian Industry and industries identified as Raksha Udyog Ratna (RUR) / Consortia on a level playing field on shared development cost.

Procedure for Indigenous Naval Ship Building

3.37 A naval ship consists of an assortment of weapons, sensors and support systems, along with propulsion, power generation and auxiliary systems, facilities for crew and fuel and provisions. All the surveillance and weapon systems are interlinked and integrated through an elaborate data management system. The system integration of complex sensors and weapons between themselves and to the ships systems and combat management system is crucial for a ship design and construction project. The indigenous designs successfully integrate systems acquired from different sources with indigenous systems on the same platform.

3.38 To achieve this successfully, a ship construction programme, therefore, necessarily involves feasibility studies on the basis of the outline staff requirements, concept design, model tests, preliminary design, specialist design studies, detailed design, system integration, construction, tests and trials. It also involves technology application and transfer, selection of various equipment, development of new equipment, identification and purchase of a large number of items, including weapons and sensors, from numerous indigenous and foreign suppliers.

3.39 On being asked by the Committee to give some suggestions for improvement in DPP –2006, CII *inter alia* submitted:

“Warship Construction

The procedure needs to indicate in unambiguous language that RURs are allowed to participate in naval war-ship building, subject to their capability and capacity assessment by the Indian Navy and this procedure shall be applicable for purchases of such kind. It is suggested that private sector players should be considered at par with DPSUs and should be considered for warship construction.”

3.40 As regards the request for proposals, CII has stated that RFPs must define in clear unambiguous terms, exact details including numbers and type of equipment that are being sought. The Ministry of Defence were asked to explain and give comments on above statement of CII, the Ministry replied as under:

“The 'Make' procedure does not have a requirement for RFPs. Based on Preliminary Services Qualitative Requirements (PSQRs), the HQ IDS will order a Feasibility Study that will establish if Indian Industry has the capability to produce the equipment and if so which industries/Consortia. This will be followed by an Integrated Project Management Team which will short list a minimum of two production agencies and prepare a Detailed Project Report(DPR) that will spell out minimum order quantity to be placed on the successful developer.”

3.41 On the progress made in ‘Make’ category under Public Private Partnership since introduction of DPP-2006, FICCI in their written reply submitted the following:

“The Industry has welcomed the Make category procedure in DPP 2006 but it needs to be operationalised. Despite the Make categorization being announced and put in effect from 1st November 2006, no project has been brought in under this categorization. Currently, MoD has been going ahead with nomination of DPSU under ‘Buy & Make’ category. It has been observed that major projects like Tactical Communication System Programme for Army as well as Network Centric Operations Programme (N2C2) of Navy have been nominated to BEL as a Production Agency. Given the credentials of Indian Private Sector companies in IT and Communication worldwide, FICCI feels that if private sector is left out to participate in communication program's, as the classification of these programme under DPP-2006 is not Hi-Tech Make Programme, the category Make, which was brought in with DPP-2006 is purely ornamental. If private sector cannot participate in Defence Communication Programme under ‘Make’ with their track-record in telecom sector then there is no other area where Private Industry will qualify.

Similarly programs continue to be specified as Strategic Make under DRDO where DPP-2006 does not apply e.g. MALE UAV Programme of ADA, besides Command and Control Programme with IT intensive Systems like ACCCS (Artillery Command and Control System) and ADCNR (Air Defence Control & Reporting System) continue to be nominated to DPSUs either directly or through DRDO (Strategic Make Route). In most of these programs, it is noteworthy that the import content is in the range of 70% - 80%.”

3.42 The Ministry were asked to explain the reason for not implementing the ‘Make’ procedure for development and production under DPP 2006, the Ministry submitted as under:

“Ministry is ready to proceed with ordering the ‘Feasibility Study’ for the Futuristic Infantry Combat Vehicle. Further Projects that can be progress through the ‘Make’ procedure have also been short listed from the LTIPP and the Service Headquarters have been asked to prepare the PSQR’s for the same.”

Offsets Provision

3.43 An ‘Offset’ provision applicable to all Capital acquisitions effective from 1st July 2005 has been incorporated in the Defence Procurement Procedures. Initially, a uniform offset of 30 per cent of the indicative cost of the acquisition in ‘Buy (Global)’ category acquisitions and 30 per cent of the foreign exchange component in ‘Buy & Make’ category acquisitions, valued at Rs.300 crore or more will be the minimum required offset. The Defence Acquisition Council (DAC) may, after due deliberation, also prescribe varying offset percentages for different classes of cases or for individual cases depending upon the factors involved such as strategic importance of the acquisition on technology enhanced ability of Indian defence industry to absorb the offset, export potential generated etc.

3.44 The offset obligations can be discharged by direct purchase of, or executing export orders for, defence products and components manufactured by, or services provided by, Indian defence industries i.e. Defence PSUs, OFB or any licensed private defence industry. The offset obligation can also be discharged by Direct Foreign Investment in Indian defence industries for industrial infrastructure for services, co-development, joint ventures and co-production of Defence products. It can also be discharged by Direct Foreign Investment in Indian organizations engaged in research in Defence R&D as certified by the Defence Offset Facilitation Agency (DOFA), which has been set up under the Department of Defence Production as a single window agency to facilitate implementation of the 'Offset' policy.

3.45 This would not only strengthen the defence industrial base in the country but would also enhance the pace of indigenisation in the defence sector. This would also open up new avenues for growth within the country in terms of Industry participation, technology upgradation and employment and throw open business opportunities for the Indian industry in the Defence sector. This is also expected to boost our Defence exports.

3.46 When asked about the steps being taken by the Government to make offset clause more attractive, the Ministry in their written note stated as under:

“Based on the experience gained in the implementation of the offsets provisions and also based on certain valuable inputs from Indian/Foreign vendors, certain amendments to the Offset Policy, to make it more flexible and broad based are in the active consideration stage by MoD.”

3.47 Elaborating on the Offset obligations, representative of the Ministry of Defence stated during the evidence as under:

“I will tell you. In Defence procurement with the Department of Defence, which is more than Rs.300 crore, there is a minimum stipulation that the foreign vendor must invest 30 per cent of that in either buying the Defence product of Indian companies or provide money in R&D of those Defence production items and this will be a direct off set. It means, it will be only defence off set obligation only by defence products. This is in fulfilling the obligation and the foreign vendor is free to decide from whom that vendor wants to buy. There is no restriction. It will be a freedom given to him. There is a facilitation agency formulated under the Department which will only facilitate them in getting licence, etc. if they require a licence to produce an item. It is hoped that very large obligations of off set will be available very soon and this will give a great fillip to private sector participation in production of defence items.”

3.48 Clarifying further, the representative of the Ministry stated as under:

“I would like to clarify one point here. As far as the implementation of the offset obligation is concerned, as the Secretary DP has also pointed out, and as I had submitted before this Committee earlier, it is the direct offset requirement in the Defence field. The procedure that we have laid down is this. Before the main contract is negotiated, the commercial aspect is negotiated, the offset contract would have to be discussed and finalized. Actually, it is a separate contract which is entered into and concurrently. So, it is a specific document which comes out. What would be the responsibility of the company which is offering the offset; how it will be discharged; whether it will be by sourcing equipment from here or it will be through investment in R&D etc.; very specifically it is laid down. That offset obligation will have to be discharged concurrently with the main contract itself. If there is any failure, there is also a penalty clause of 5 per cent. The penalty clause is also made available over there. In case they consistently fail, other action would also be taken against the defaulting company. The extension of time for implementing the offset obligation can also be considered but that is again with specific order. We have made very specific commitments on that.

3.49 As regards, the issue of security, in exercising Offset Clause, the representative of the Ministry stated as under:

“I do not see any danger of security here. Of course, the companies from overseas will have to get clearance with respect to sensitive technologies from their own Governments, if they are going to pass them on to India. But that is their problem. As long as we are insisting and making it part of the condition of the offset, there is no problem.”

3.50 On the issue of direct and indirect offsets, a representative of the Ministry during evidence before the Committee stated as under:

“You had mentioned the offset where ever there are large quantity offsets, they are primarily because we have also visited many countries and we have discussed with them as it is of common interest to both of us. Around 70 per cent or 75 per cent or 80 per cent offset condition you will see that clearing many of those 100 per cent or 90 per cent would be indirect offsets. There is a great difference between direct and indirect off sets. When we sit here it is not our desire to improve the garment or some other industry of India. We are sitting here to see how to improve the defence industry of India. So, that is why direct off set means the offset only to the defence products.”

3.51 The Defence Secretary further supplemented on the issue as under:

“Sir, we have said that minimum is 30 per cent. Therefore, there will be occasions when it will be 50 per cent or 60 per cent or even 100 per cent if the economies of scales are there.”

3.52 In reply to another related question, the representative of the Ministry submitted as under:

“As far as defence is concerned, the policy clearly states that the supplier is to decide what he wants to buy. So, our recommendation is that, let there be a nomination in offset. After I purchase an aircraft, offset will happen only through HAL. Let the general industry grow and the decision as to what I want to purchase is best left on the OEM. He has to fulfill and he has to decide who he wants to go with and DOFA should certify that this is offset and that is acceptable.”

3.53 When the Committee asked for the suggestion to make the offset policy more efficacious, the CII in their written replies submitted as under:

“The Offset Policy announced by the Government leverages bargaining power to get benefits to the country in the form of offsets. This as per the current policy is 30 percent of all defence procurement above RS.300 crores. The benefits are economic gains, skills development, technology gains, employment generation etc. Given below are the specific recommendations to make the offset policy more efficacious for the country:

- (i) Objective of the Defence Offset Policy to be defined in DPP Offset
- (ii) Offset Credit Banking
 - (a) Offset Credit Banking is a must to meet its set objectives.
 - (b) Complex mechanism at this stage will be difficult to implement & monitor.
 - (c) Evaluation. of credits would need to be done by a dedicated body within DOFA.
 - (d) A term of 10 years as to the validity of offset credit should be utilized
 - (e) Trading of Offset Credits should not be permitted
- (iii) Transfer of Technology
 - (a) ToT is essential for upgrades. Thus, requirement of ToT to be identified and included in the RFP, but not as part of Offsets.
 - (b) ToT should not be considered for meeting Offset obligations by OEMs
 - (c) There are inherent difficulties in valuation of technology
 - (d) TOT transferred will never be part of core technology
- (iv) Defence Offset Facilitation Agency (DOFA)
 - (a) DOFA should be expanded to be able to fully provide the service expected from a body of this stature
 - (b) To give the perception of an unbiased and stand-alone entity, autonomy should be accorded to DOFA
 - (c) DOFA should have substantial representation from industry
- (v) No dilution of the current Offset Policy

CII strongly recommends that, the MoD should not dilute the current offset policy. Indirect Offsets and Offset Multipliers should not be considered for the time being.”

3.54 When the Committee sought suggestion of FICCI to make the offset policy more efficacious, FICCI replied as under:

- “Offset Banking: FICCI complements DOFA to have accepted the clause of Offset Banking in principle but urges DOFA for its early operationalisation. Offset banking, as we are aware is a practice prevalent in many countries where foreign vendors are allowed to set up projects in partnership with the host country and then credit the value of business generated as offsets for a future defence contract. Offset banking will help India leverage the huge opportunity that exists in defence offsets now.
- Co-terminus offset obligation: Co-terminus offset obligation is causing delays in the implementation of offset regime. Appropriate technology induction and capability building through offset would usually go beyond the supply period. Hence, the efficacy of coterminous offset regime needs to be reevaluated.
- FICCI welcomes DOFA's initiative in encouraging and facilitating more and more industries to acquire licenses for manufacturing defence products and thereby for more offset partnerships. Also, SMEs operating in system domain should also be encouraged to apply for licenses. SMEs engaged in building subsystems! components could operate as Tier II! Tier 11\ with a system player (Tier I). FICCI feels the licensing norms should not be diluted for security reasons. FICCI expects that this initiative would widen the defence manufacturing base and result in greater offset partnerships.”

3.55 As regards the changes made in Offset Policy in DPP-2008, the Ministry of Defence in their written note stated as under:-

“Rationalization of licensing condition, introduction of offset banking listing of defence products and exception from offset of acquisitions under fast tract procedures are some of the salient features of the new Defence Offset Policy as envisaged in the Defence Procurement Procedure (DPP) – 2008.

Under the existing offset guidelines, a private industry was necessarily required to have an industrial license for being entitled to participate in the offset programmes. In the revised guidelines a private industry will be required to have an industrial license only if so stipulated under the guidelines/licensing requirements for the defence industry issued by the Department of Industrial policy and Promotion (Para 2.2 of Offsets Provisions – page 44).

Offset policy has been revised to include offset credit banking enabling foreign vendors to create offset programmes in anticipation of future obligations (Para 2.1(d) – page 44). This will also enable foreign industry and their Indian offset partner to have long term arrangements to discharge offsets and will thus enhance the capacity of the Indian industry to absorb offsets. Under the banking guidelines, a vendor will be able to discharge the banked offset credits for the RFPs which have been issued

within two to two and half years depending upon the date of issue of RFP. The offset obligations are to be fulfilled conterminous within the period of main contract. If a vendor is able to create more offsets than his obligations under a particular contract, the surplus offset credits can be banked and would remain valid for the period of two financial years after conclusion of the said contract.

A list of defence products has been added to facilitate the foreign vendors in implementing their offset obligations (Para 2.1a).

Acquisitions under the Fast Track Procedure have to be implemented in short time to meet imminent operational requirements. These have been exempted from the requirement of offset (Para 1.6).

These changes have been made keeping in view the requirement of foreign manufacturers to speed up offset implementation over a period of time.”

3.56 On latest development in the field of offset, Secretary (Defence Production) deposed as under:

“The three contracts have already been signed. One is on medium power radars. Here the total negotiated cost is Rs. 810 crore and the offset value is Rs. 243. The beneficiaries of this are L&T, which is a private sector company and also Astra, which again is a small-scale sector, private sector company. The other one is fleet tanker for Indian Navy. The total offset value here is Rs. 40.78 crore. A number of companies are the offset partners for this. They are Wartsila India, OFB, BEL, Larsen & Turbo, Almot, Velgear, and Johnson Pumps. I am not reading the products for which they are benefiting. It is just to give you a flavour of it. For MIG upgrade also, it has been done. There the Base Repair Depots of IAF are beneficiaries. There are five more which are under the contract negotiating stage. Then there is Medium Lift Helicopters for IAF where the total cost of the programme is Rs. 552 crore and the offset value is Rs. 165.6 crore. Tata and L&T are the beneficiaries of the offset. These are the contracts that I am reading in the final CNC stage. Then there is long-range maritime reconnaissance anti-submarine war aircraft where the offset value is approximately Rs. 2,625 crore. HAL, BEL, L&T, Dynamitic, Macmet, HCL and Wipro will be the beneficiaries when this contract is signed. For Jaguar upgrade again, the value is Rs. 330.6 crore and the offset value is going to be Rs. 81 crore.”

3.57 On being enquired whether any specific provision has been made in DPP-2008 on the aspects relating to upgradation of equipment, the Ministry of Defence supplied the following information:-

“The upgrades of Defence equipment involved two main aspects – (a) Cost of the upgrades and its operational necessity at later point of time. This cannot be assessed during contract negotiation of the equipment, and (b) payment of royalty for making additional equipment/platform. The requirement of additional numbers, required in future, if any, of equipment/ platform cannot be foreseen at the time of signing the contract.

In this context, the following points need to be considered:-

- (i) In any acquisition case vendors assign costs to each and every input of RFP to arrive at a final cost, which has to be kept valid till 18 months from the date of offer. Moreover, after conclusion of Contract, vendors are obliged under option clause, to provide fresh quantity of equipment at the earlier contracted cost, for next one or two years, as the case may be.
- (ii) Upgrades/further modifications, which are not known to buyer at the time of contract negotiation, and having a provision in the contract to provide it free of cost by vendors, would compel vendor to hike its initial proposal. There would be many cases where ultimately upgrades may not be of any importance to Service.
- (iii) It would be better to procure upgrades/modified equipment or part thereof at a price later which can be justified rather than being an unknown figure at the time of main contract.

In view of the above considerations, automatic transfer of upgraded technology without the liability of additional royalty payment has not been included in the Defence Procurement Procedure-2008.”

3.58 In reply to a question on sharing of technology, design and other related information transferred from the vendor of foreign countries with DRDO/Ordnance Factories/DPSUs and Private Sector, the Ministry furnished the following information:-

“Provisions for sharing of technology, design and other related information with DRDO/Ordnance Factories/DPSUs exists in the Defence Procurement Procedure under ‘Buy and Make’ decision, such transfer of technology etc. can take place from a foreign vendor to private industry or a Joint Venture also. Para 19 of DPP-2008 provides that Production Agency for ToT could be selected from any Public/Private firms including a Joint Venture.

Field trials are the most important stage of procurement procedure. While all efforts are made to curtail the delay, field trial can not be substituted by other methods in many cases. However, provision for trials by computer simulation exists in the Defence Procurement Procedure (Para 38 of DPP-2008 – Page 12). Further, wherever necessary, field trials are allowed to be conducted at vendor’s site on specific approval of the competent authority.

In view of the provisions under Para 14 of DPP-2008 relating to formulation of SQRs and the requisite expertise available with Services, no specific provision has been made in DPP-2008 to avail the services of private consultant/experts in finalizing SQRs.”

Level Playing Field

3.59 On the issue of inherent benefit given to DPSUs and Ordnance Factories in the field of defence production and on the demand of private sector for level playing field to participate in defence production, the Ministry stated:

“The long standing demand of Indian private sector to provide a level playing to them vis-a-vis foreign suppliers in the area of defence procurement has since been addressed in the Defence Procurement Procedure - 2006 and Defence Procurement Manual - 2006.”

3.60 The Ministry further elaborated on this issue as under:

“The long standing demand of the private sector projected through the Confederation of Indian Industry (CII) was to provide a level playing field for Indian industry and foreign industry. It was recommended that the price comparison between a foreign vendor and an Indian company should be based in respect to a foreign company and custom duty should be added to the price or Indian companies should be evaluated on factory price (excluding excise duty and sales tax). With a view to neutralize the impact of taxes and duties payable by Indian Industry while carrying out evaluation of bids to determine L 1 vendor without making any changes in the tax structure, the following decisions have been taken and incorporated in the Defence Procurement Procedure - 2006 and Defence Procurement Manual - 2006:

- (i) In case of foreign supplier, the basic cost (CIF) quoted by him should be the basis for the purpose of comparison of various tenders.
- (ii) In case of indigenous suppliers, Excise duty on fully formed equipment be offloaded.
- (iii) Ignore sales tax and other local levies, i.e., Octroi, entry tax etc. in case of indigenous suppliers including Defence PSUs/OFs.
- (iv) The payment conditions should be similar for domestic. Private suppliers, Defence PSUs/Ordnance Factories and the foreign suppliers.

DPSUs and OFB have also been requested to ensure that they follow the above approach and principles while making purchases of items (other than raw materials, components, assemblies, sub-assemblies, etc.) for their own production through the public and private sector as well as through foreign sources, by incorporating the same in the tenders before issue.”

3.61 In the context of level playing field, CII submitted the following:

“Nomination of Production Agencies

Unlike any other industry, defence is a monopsony - a single buyer market. The Ministry of Defence, Government of India, is thus not only the market definer but it is also the only buyer, or the market. The defence forces must get the best of equipment that is operationally reliable during times of emergency. It is therefore imperative that no distinction be made between the private sector and public sector while procuring defence equipment. In addition to ensuring quality, there is also a need to encourage private players to be more involved in meeting the national requirements. Nomination is apparently effective in two forms. First is nomination for production. For indigenous manufacture and production, DPSUs/ OFs are nominated for ships, offshore patrol vessels, radars, sonars, small arms, field guns etc. The second is the case of nomination for TOT where a foreign supplier is specifically asked to partner with a DPSU. This effectively keeps out private players. It is essential that this practice of nominating the DPSUs / OFs must be done way with. MOD must give equal opportunity to Indian private sector companies including RURs to participate in the design, development and production of defence equipment. The Department of Defence Production, which presently looks after the Public Sector Industry, should also be responsible for the private sector units involved in defence production. The Department could thus be renamed as the Department of Defence Industry having specific targets for indigenous defence production.

Discrepancies in Tax Structure

- DPSUs enjoy the benefit for Customs and Excise duty exemption on inputs to them as well as tier 2 vendors. This advantage is not available to private defence industry when competing with DPSUs.

Difference in Payment Terms

- Payments for Indian vendors should also be permitted through Letter of Credit.
- Foreign exchange rate variation (FERV) is permitted to DPSUs but is not clearly specified for the private industry. FERV risk coverage is a must for private sector also as it can mean over pricing (non-competitive bids) in current scenario of strengthening Rupee. Also DPP 2006 has different payment terms for DPSUs and private industries. It is also recommended that progressive payments may be considered for long duration projects of high value. Corporate bonds are not accepted by private industries as collateral for advances, performance bonds and warranty bonds. Financing costs and Bank Guarantee costs thus add to the costs that private sector has to bear.”

3.62 The views of FICCI on this aspect as furnished to the Committee, are as follows:-

“While the intent of DPP 2006 is to provide a "Level-Playing Field" to the private sector engaged in defence production, this has still not been operationalised. The following examples are mentioned below:

- For evaluation of commercial proposals, as mentioned in DPP 2006, the clause is applicable only to "BUY (Global)" category of tenders. This is not applicable to either BUY Indian or "BUY & MAKE" and under "MAKE", neither the Hi-tech MAKE or "BUY Indian" categories. DPP 2006 also does not cover the Strategic "MAKE" part of Procurement. Different DRDO labs continue to provide DPSUs with tax (Excise, Customs, Octroi and other local taxes) benefits as they continue to compare for L1 purposes all tax and duties applicable. Also within MoD procurement, the 'Revenue Procurement' is not covered under the level playing guidelines. The accreditation of RURs should logically mean that the private industry partners would also be provided exemptions in Foreign Exchange Rate Variation (FERV), duties and applicable taxes, on the same lines as being done for the DPSUs, and this should be clearly laid down in the acquisition policy.
- FICCI suggests that for evaluation of commercial proposals, as mentioned in DPP2006 may be extended to all categories of procurement i.e. "Buy Indian", "Buy Global", "Buy & Make", Strategic Make, Hi-tech Make and mature systems. It should also be extended to all revenue purchases.
- For fully formed items used in defence, no excise duty is applicable. However, for its sub-systems, excise duty, service tax/CST are applicable which add to the bidders input cost. These costs will be indicated by the bidder and not taken into L1 calculations. Therefore, FICCI suggests reimbursements of these duties to be upon proof of payment by the vendor at the time of supplies.
- Within DPP 2006 'level-playing field' is further compromised by providing DPSUs with MOU based payment terms and exchange variation clause. Operationally, this is even extended to "Global Buy" tenders where level playing field on payment terms has been assured but not implemented in tender evaluation. The Contract Negotiation Committee (CNC) considers the MoU with DPSUs as the primary document and same terms are not extended to Private Industry participating in a "Global Buy" tender.
- The payment terms for DPSUs are as per the latest MoU in vogue. However, in case of Indigenous vendors 90% payment is to be made, on proof of dispatch and inspection note issued by the inspection agency. The ultimate consignee pays Balance 10% on receipt of goods. There is no provision for Stage Payments. These terms of payment may be acceptable for the commodities such as uniform, shoes, bullet proof jackets, etc but cannot be applied for Engineered-to-Order (ETO) items. Stage payments are industry norms for the ETO items even for the foreign vendors. It is, therefore, requested that provision for Stage Payments be included, especially for large value and long cycle projects and private sector should not be expected to fund such projects.

Therefore, FICCI would like to suggest the following:

- The RUR should be treated 'at-par' with the defense PSUs/ OFs for all purposes including ToT from the foreign suppliers and thus provide a much-awaited 'level-playing field' to Indian Industry.
- There needs to be parity between DPSUs and RURs also on Risk coverage against advance and progress payments (Corporate bonds for DPSUs against Bank Guarantees from corporates as well as FERV).
- Acquisitions covered under the "Buy Indian" decision must have a minimum of 30% Indigenous content, if the systems are being integrated by an Indian vendor. In case this provision of DPP is not followed, it can give an opportunity for the foreign vendor to use an Indian company as its front for marketing its product and avoid offset implications. Such instances have been observed in some recent cases.
- The nomination of DPSUs/OFs to be discontinued for defense projects or else, RURs should also be considered for the nomination at par with the DPSUs/OFs.
- RURs should also be considered for the Purchase preference on the same lines as that for the DPSUs, if applicable. This is in the interest that RURs are to "Invest" in development programs (20% investment by RUR).
- The norms for FDI should also apply to RURs at par with those for the DPSUs. (It is understood that the dilution of FDI norms are being considered for DPSUs).
- Selection of Companies for Issue of RFI/RFP: It is observed that two extreme norms are being followed for issue of the RFI/RFP for large Defence equipment and projects. On the one hand, the nomination of DPSU / PSU continues for the defence procurement. On the other hand, the RFP / RFI for large Defence equipment and projects are being issued to every one including small companies having no track record, technical abilities and dubious financial capabilities to execute the project or sustain life cycle support. These small companies can at best be fronts to foreign technology being imported by back door. Although for the Make Hi-Tech category, a stipulation is made that Indian Industry Partner is restricted to RUR or Indian Industry that should meet the criteria as per the guidelines of selection of RUR. No Criteria has been stipulated for Buy Indian categorization either under the Buy category or under the Make category. Ministry of Defence (Finance) should evolve the guidelines for short-listing of companies based on their technical as well as financial capabilities. This should be in line with the RUR criteria and must include a need for defence license or Defence Product License or application made for the concerned defence production license before the party is issued an RFI / RFP for the product. Currently such decisions are being taken by Technical Managers at their discretions without any regards to Project execution capability. The selected firm should have the ability to not only execute the project but also be able to sustain the supplied products in terms of Technology, Finance and Maintenance Support throughout the life of the product. e.g. a company with the financial turnover say 10 crore cannot be expected to execute a project valued at 500 crore or more. The pre-qualification of the firms in terms of technical and financial capability should become a criteria for issue of RFPI RFI. In case a firm meets these criteria, then the lack of track record should not become a hindrance in issuing the RFI / RFP provided the company apply for defence production licenses and submits proof before the RFI/ RFP is issued.

Evaluation Procedure for the Bids: The existing procedure for evaluating the Bids based purely on L1 criteria needs to be reviewed. In case of complex projects, requiring high level of technical competence for execution of the project, the Bids should be evaluated for technical capability of the vendor and graded as T1, T2 etc. in addition to the price quoted (L1, L2 etc.). The winner for the contract should be decided by a combination of T1 and L1. The criteria for allocating the weightage for the Price and Technology aspects of the Bid should be decided based on the technical complexity of the project and declared along with the RFP. Such criteria must include the life cycle cost element and must be spelt out in a transparent manner in the RFP based on global practices and also practices in other Indian departments like Telecom, Railways, and ISRO etc, industry would be keen to engage in a comprehensive review with MoD.”

Financial assistance to Small and Medium Enterprises (SMEs)

3.63 The Ministry of Defence have informed that the Government recognizes that some of the SMEs have highly trained personnel and also the potential to take up the development and design work. In order to facilitate this, the Government has decided to formulate a Scheme for providing financial assistance to the SMEs to take up design and development work in defence production. The Scheme is likely to be made operational shortly.

3.64 When asked about the status of scheme for providing financial assistance to the SMEs to take up design and development work in Defence production, the Ministry stated that the scheme is being formulated in consultation with Defence Finance and Ministry of Finance.

3.65 The following suggestions have been made before the Committee by CII for promoting participation of SMEs:

- “(i) Setting up a ‘Defence Technology Product Development Fund’ to be used for providing fund to SMEs to carry out design and development work.
- (ii) Designing of a scheme to provide institutional support to the SMEs to reduce transaction costs while tendering.
- (iii) Framework for ‘RURs’ to promote SMEs on transparent basis.”

3.66 On the issue of participation of SMEs in defence production, a representative of CII stated during evidence as under:

“I represent SMEs and want to tell the Committee that we will supply sub-systems and systems to the larger companies. Some times we will supply directly. It is not true that due to offset clause SME sector will not be able to participate. To manufacture defence equipment, they can participate irrespective of size. The only eligibility criteria is that foreign direct investment should not be more than 26 per cent. That is, as of now, the eligibility criteria.”

Raksha Udyog Ratnas (RURs)

3.67 In reply to a question Raksha Udyog Ratnas (RURs), the Ministry informed as under:

“A Selection Committee has been constituted on 9th May 2006 for selection/identification of Indian industries of proven excellence, which are capable of contributing in defence production, depending upon their technical, managerial and financial strength. Such industries will be named as ‘Raksha Udyog Ratnas (RURs)’ and encouraged to contribute in defence production and assume the role of main system integrators of large weapon systems and producers of platforms required by the Defence Forces. The guidelines for selection of RURs were also notified. There has been a very good response from the industry considering the number of applications received for selection as ‘RURs’. The Selection Committee shall give its recommendations by 31st March 2007 for consideration and acceptance of the Defence Acquisition Council.”

3.68 The observations of Kelkar Committee in Part-I of their report ‘Towards Strengthening Self Reliance in Defence Preparedness’ are as under:

- “(i) The participation of the Indian Industry including private sector should be at the level of design, development and production of major weapon systems and platforms.
- (ii) Such participation would be by firms of proven excellence and having adequate technical, managerial and financial strength.
- (iii) For the identification of such firms, public and private barring Defence Public Sector Undertakings, to be known as ‘Raksha Udyog Ratna’ (RUR)/‘Champions’, the Committee recommends:
 - (a) The identification is to be done through a high level Committee supported technically by an organization like Engineers India Limited and secretari ally supported by the Department of Defence Production.
 - (b) The criteria of identification should be transparent and should involve the assessment of the company/industry for their technical, financial, managerial and R&D capabilities.
 - (c) Once accredited RURs/Champions should be treated at par with Defence Public Sector Undertakings.”

3.69 Dr. Vijay Kelkar stated during evidence as follows:

“So, we want to be sure that the only private sector, as they say, which is the ‘top the class’ or champion or the best in the class, should be only inducted in defence production. So, we have recommended the creation of, what do you call, Raksha Udyog Ratna, that will be the best among the best of the Indian companies which will be accredited and will become the supplier for the Indian defence forces. So, for awarding Raksha Udyog Ratna, there would be an independent committee, which will look into the company’s capabilities, its track record, its R&D record, its financial viability, etc. because armed forces will need a reliable supplier; it should not be a fly by night one so, it has to be a company which had been there for at least five years, with profit making, etc., minimum size should be there; there should be good administrative capabilities. It will only become Raksha Udyog Ratna. Once it is accepted as that, then they will be treated on a par with the DPSU and there will be a level playing field, which will promote competition. The one lesson that I learnt with whatever little work that I had done in the Government is this: the most important is competition for both the Government and the customer. When I was in the Ministry of Petroleum, I introduced the NELP, which promoted competition for ONGC; consequently, last five years, we have found more oil and gas in this country than the last 25 years because there is competition; everybody is doing better; ONGC is doing better and so is private sector. The same concept will come once the Raksha Udyog Ratna comes and competes with other PSUs and the benefits will come to this country and to the purchasers, the Armed Forces. So, the second thing is the creation of Raksha Udyog Ratna; the first is the long-term plan; second is the participation of private sector in this process; third is creation of champions or well-run Indian companies to participate in defence production, that we call, Raksha Udyog Ratna.”

3.70 In reply to a question regarding Raksha Udyog Ratna, CII submitted in their written note as follows:

“A major recommendation of the Kelkar Committee that has been announced as part of DPP 2006, as policy, but yet to be implemented, is on the RURs. There is a need to identify firms with proven excellence that are capable of contributing, depending on their technical, managerial and financial strengths in order to ensure effective participation by the industry, both public and private, in product development and production.

In conformity with the recommendations of the Dr. Vijay Kelkar Committee, the Ministry of Defence constituted a Selection Committee for identification of RURs under the Chairmanship of Dr. Prabir Sengupta, IAS, Former Director, Indian Institute of Foreign Trade and Secretary, Defence Production and Commerce. This Selection Committee has already submitted its recommendations to the Government. RURs that were to be effective by 31 March 2007 are yet to be announced by the Government. This is causing a delay in the integration of the Indian private sector in indigenous defence production.”

3.71 On the role of SMEs in providing defence systems and sub-systems, a representative stated during evidence as under:

“...No large company makes any defence system by itself. A defence system is a system of systems. It has a number of sub-systems, it has a number of assemblies which go into it. In 90 per cent cases these assemblies are actually made by the small and medium industries. We generally put them together and do the integration activity. So, the moment we become RURs the biggest benefit will actually pass on to small and medium enterprises on whom we depend and whose business will go manifold while we start working.”

3.72 In reply to a question on RURs, the representative of CII stated as under:

“The first one is, Raksha Udyog Ratnas, although promised and date and time was given for their announcement, this has not happened. This is causing a certain amount of anxiety amongst the people who have applied for it and I think it is also giving us a feeling that the great opportunity of offsets which the Government has generated as part of their policy for procurement of Defence equipment might also find this coming a little unstuck. It is our humble opinion that RURs should be announced as soon as the Government think it is possible. We believe that it should be done as soon as it can. As you are aware, Sir, the CII is doing Defence expositions along with the Ministry of Defence in the month of February. The Who is Who in the world in the manufacturing of Defence equipment is coming to India. If by that time RURs are announced it will be a big step forward for marriage making between those who will support the offset clauses because 30- 50 per cent offset is required to be made in India by the Indian industry which is both capable and rearing to do something constructive in support of country’s defence requirement.

3.73 In this context, another representative of CII stated as under:

“Sir, licences have been issued to us. The RUR status is not there. Only when the RUR status comes then we will be treated at par with PSUs. This is what the General has mentioned. This is an important part because until we get the RUR status, we will not be treated at par. So, licences have been given. It is not that licences have not been given. Before giving licence, the Ministry do look at the valuation of the company, whether you have the potential, whether you have capability and then licences have been given. Sir, all of you have given the policy directive. Now the operationalisation of that policy is an issue. This is what we are trying to get across.”

3.74 During oral evidence, the Committee desired to know the views of Armed Forces on the issue of RURs. The representative of the Army deposed as under:

“There has been a talk of the Armed Forces being in favour of importing equipment at their cost. Sir, we tried our best to buy what is indigenised but we cannot wait endlessly. We waited many, many years for air defence systems, for tanks. Ultimately, we had to go in for import. So, when the security of the country is at stake, we will be answerable and not the producers.....

If you want the domestic industry to participate..... get them declared as the RURs immediately.”

Defence Production through Public Private Partnership

3.75 Explaining the role of the private sector in Defence production in the country, the Ministry of Defence submitted the following information:-

“After independence, owing to the circumstances then prevailing, the Government consciously restricted defence production to the public sector. However, the private sector has been traditionally involved in supplying raw materials, semi-finished products, parts and components, sub-assemblies and sub-systems etc. to Defence PSUs and Ordnance Factories. Out of total purchase of Rs. 12931 crore made by the Defence PSUs during 2006-07, approximately Rs. 2900 crore are obtained from the private sector including the SSI sector. Similarly, outsourcing to the private sector including SSI sector by Ordnance Factories during the year 2006-07 was to the extent of Rs. 2118 crore.”

3.76 On the aspect of public-private partnership in the Defence production, the Ministry of Defence furnished the following information:-

“There are several instances of Defence PSUs having forged alliances or partnerships with the private sector. HAL is also exploring ways to work in partnership with private companies in the areas of software development, engineering solutions and design support to tap the export market and also to support indigenous requirement. MOUs have been signed with Infosys, Tata Consultancy Systems, Satyam Computers.

As a result of several new policy initiatives taken by the Government, a congenial atmosphere has been created for public-private partnership in defence production. There is now a great scope for forging alliances between public and private sector in the strategic defence sector. As indicated above, there is a provision in the ‘Make’ procedure for execution of the projects categorized as ‘Make’ also through the consortia. The development of new projects by public and private sector through formation of consortiums or joint ventures could now be considered by the Government.”

3.77 In reply to a question about the steps taken to increase participation of private sector, the Ministry of Defence in their note stated as under:

“The following provisions have been made in DPP-06 to encourage joint venture/collaboration with the private sector:-

a) Cases where ToT is being sought from appropriate Production Agency (PA) is approved by the Defence Acquisition Council (DAC). The PA is selected from any of the public/private firms based on inputs from Department of Defence Production (DDP). In cases where the response to the Request for Proposal(RFP) is received from a joint venture company, assessment of absorption of key technologies as required under the ToT is carried out by a committee constituted by DDP a per Para 19 of DPP-06.

b) The provisions of ToT to an Indian Public/Private firm for provision Maintenance Infrastructure for ‘Buy’ category cases where equipment is being brought from foreign vendors has been provided in Para 28 of DPP-06.

c) The criteria for selection of Champions of Industry in the Private Sector named as Raksha Udyog Ratnas (RURs) have been laid down in Para 22, Chapter-II of DPP-06.

d) High technology Complex Systems as per ‘Make’ procedure of DPP-06 would be undertaken by RURs/Indian Industry/DPSUs/ OFB/Consortia on a level playing field as per Para 3© of Chapter –II of DPP-06.

In accordance with the above provisions the Army has involved the private sector in the production of equipment like Pinaka system.”

3.78 On the issue of need of Public Private Partnership, Dr. Vijay Kelkar stated during oral evidence as under:

“We studied the experience of ISRO; ISRO is the most successful example of how Indian industry participates in hi-tech area; just like Army, they also wanted that; so, ISRO participated in that and created infrastructure where large amount of requirement of space industry is done by our own companies. So, let us follow the ISRO model. What is ISRO model? First they made available their own in-house technology to Indian industry. Second, they gave long-term commitments to Indian industry. Third, throughout the whole process, they hold Industry’s hands and guide them to what they want. So, there is holding of hands between the buyer and the producer. So, they work as a team. Consequently, we have this now an Indian space industry. Incidentally, there is a study made by Prof. U. Shankar of the Madras School of Economics which showed that the Indian Space industry is as efficient as any other in the world. In fact, we are now sending commercial satellites. This happened with ISRO. The rates are competitive; our costs are the lowest in the world today. ISRO had done this and they have a long-term framework. This is what we have recommended for the defence. There is a body in this country which has shown success and you can do it. So, let us follow the ISRO model for defence industry where we can reduce the imports, have domestic capabilities which are efficient and produce at lowest possible cost. So, we looked at the three models – ISRO, Atomic Energy and ONGC; and we

have given what we have learnt from each of the successful models for defence production. For instance, ONGC runs a training programme. So, we have recommended that the Institute of Defence Management, Hyderabad should run specialized training programme for defence officers on purchase procedures. So, from Atomic Energy Commission, we have given lessons; from space, we have taken lessons; all the hi-tech industries in which our own companies have shown that we can do it, we have looked at it. We have successful experience; and so, let us look at this. From them, we can learn.”

3.79 On the need for users’ participation in forming of policy, the representative from FICCI submitted during oral evidence as under:

“Defence industry in this country is coming out. Unlike any other industry, the domain knowledge does not exist in the industry. One cannot do market research about this industry. Unless and until there is a mechanism in which the user directly is participating; right now even in the make-procedure, there is an 80:20 clause which allows 80 per cent funding coming from the Government and 20 per cent from the private sector. But the user directly is missing there. If he is missing, he can change his specification and his mind. If he is there, he can tell us what wrong we are doing. We need to operationalise this part of the policy.”

3.80 On the role of private sector in defence production, the representative from CII stated as under:

“So, the industry is trying to now look at linkages between science, technology and products and now you are seeing a whole range of products coming out from indigenous technology. Therefore, there is a major mindset change. The industry is willing to invest money and the industry is willing to look at technology and that to me is the key when you look at the Defence requirement as we move into future. To my mind, the private sector is now reaching a point where when we talk about this synergy between private and public sector, private sector can play a very significant role in the coming years. The important thing for me is to try and imagine as to what is going to happen. If you kindly see, we were trying to look at roughly ten years from now as to what is going to happen. If you look at our requirements today it may be about Rs. 38,000 to Rs. 40,000 crore a year and if you look at the production in the country, may be it is about Rs. 18,000 to Rs. 20,000 crore and the balance we are importing. Now, if you just look even at ten per cent to 11 per cent growth a year, it is not very significant.

You are looking at a requirement running into, at least, Rs.150,000 crore. So, when you are looking at a requirement of ten years from now at Rs.150,000 crore, we need to produce in the country at least to the extent of Rs.80,000 crore from the present level. We are looking at a huge

requirement for production alone within the country. If you add to this, a very clear indication is coming out that the world is looking at India with its technology, the way it is evolving and the capabilities and the skills that exist. With this, another Rs.20,000 crore worth of export is possible ten years from now. You are looking at a possible size of Defence industry at Rs.100,000 crore ten years from now. This is a huge shift from the present level of Rs.18,000-20,000 crore. Here, we can clearly see not only the public sector infrastructure, what we have built over the years but also we can see the joint venture between the public and the private sector, the synergy between the two which is the second pillar; and the third pillar should be the private sector should evolve, in its own right, as a major player in the coming years. So, the challenges that we see are massive. There is a need to think big. There is a need to think about policy initiatives. So, this can also become a huge pillar for growth as we move on into the future.”

3.81 In the context of public-private partnership, the representative of ASSOCHAM inter alia stated during evidence as under:

“I would like to make three points. One is that on this issue of R&D, we should look at the US model, which is a perfect example of PPP. They explicitly define that we want shoes to be developed for war with Kuwait. Specifications are given by the Air Force that we want an aircraft of so and so capabilities. Then, they go to the people and say to them their project possibilities and project estimates, the duration of time, etc. Then the Defence Procurement Committee goes and listens to them. They talk to them and then decide as to who should manufacture the goods. The whole money is paid by the US Defence to these contractors. In this connection, there is a very good question which came from your side, i.e., as to how much money should be given to research. I think there is no particular figure as to how much money should be given to research. You have to ask the industry to give you their offer. I have been associated with this industry for a fairly long time. It is not the indigenous production, but it is the technology import that we are talking about. Our Air Force are fully justified in saying that they do not want to develop anything and take 20 years in developing. LCA is the perfect example of it. Why not buy that technology on which others have spent millions of dollars and indigenize it and transfer it to our country and create jobs. There comes the problem which you should consider.”

3.82 In reply to another related question, the representative of CII stated as under:

“The next point is fear of competition. The basis of growth is competition. So, if the public sector is going to shy itself from competition, then there is going to be no growth. Then the question of national security is very important. The ability to design, produce and provide life cycle support to platforms and associated equipment must be intrinsic to India’s capacity by 2020. If I am not part of the making, I will not be part of the maintaining. If I am not part of the maintaining, I will be depending on critical supplies as it has happened in Kargil or any other war where for sea hawk helicopters, America told that they will not give components. Helicopters were lying on one side although we bought them. We do not want that to be repeated. So, whether you allow us to be part of the manufacturing, or the designing or the production or maintenance, they will be a growth of our capability including planning. Now, when we talk about convergence technologies in place, imported equipment cannot be entirely relied upon. Today, technology is getting embedded into the system. What information is getting passed on is not known. If you think that you are the only person who knows about the e-mail you are sending, you are mistaken. Somebody else in the world knows what you are sending, what you are receiving and what you are transacting, with whom you are talking, etc. because the information is going out. This is going to happen in this technology. If you do not take our industry into the fold now, not inclusive of the public sector but in partnership with the public sector, both of us will not grow. Our vision of 2020 will remain just a vision regretfully but that is what is going to happen. The question the industry asking is: Are the foreign suppliers more sensitive to national security than the Indian industry?”

3.83 On being enquired about the initiatives taken by Government for encouraging private sector participation in defence production, the Ministry of Defence in their written reply submitted the following:

“The Ministry has recently taken a number of initiatives in the direction of fruitful Public-Private Partnership like provision of level playing field to Indian industry vis-à-vis foreign suppliers, provision of ‘Offset’ clause in DPP-2006, formation of JVs etc. Ministry would invite suggestions/comments of Private industry in the areas of concern to them at various interactions with the private sector and would make all efforts to address them.”

3.84 On the question about the of the order of product being given to private sector, a representative of CII further submitted the following before the Committee:

“That does not mean that it is not happening. Let me give some examples. When Indian industry is doing mergers and acquisitions, technology is coming to India. For example, take M/s Corus. Upto now, Tata was producing steel for trucks and other things. By Corus coming into the Tatas, they are making aircraft steel. It is available now. Should that be bought from someone else now? It should be bought from the Tatas. The mergers and acquisitions process in which the Indian Industry has got itself engaged in is nothing else but the transfer of high value addition in terms of technology. I do not know whether this group knows and I do not know whether some people in this group know that most of the fortune 500 companies have the design capital which is in India. We are designing for them. It is going out by a route, coming back to us to be bought by us at a higher price. The point is that are making is that the talent that is available is so phenomenal that we need to get a playing ground by which we can play this part. I will invest Rs. 100 only if I will get a return from it and I should face the risk to fail and I am prepared to fail. .If I succeed, and you will still say that you are going to buy from Singapore, then why should I make an investment? I have no assurance that you will be able to give it to me. You can even say that if I succeed you will be able to give me only five out of ten parts. I will do that but I am not getting it today.

CHAPTER-IV

RESEARCH AND DEVELOPMENT EFFORTS

4.1 The Department of Defence Research and Development is headed by a Secretary, who is the Scientific Advisor to the Raksha Mantri. Its function is to advise the Government on scientific aspects of military equipment and logistics and the formulation of research, design and development plans for equipment required by the Services.

4.2 Replying to a question about provisions in DPP for indigenous R&D work and development and production of parallel system, the Ministry in their written note furnished in May, 2007 submitted as under:

“Based on the recommendations of the Standing Committee on Defence and Kelkar Committee, the procedure for Indigenous Research, Design, Development and Production of systems has been addressed under 'Make' category. The aim of the 'Make' procedure is to ensure Indigenous Research, Design, Development and Production of capabilities sought by the Armed Forces in prescribed timeframe while optimally utilizing the potential of Indian Industry. In addition, it would also achieve self-reliance in Defence Equipment. The 'Make' procedure will cover all capital acquisitions of High Technology Complex Systems and upgrades undertaken by Indigenous Research, Design and Development. These would be undertaken by Ordnance Factory Board (OFB), Defence Public Undertakings (DPSUs) and Indian Industry/Raksha Udyog Ratna (RUR)/ Consortia on a level playing field on shared development cost. The major issues addressed under the 'Make' procedure is indicated below :-

- (a) The development process will comprise of fourteen stages including SQRs, categorization, AON, constitution of Integrated Project Management team, detailed project report and design and development of Prototype.
- (b) The Services Qualitative requirements (SQRs) would be broad based and realistic. The PSQRs must express the Key Performance Parameters i.e. Essential Parameters and Desirable Parameters. First prototype should be able to meet the Key Performance Parameters i.e. Essential Parameters. Subsequent upgrades/ development should include Desirable Parameters.
- (c) The feasibility study is to be carried out with the aim to identify the projects which DRDO, DPSUs Indian Industry has the capability to design and develop within the timeframe required by the respective Services.

- (d) The Categorisation and AON will be based on considerations such as: estimated capital expenditure, sharing of development cost, likely development agency (ies) and Minimum order quantity. After the AON has been accorded by the DAC, an Integrated Project Management Team (IPMT) would be constituted for each project. It would be a multi-disciplinary team headed by a Service Officer, capable of using methods and tools to analyze and assist in preparing a Detailed Project Report (DPR) by short listed agencies. The IPMT would monitor and report the progress of the Project as per the milestone laid down. It would be an interface between the Service HQ, R&D Organisation and Development agency.
- (e) In case where the system configuration is complex, development lead time is relatively long, technological risks are substantial, the Defence Acquisition Council (DAC) would approve the sharing for the development cost with the development agency (ies). The sharing cost would normally be in the ratio of MoD (800/0) and the industry (200/0). The IPMT would identify important milestones during the development of prototypes. Funds would be released by MoD to the industry based on the recommendations of the IPMT as per schedule of release of payments linked to achievement of milestones.
- (f) The design and development agencies would adopt the development strategy which would be clearly indicated in the Detailed Project Report.
- (g) User Trials would be carried out in a time bound manner by the SHQ in close consultation with IPMT to validate the performance of the system against the parameters/specifications approved for the development of prototype.
- (h) In case the project does not proceed according to the predetermined milestones and there are time and cost overruns the project may be foreclosed as per the exit criteria given in the DPR.”

4.3 Replying to a question about the areas where private industry could be involved in R&D activities with the Ministry of Defence, CII in its written note stated as under:

“The private industry has the capability and the capacity to take up R&D projects under the following categories:

- § Ship Design Centre
- § Defence Electronics
- § C412RS areas
- § Weapon Systems
- § Platform Specific Machinery for Ships, Submarines, Battle Tanks
- § Electronic Warfare
- § Avionics and airborne systems
- § Sensors

Private Sector industry would be willing to invest in R&D for defence, however it would be in order to mention here that unlike the civil sector, this sector of the industry depends very little on market forces. This sector depends on Government support and policy directions. With the current policy of NCNC (No. Cost, No Commitment), industry would be reluctant to invest in defence R&D. Industry inputs must be obtained for any acquisition through Defence Procurement Board and Defence Acquisition Council.”

4.4 In this context, FICCI submitted the following:

“Currently, both SME’s and large private sector have been engaged in Defence R&D with DRDO. Pinaka, Samyukta Electronic Warfare Systems, IGMDP, LCA, ALH, Brahmos, MBT Arjun etc. are some successful examples of this co-operation. Currently, all technology developed by DRDO goes for productionisation to DPSUs (Pinaka, the only exception). Once the RURs are in place, it is imperative that private sector also becomes recipient of these technologies as Prime Contractor and thus lead the Design to Engineering effort and subsequent life cycle support leading to obsolescence management and upgrades. This follows the Defence Value chain and thus will come naturally to the industry and was the basis of Kelkar Committee recommendation on Product Strategy.

Also, as far as strategic projects are involved, where investments are high and where civilian advantages are limited, a DARPA like approach of 100% financing in a partnership between Industry, DRDO and User must be established.

The companies involved in R&D project with DRDOs must be given assurance and long-term commitment for future orders. Such a step would being in established corporates to the Defence Industry fold and get involved in (committed to) some serious Defence R&D with eye on possible future gain subject to successful development of the technology/product they are involved. Private sector industry today has Systems & Engineering capability for other products, which can be applies to defence cutting down the indigenous development time and cost.

On par with DPSUs, RURs should also be included in the steering committees and DRDO programme management boards. This is to ensure level paying field by avoiding undue advantage to the DPSU at production stage by being part of the management board of large programs.”

4.5 On developing Public Private Partnership in defence R&D, a representative of CII submitted the following during evidence:

“Yes. ISRO is a prime example of how Aerospace and the public sector have worked very closely with each other and in this field the country’s progress has been very significant. But DRDO and the public sector do not have the flexibility to form a consortium or join hands with the private sector.”

4.6 On being enquired whether there was any policy prompting DRDO for not going to form consortium etc., the representative of CII informed as under:

“There is no policy initiative for DRDO to do it. They do not know how they can enter into an economic partnership with the private sector. This needs to be addressed. DRDO has its strengths. DRDO is the repository of many of the developments. DRDO has the infrastructure to do which otherwise is not available with the industry. There is a big gap between design and development and actually realizing the product and this engineering skill is available with the industry and not with the DRDO. When you join in a partnership with a developer, with the engineering skills of the industry, you actually realize the product.”

4.7 During oral evidence on the issue of private sector participation in defence research, Secretary, R&D informed the Committee as under:

“As far as the funding of R&D into private sector is concerned, that is not something new to us. We have been doing it for the last 15 years. The problem is industry is able to handle fabrication and handle certain assembly tasks and very few of them are in a position to handle total design responsibility. Over this period, there is improvement. We have already given instructions to the Project Chiefs that wherever outsourcing is possible in an integrated manner, including design and that can still fit in with the total system, they can go ahead and give such tasks. Such tasks have been given, for example in radar, some parts have been given to L&T and some parts of radars are built by BEL. This kind of enhancement is happening. It is not possible to lay them down. It is a greater inflow in terms of funding.....What we have done is that there are research boards available in certain areas like, Aeronautics Research Board, Naval Science and Material Research Board, etc. Here, those laboratories and in the labs in the universities which are in a position to handle, we directly fund them. But there is a committee which looks into the worthiness of the project. Then, we are also willing to fund industries, which are registered with the Department of Scientific and Industrial Research. They also can be funded for this kind of R&D through these boards. Apart from this, we have provisions, what is called Contracted Acquisition of Research Services to the Laboratories, by which they acquire research services from the university. So, we can avail those services.”

4.8 On the funding of R&D to private sector, the representative of the Ministry of Defence stated during evidence as under:

“In the make procedure, the Defence Ministry would finance 80 per cent of the development cost which is there.... What has been done in the ‘make’ procedure is this. We fund 80 per cent of the development cost. Secondly, we also give them a minimum order quantity which would be given to the private sector parties so that if we successfully develop the

prototype, then there will be minimum order quantity which will make it worthwhile.....I would like to submit that It would be difficult for us to expect the private sector to invest in fundamental research in Defence.....

This is precisely the reason why we said that when we identify an equipment which is to be made in India by the private sector then we would fund 80 per cent of the development cost.

4.9 On investment made in R & D by private sector, a representative of CII submitted the following before the Committee:

“When you ask what investment has been made in research and development, it comes out of an understanding of two clear facts. One is, if I am to invest Rs. 100, at the end of the tunnel 20 years down the road, I must get the value. I may either fail for which I should be prepared. But if I succeed, this Rs. 100 will find a return. Today there is no assurance. How do you expect them to make an investment in research and development for a defence product when I am not going to be nominated? “

4.10 During oral evidence, the Secretary (DRDO) deposed before the Committee as under:-

“Our policy is very clear. We are willing to work with any company in India. We are not drawing any distinction between private or public or anybody. All that we are interested in is this. Certain conceptualisation of design only we do. Certain strengths we have inside the laboratory. That part we do. In fact we are even asking whether it is BEL or a private sector, if certain modules you can even get from abroad under the offset or otherwise also under your own FDI and those arrangements, you can exploit that also.”

4.11 He further added:

“Even in the case of earlier one, it is yet to get fully operationalised. There is an exclusive provision of the private sector to be funded for what we call development leading to acquisition. It is like DRDO is doing. For example, DRDO, today, is not doing any work on armoured wheeled vehicle of four by four or six by six. We are not doing it but we have told to Mahendra or Ashok Leyland or whoever it is that we will give you this much free. As a Scientific adviser, I have taken this decision. DRDO will only focus on certain special trials for missiles and things like that, and those for which reasonable design capability exists in India in terms of design of axles, wheels, brakes and engine appropriate modified. We are even willing share it. There are structural aspects of how to build armour design.

Take the example of Mahendra. Let me just give you an illustration. If Mahendra feel that for that engine, let us say, rehashed for a desert application, then that will be funded as a part of 80:20. It is only to bring a commitment from the industry that this 20 per cent is being asked.”

4.12 As regards private sector participation in Defence R&D, the representative of IDS during the oral evidence stated as under:

“In the past, DRDO used to take on most of the R&D projects. The new procedure enjoins upon them to go for strategic systems which others cannot make normally and which involves sensitive technology research. All other areas are open to research for private sector in which the percentage is 80 per cent by Government and 20 per cent by the private company whichever is taking up that R&D project. Where has this process stuck? This process has stuck at my level because what we are doing is, we have now taken up the Eleventh Plan. We have involved the DRDO and the Services to see what is it that falls under the category of sensitive systems which DRDO will do. The balance have been identified. We are in the process of strengthening the headquarters because now, the responsibility enjoins. Therefore, every system that we have to offload to the private sector, we have to do the feasibility study. Whether this actually can be made, etc. involves officers to sit with the industry, take their capabilities on board which are as yet unknown in the defence field and then based on the feasibility study, offload the research. Also based on the feasibility study, we are supposed to produce the project management team which is also part of our strengthening who will the oversee the research project to be offloaded so that we have a timeline process of that R&D.”

PART-II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

1. The defence requirements of the country are presently met through imports as well as indigenous production both in public and private sector. According to the Ministry of Defence, it is the policy of the Government to encourage indigenisation in the defence production and various initiatives have been taken in the recent past for promoting indigenisation and achieving self-reliance in the defence sector. The Committee's examination of the statistical data furnished to them, however, reveals that the extent of import content in production of various defence equipment by public sector defence production units continues to be substantially high. Undoubtedly, there is still heavy dependence on foreign suppliers and the goal of achieving self-reliance in such an important area as defence remains elusive despite a well-established network of the defence industries in the country. In the light of the rapidly changing global security environment and its implications on the national interests, the Committee strongly feel that the Ministry of Defence should expeditiously conceptualise the realities of the situation and contemplate concrete and result oriented steps from time to time to harness and integrate the vast potential of the increasing technical and manufacturing capabilities of both public and private sector industries in the country so as to minimise the dependence on foreign sources for defence procurement. The Committee have dealt with some of the important aspects related to the subject in succeeding paragraphs of this Report.

Extent of Indigenisation

2. The Committee are constrained to observe that no scientific system has been put in place by the Ministry of Defence to assess the exact level of indigenisation achieved by defence production units in the country. In fact, the statistical information on extent of Indigenisation furnished to the Committee fail to reflect true picture as some of these figures admittedly, do not include the quantum of import content utilised in products manufactured by public sector units. The Committee find it distressing that while one representative of the Ministry of Defence claimed during evidence that the share of indigenously produced items in defence production was about 77 per cent in 2006-07, the Defence Secretary was candid enough to admit that only 30 to 35 per cent of defence expenditure on equipment was met from domestic manufacturers. Undoubtedly, the quantum of financial outgo to the foreign and indigenous sources for procurement of defence equipment continues to be the primary criterion for evaluating the level of indigenisation in defence sector in the country. The Committee wish to remind the Ministry that the main plank of indigenisation in defence production is to reach higher levels of self-reliance in development and production of state-of-the-art equipment and weapon systems and this issue of national importance cannot be viewed in a mere commercial and statistical jargon. The Committee express their strong displeasure over the manner in which this data is being maintained and they desire the Ministry to apply necessary correctives in order to ensure an objective and incisive analysis of the realities of the prevailing situation.

Private Sector Participation

3. The Committee have been informed that there has been a paradigm shift in the role of private sector in the field of indigenisation consequent upon Government's decision in May, 2001 to open defence industry for Indian private sector participation upto 100 per cent with permissible limit of 26 per cent in Foreign Direct Investment (FDI). Although several new policy initiatives have been taken for promoting public-private partnership in defence production during the recent years, the statistics furnished to the Committee reveal that the share of private sector including small scale industries was a meager 23 per cent of the total purchases made by DPSUs during 2006-07. Undoubtedly, this situation is far from satisfactory particularly when the Government aims at harnessing available expertise and the capabilities of the private sector towards the total defence efforts and search for self-reliance. The Committee are of firm view that there is an imperative need for exploring further ways and means for substantially increasing the indigenous efforts in development and production of defence equipment by active participation of both the public and the private industries so as to achieve greater self-reliance. They feel that this task can be accomplished by taking timely and appropriate initiatives to integrate the private industries of proven capabilities in the defence sector without compromising national security. Efforts are also required to be directed towards earnest implementation of the policy framework envisaged from time to time with a view to achieving the desired objectives.

4. The Committee understand that a congenial atmosphere has been created for public-private partnership in defence production as a result of several new policy initiatives taken by the Government in the recent past. They feel that an enhanced participation by the private sector would not only promote healthy competition between public and private sector but would also give an impetus to industrial and economic growth in the country. While commending the Government's decision to accept a majority of recommendations made by Kelkar committee for encouraging

involvement of private sector in promoting defence capacity building and high technology capabilities in defence sector, the Committee strongly feel that a formal mechanism for sharing information on the futuristic requirements and the perspective plans of the users should be put in place in accordance with the practices adopted by certain advanced countries. The Committee feel convinced that such a mechanism would inspire the confidence of the private industries and enable them to gear up their infrastructure well in advance. The Committee, therefore, desire that the Ministry of Defence should address this issue in the right perspective and apprise them of the precise steps taken in this regard.

5. During their interaction with Dr. Vijay Kelkar, the Committee have been informed that Indian Space Research Organisation (ISRO) embraced the private sector industries in the country to meet their requirements in the high-tech area and their experience has been fruitful both in terms of efficiency and economy. The Committee would, therefore, like the Ministry of Defence to make an indepth study of the practices and procedures being followed by ISRO with a view to exploring the feasibility of adopting the same in defence sector.

Defence Procurement Procedure

6. The Committee note that the Ministry of Defence have introduced a revised Defence Procurement Procedure (DPP) in July, 2008. A scrutiny of DPP-2008 reveals that while certain procedural changes have been introduced with a view to strengthening the procurement framework and transparency in operations, the procedure does not specifically mention about the procurement policy of the Government for achieving self-reliance and indigenisation in defence production. The Committee are of strong view that the policy initiatives taken by the Government in the recent past for creating public-private partnership and indigenous development in defence sector should be suitably reflected in the defence procurement procedures by clearly bringing out the specific provisions made therein to facilitate indigenously developed products. The Committee trust that the Ministry of Defence would take appropriate steps in this regard.

Review of 'Make' Category

7. The Committee note that the Kelkar committee on review of Defence Procurement Procedure had recommended an integrated approach involving Users, Ministry of Defence and the Industry in the 'Make' procedure and the recommendations of the Kelkar committee have been accepted by the government for implementation. The Committee have been informed that the procurement through indigenous development would now be undertaken under three categories. While strategic and security sensitive systems would be undertaken by DRDO and managed through Defence R&D Board, the projects under high technology complex systems would be undertaken by RURs/Indian Industry/DPSUs/OFB/ Consortia on a level playing field and this procedure would also be adopted for all upgrades categorised as 'Make'. The projects under low technology mature system would be categorised as 'Buy Indian' and must have a minimum of 50 per cent indigenous content. Considering the fact that the 'Make' category incorporated in the Defence Procurement Procedure way back in 2006 has not yielded any tangible results despite the private industries in the country having registered a significant growth in indigenous capabilities in development and manufacture in the defence sector, the Committee feel that there is an urgent need to fine tune and rationalise the procurement procedures under 'Make' category so as to achieve the goal of self-reliance in real sense. The Committee therefore, desire that an expert Committee should be constituted at the earliest to review the existing procurement procedures under 'Make' category so that the capabilities and expertise available with the defence industries in the country can be gainfully utilized.

Field Trials

8. The Committee had observed in their Nineteenth Report (Fourteenth Lok Sabha) that long evaluation trials by the Armed Forces even in case of equipment produced indigenously has been one of the major causes for delay in procurement of defence equipment. While acknowledging the need for comprehensive evaluation of the new equipment in different conditions, the Committee wish to point out that the quality of indigenously produced equipment should be conducted expeditiously so that the manufacturer can make timely efforts in finding out solutions to the short comings noticed during field trials and the goal of self-reliance is achieved within shortest possible time. The Committee, therefore, suggest that the Ministry of Defence should consider procuring sufficient number of prototypes of the indigenously produced defence equipment so that the field trials can be conducted simultaneously in various terrains of the country and inordinate delay in development and production of such equipment could be avoided. Similar measures should also be contemplated for procurement of defence equipment from abroad.

Foreign Direct Investment (FDI)

9. During their examination of the subject, the representatives from FICCI and ASSOCHAM have expressed the view that the present limit of 26 per cent FDI in defence sector needed to be enhanced to attract foreign investors. On the other hand, the Ministry of Defence have put forth the plea that any increase in FDI level beyond 50 per cent would imply management control with foreign investors and such ventures might fail to deliver at critical junctures due to factors such as sanctions imposed by foreign governments etc. While giving due weightage to the numerous benefits that would accrue to the industry and economy as a result of increased in-flow of FDI, the Committee are of the firm view that the possibility of increasing limit of FDI upto 49 per cent in defence sector should be examined by the Government after keeping in view the fact that national interest must reign supreme in defence related matters.

Offset Provision

10. The Committee note that an 'off-set' provision applicable to all capital acquisitions effective from July, 2005 has been incorporated in the Defence Procurement Procedures (DPP) which stipulates a minimum required offset of 30 percent of the indicative cost of the acquisitions under 'Buy(Global)' category and 30 percent of the foreign exchange component in 'Buy and Make' category in respect of acquisitions valued at Rs. 300 crore or more. The Committee have been informed that although offset obligations have to be discharged concurrently with the main contract, any failure on this account attracts a meager penalty of 5 percent and other action can also be initiated against the defaulting company in case of consistent failure. Strangely enough, extension of time for implementing the offset obligation is also stated to be considered with specific order. The Committee are in no doubt that such options leave limited scope with the Government in strictly enforcing the requirements under offset provision which ultimately proves detrimental to the national interests. While certain changes are stated to have been made in DPP-2008 in view of the requirement of foreign manufacturers to speed up offset implementation over a period of time, the Committee would like to emphasise that time limit for discharging liabilities under the offset provision have to be made essence of the relevant contracts. They, therefore, desire that stringent and specific clauses should be incorporated in the contracts for imposing heavy financial penalties at the rate of a minimum of 15 per cent per annum in all cases of default and no room is left for any discretion in such matters.

Level playing Field

11. The Committee are fully conscious of the role being played by the DPSUs and the Ordnance Factories in meeting the national security requirements. However, they are at the same time of the view that the contribution being made by the private sector in defence production cannot be marginalised by the Ministry of Defence in their capacity as the sole buyer of military equipment. Although the long standing demand of private sector for providing a level playing field vis-à-vis foreign suppliers is stated to have since been addressed in DPP-2006, the Committee have been given to understand that there are several areas where distinction is made between the private and public sector while procuring defence equipment. These are, *inter-alia*, (i) nomination for transfer of technology where the foreign suppliers are specifically asked to collaborate with an DPSU; (ii) discrepancy in tax structure for exemption of customs and central excise duties as well as foreign exchange rate variation ; and (iii) non-acceptance of corporate bonds as collateral etc. The Committee consider that these issues need urgent attention with a view to doing away with discriminatory treatment so that the necessary thrust is provided to private sector striving hard to augment indigenous defence production in the country. The Committee are of strong view that level playing field and equal opportunities would not only promote healthy competition between the public and private sector but would also result in cost effectiveness of indigenously produced defence equipments. The Committee expect the Government to move in the right direction expeditiously.

Financial Assistance to SMEs

12. Having recognized the potential of some of the small and medium enterprises (SMEs) in the country, the Government have decided to formulate a scheme for providing financial assistance to these enterprises to take up design and development work in the defence production. The Committee urge the Ministry of Defence to take care that the scheme is finalised and implemented after due consultation with the agencies concerned so that the potential of these enterprises is utilised to its optimum level without any loss of time. The Committee also desire that some institutional arrangement in collaboration with DRDO and other research organisation should be put in place to gainfully utilise the efforts of these enterprises in promoting indigenous defence production.

Indigenisation of defence equipment

13. The Committee learn that certain equipment like night vision devices, special clothing and mountaineering kits, etc. are being imported for the use of defence service personnel deployed in high altitude areas. While expressing their surprise over the continued import of such basic equipment, the Committee feel that the Indian industries have also attained capabilities in developing and manufacturing of such types of items. They therefore, urge the Ministry to explore the feasibility of procuring such items from the indigenous manufacturers within the country.

14. Considering the fact that armed forces personnel are being increasingly deployed in counter-terrorist and counter-insurgency operations, the Committee strongly feel that there is imperative need to provide body protective gears to soldiers and also to use robots for handling hazardous tasks like laying and retrieving of land mines so as to protect the precious lives of trained soldiers. The Committee therefore, desire that efforts should be made to encourage indigenous development and manufacture of body protective gears and robots in active participation of defence industries both in public and private sector. The Committee would like to be apprised of the precise steps contemplated in this regard.

Raksha Udyog Ratnas (RURs)

15. In pursuance of the Kelkar Committee's recommendation, the Government constituted a selection committee in May, 2006 for identification of companies of proven excellence in development and production of major weapon systems and platforms for being accorded the status of Raksha Udyog Ratnas (RURs),. Although this selection committee was required to give its recommendations by 31 March, 2007 for acceptance of the Defence Acquisition Council, the issue has been stated to be still under deliberations. In the absence of any plausible explanation emanating from the Ministry of Defence in this regard, the Committee express their displeasure over the manner in which such important issues are being allowed to linger on. The Committee, therefore, strongly desire that the Government should take expeditious steps to select and notify RURs at the earliest so that the misgivings among the defence industries are removed and they gear themselves up for effective participation in the national effort for self-reliance. The Committee also recommend that the Ministry of Defence should also put in place a scientific system for selection and notification of RURs from time to time in future.

Research and Development Efforts

16. The Committee have been given to understand that the new procedures put in place enjoin upon DRDO to undertake research and development in the areas where indigenous technologies may not be available or may be cost exorbitant to develop by the Indian industry because of their high research content. The projects covered under 'Make' category would be undertaken by defence industries in public or private sector or consortia where fundamental research is not required. Keeping in view these policy changes, the Committee would like to stress that appropriate financial support systems must be put in place to promote

R&D both in public and private sector particularly for projects relating to development of cutting-edge technologies. The Committee also desire that the Ministry of Defence should themselves take the onus of giving such grants to the defence industries and the role of DRDO in such matters be eliminated to the extent possible.

17. The Committee also wish to emphasise that innovative schemes for promoting research and development activities in the defence sector have to be devised by the Ministry of Defence to achieve an enhanced level of self-reliance in this area. The Committee therefore, recommend that a comprehensive plan of action should be formulated to recognize the research and development work undertaken by the defence scientists / the industry by extending them appropriate incentives for different projects and payment of royalty, etc. The industry should also be assured of orders in case of development of product within a given time frame in conformity with the specific qualitative requirements of the users.

18. The Ministry of Defence should also consider creation of a separate head of account in their budget for grant of funds for R&D activities undertaken by the Defence scientists in the public and private industries in the Defence Sector.

19. The Committee understand that the Government extend certain tax concessions to the companies for expenditure incurred by them on research activities related to the business. The Committee desire that in order to ensure that such concessions achieve the objectives of indigenisation in the defence areas in a timely manner, the companies availing such benefits should be made to complete their research projects related to business in these areas within a fixed time frame. They therefore, urge the Ministry of Defence to move the right quarters for appropriate action in this regard.

20. The Committee also feel that the changing technological and industrial scenario in defence sector warrant an imperative need for removal of different kinds of control regimes in the R&D area. They are of firm view that the R&D efforts being made by the private industry keeping pace with latest technological innovations in defence sector must be encouraged and supplemented by the Government organisations particularly when infusion of foreign technology in defence areas is leading to huge capital outgo from the country with additional burden of heavy dependency on such sources in future. The Committee would like to be apprised of the precise steps taken in this regard.

21. Since DRDO have a well-established and vast network of laboratories spread over the country, feasibility of extending research facilities to defence industries in private sector in DRDO laboratories should also be examined in the interest of national security. The Committee trust that this issue will be considered by the Ministry of Defence in proper perspective so that the R&D infrastructure created in the country is put to optimum use.

Autonomy to DPSUs and Ordnance Factories

22. The Committee are of strong view that there is also an imperative need to improve the functioning of DPSUs and Ordnance Factories Organisation by giving them more autonomy so that the defence infrastructure created in public sector is exploited to its full potential. In order to achieve this objective, the Committee would like the Ministry of Defence to consider the following suggestions:

- (i) The DPSUs and Ordnance Factories should be given adequate freedom in decision making and to enter in joint ventures with other companies having proven competence in the defence sector.
- (ii) DPSUs should be permitted to raise money through borrowings by way of equity/bond/loan from the market so that they do not face financial crunch for carrying out their expansion plans and for investments in R&D activities.

- (iii) The feasibility of reconstituting the Board of Directors of DPSUs by nominating non-official Directors particularly those having expertise in the area of specialization of respective DPSUs should be examined in consultation with the departments concerned.
- (iv) After meeting their prime responsibility for production of defence equipment, the DPSUs and Ordnance Factories should be permitted to use their spare capacity if any, for diversification in production with a view to optimally utilizing the manpower available.

General

22. To sum up, the Committee wish to point out that the demand for state-of-the-art weapon systems is poised to take a quantum leap in future and any let-up at this stage in the implementation of Government's policy of achieving self-reliance through national efforts would only result in heavy dependence on foreign sources. They also feel that the present global scenario of recessionary economic trends may also make it's mark on our future defence procurement plans and it is high time that the Ministry of Defence took appropriate policy initiatives to meet the future challenges by strengthening and encouraging the public and private sector defence industries in the areas of research, development and manufacture of defence equipment. The Committee trust that concrete and positive action, without making any compromises with the national security, will be taken by the Ministry of Defence on the observations and recommendations made in this Report with a view to optimally exploiting the industrial capabilities and competence available within the country.

NEW DELHI;
5 November, 2008
14 Kartika, 1930 (Saka)

BALASAHEB VIKHE PATIL,
Chairman,
Standing Committee on Defence.

Sl. No.	Para No.	Recommendation	Apex Committee Decision
1.	6.4 (i)	Information sharing – creation of public version of Armed Forces Perspective Plans.	Accepted
2.	6.7(i)	Entry point for Private Sector – Defence Acquisition Amendment to (a) SCAPCC (b) SCAPCHC.	Accredited industry to be associated in the categorization process depending upon the item under consideration.
3.	6.7(ii)	Limited consultation with industry where TOT for production or maintenance involved before finalizing RFP and in preparation of SQRs when the system matures.	Industry may be consulted both in “Buy” and “Buy & Make” category of cases wherever there is ToT. No action need be taken at this stage for consulting industry in the preparation of SQRs.
4.	6.7(iii)	Amendment to incorporate provision of servicing, maintenance and upgrade in Procurement Procedure for “Buy” Category.	Accepted. However, instead of maintenance ToT it should be maintenance infrastructure to be clearly stated in the RFP.
5.	6.7(iv)	Amendment to Defence Production Board to include representation of CII and FICCI etc.	Amend the Constitution of DPB with the approval of Competent Authority to incorporate representation of Industry (“RUR”/“Champion”) on a case-to-case basis. General representation of Industry Association <u>not</u> to be allowed.
6.	6.7(v)	Setting up of Committee for working out a scheme on the basis of DARPA model.	There must be a multi disciplinary task force to prepare the proposal and indicate fund requirement etc. and also how it should function. This task force should evolve a model for consideration of Government.
7.	6.7(vi)	Devising a mechanism to provide level playing field to private sector industry.	A proposal to provide level playing field between the Indian industry vis-à-vis foreign suppliers in the area of Defence Procurement is already under consideration of Committee of Secretaries. On the Issue of ‘nomination’ Apex Committee noted that DPSUs and OFs have been set up for specific purposes and full utilization of their installed capacities must be taken into account.

8.	6.15(i)	Guidelines for Identification of RURs/Champions – Approval of Draft.	Accepted
9.	6.15(ii)	Constitution of Committee for RUR identification.	Accepted
10.	6.15(iii)	Draft agreement covering the Code of Best Practices to be followed by RURs.	Accepted
11.	6.18(i)	Creation of “Defence Technology Development Fund”.	May be accepted in principle. A view may be taken with the approval of RM to have a provision in the Budget instead of creating separate Fund in view of the recent instructions of Ministry of Finance. Formulate guidelines/modalities for operation/utilization of the Fund/Budget provision.
12.	6.18(ii)	Budgetary Provision for R&D between DRDO, Defence Technology Development Fund and Service HQrs to be provided separately.	Accepted
13.	6.18(iii)	Scheme for giving institutional support to SMEs for Defence supplies.	Accepted
14.	6.18(iv)	Guidelines/Code of Practice for prime contractor involvement in maximizing SMEs’ participation in Defence contracts.	Accepted
15.	6.20(i)	Inclusion of representatives of CSIR and ISRO in Defence R&D Board.	They may be associated with the Defence R&D Board at macro level on case-to-case basis, wherever required.
16.	6.20(ii)	Review of DRDO by independent committee – initiation.	Accepted
17.	6.23(i)	Manual for Defence Acquisition Procedure for “Make” Category.	Accepted
18.	6.23(ii)	Constitution of a Committee to recommend restructuring of MOD on the lines of DGA of France.	Accepted

19.	6.27(i)	Taking up pilot projects to try modified approach for acquisition of items categorized as “Buy & Make”.	Service HQrs and DRDO would provide a list of such cases where they had already followed this procedure. A study of such cases as well as some new projects may then be undertaken to assess the practicability of the suggested modified procedure in order to see what improvements are needed therein. Thereafter, a final view may be taken on the recommendation.
20.	6.35(i)	DRDO to concentrate on high technology and offload R&D work as much as possible to industry; implementation of scheme for parallel development on the lines of DARPA through NCSIT recommended in Para 6.7(v).	Since the issue relating to setting up of National Centre for Strategic Information Technology (NCSIT) is to be further discussed with NASSCOM, the recommendation for implementing DARPA through NCSIT may <u>not</u> be accepted. As far as DARPA itself is concerned, the matter has been dealt with in another recommendation.
21.	6.35(ii)	Upgrades of existing Platforms should be taken up by indigenous industry.	Accepted
22.	6.35(iii)	Introduce a policy of ‘Shared Development Costs’ in ‘Make’ category.	Accepted
23.	6.35(iv)	Accept principle of acquiring ‘Minimum Order Quantity’.	Accepted
24.	6.36(i)	Placement of Fund – Service Headquarters for R&D work – Preparation of scheme.	Accepted
25.	6.36(ii)	Suitable guidelines for project-wise allocations from within funds placed at the disposal of SHQ for R&D projects.	Accepted
26.	6.37(i)	Preparation of proposal for strengthening IDS.	Accepted
27.	6.42(i)	Introduction of the concept of assessing Life Cycle Cost in all Capital Acquisition Projects valued over Rs.300 crores.	Accepted

28.	6.46(i)	Internal Process Compliance arrangement to be strengthened.	Since the question of accountability and responsibility is involved, a final view may be taken in the Apex Committee.
29.	6.47(i)	Armed Forces to introduce outsourcing of Services to public and private sector and increase progressively.	Accepted
30.	6.50(i)	Develop Training Courses for (a) Tendering and Contracting. (b) Project Management.	Accepted
31.	6.50(ii)	Allocating funds for providing fellowship for higher studies for serving Service Officer.	Accepted. Need for post-course utilization of such trained officers in service and necessity for establishing Centers of Excellence in the country by retaining such highly trained officers and creating a good faculty for long term benefits to be kept in view.
32.	6.50(iii)	Establishment of a National Defence University.	Accepted
33.	6.55(i)	Set up an Autonomous Body for Aerospace development with involvement of all stake holders	Requires greater deliberation. Modalities for setting up of the proposed Aerospace Body need to be worked out, considering its usefulness, composition and objectives.
34.	6.55(ii)	Creation of National Centre for Strategic Information Technology. (Need for a separate procurement procedure for ICT items)	Requires greater clarity for consideration. It would be advisable to have further interaction with National Association of Software Service Companies (NASSCOM).
35.	6.57(i)	Need to review the whole concept of indigenisation and self-reliance.	Accepted
36.	6.59(i)	Creation of the "Strategic Defence Industry Fund" (SDIF) – Non-Lapsable Pool	Recommendation only linked with "Make" projects. Requires further scrutiny by a Group of Officers for making it far more workable and acceptable.
37.	7.9	Introduction of 'Offset' clause in RFPs for procurement under Capital & Revenue Budgets.	Accepted

38.	7.12	<p>(i) Maintain licensing regime;</p> <p>(ii) Constitute an Inter-Ministerial Committee;</p> <p>(iii) Free licensing for Africa, Latin America, North America, Europe, Australia;</p> <p>(iv) Export control regime on a case-to-case basis for Export to countries in India's strategic neighbourhood.</p>	<p><u>1 & 2</u> – may be accepted.</p> <p><u>3 & 4</u> – approach should be based on case-to-case without any free licensing areas.</p>
39.	7.13	<p>(i) Consortium approach to international marketing;</p> <p>(ii) Encourage private/public sector participation in export marketing with consortium approach.</p> <p>(iii) Industry Associations to set up Export Houses in select countries.</p>	Accepted
40.	7.15	<p>(i) Information on the line of credit facility should be made available to DDP from MEA;</p> <p>(ii) Encourage active involvement of the defence industry to promote defence products and services to beneficiary countries under the line of credit;</p> <p>(iii) Long-term engagement of the Defence industry in the recipient country – life cycle product support;</p> <p>(iv) Reimbursement of certain costs to facilitate exports.</p>	Accepted

Sl. No.	Para No.	Recommendation in Brief	Decision
1.	3.18(i)	The Committee recommends that HAL and BEL be accorded the status of Nav Ratna by relaxing the provisions of eligibility. BDL already has the status of Mini Ratna.	Nav Ratna status has been accorded to both BEL & HAL. Recommendation has been implemented.
2.	3.18(i)	The Committee also recommends that BEML and MDL be accorded the status of Mini Ratna by relaxing the provision of eligibility.	Mini Ratna-I has been accorded to MDL & BEML. Recommendation has been implemented.
3.	3.18(i)	The Committee also recommends that DPSUs like HAL should be listed for improved Corporate Governance and access to Capital markets.	HAL has got enough cash surplus with it and therefore does not need access to capital markets for funds. Hence, there is no need for listing of HAL at present. BEML Ltd. & BEL have already been listed. No further action envisaged.
4.	3.18(ii)	All Defence PSUs except MIDHANI should be given the freedom to do cross investment in foreign companies from whom they can obtain technology, which has remained out of their reach so far.	Any proposal for cross investment in foreign companies would be guided by the guidelines & powers given to Mini Ratna/Nav Ratna companies. Provision exists under the rules to implement the recommendation. Further action not required.
5.	3.18(iii)	DPSUs should explore the possibilities of mergers and formation of consortia in order to achieve optimum level of synergy and become globally competitive.	BEL has started discussions with some DPSUs and has so far entered into MOU with HAL and OFB. GSL too has formed a consortium with other defence Shipyards to secure export orders. Provision exists under the rules to implement the recommendation. Further action not required.
6.	3.18(iv)	The Committee also suggests horizontal mobility between Ordnance Factory Corporation and DPSUs for confidence building.	As Government has not decided to corporatise Ordnance Factories, no further action envisaged on this recommendation.

7.	3.18(v)	<p>There should also be synergy between DPSUs and Private Sector and formation of Joint Ventures should be encouraged. FDI upto 50% may be permitted for Joint Ventures between the two.</p>	<p>BEL & BEML have created subsidiaries, who in turn have JVs with foreign companies. GSL has entered into MOUs/agreements with a number of foreign and Indian companies. BEML has entered into a JV for contract mining. In it 26% equity is of one of the foreign firms. Recommendation regarding FDI up to 50% not to be implemented. No further action.</p>
8.	3.34(a)	<p>The QA agencies should confine their spheres of activities to essentially Quality Assurance work and functions like Vendor Development, Vendor Registration, Indigenisation, Product development, Capacity assessment of Vendors, Inspection of input material of all types should not be performed by them. These functions should be the responsibility of the Manufacturing Units. QA agencies should become professionally more competent and confine their functions to Quality Surveillance and process auditing apart from final inspection.</p>	<p>Vendor registration, their capacity assessment and inspection of input material already handed over to Ordnance Factories/DPSUs. Self certification by OFB of intermediate products issued by Ordnance Factories to sister factories as IFD item (Inter Factory Demand) is under examination of MOD. Alteration Committees have been set up to take up product development/improvement. Indigenisation activities to have been handed over to the Services. The Quality Audit, Surveillance, Process Audit and Final Acceptance Checks are essential elements of QA functions and shall remain with QA agencies. Recommendation has been implemented.</p>
9.	3.34(b)	<p>QA agencies should continue to give QA cover to imported items and the stores directly procured by the Army, Navy and the Air Force through their Depots and such Organisations like Base Workshop, Base Repair Depots and Dockyards.</p>	<p>The recommendation is agreed to by DGQA. Activities related to capacity assessment/registration as regards to procurement by MGO/DGOS/ Depot/ Naval procurement agencies, shall continue with DGQA, DGAQA, DQA(N), as the case may be. DGQA will continue providing QA coverage to imported items/stores. Recommendation has been implemented.</p>

10.	3.34(c)	<p>There is a need to radically review the role of AHSP's and redefine the concept, enabling the Manufacturer to take up improvement, upgradation more easily, but ensuring that form, fit and functionality are in complete conformity with the requirements as articulated by the Users viz. SHQs.</p>	<p>A statement of case on the 'Role and Function of DGQA' is under examination. The Role of AHSP will be aligned with the orders issued in this regard. Government has already issued orders for creation of Alteration Committee at OFs to facilitate product development, product improvement/upgradation. For naval stores, product improvement by OEM can be carried out only after consultation with Naval HQ, being AHSP. Recommendation under examination.</p>
11.	3.34(d)	<p>As other Defence PSUs, the three Shipyards should be allowed to develop vendors for ships being constructed by them and also for life long maintenance services for these ships, as far as possible, for "ship construction activities only" and not for other equipment fitted on board. This would create the environment for growth and development for these Shipyards. The system of nomination of vendors should be discontinued as soon as possible.</p>	<p>Shipyards have been duly empowered vide Para V of MOD letter.16(2)/2004-D(QA) dated 20.12.2005 to develop vendors should be able to execute the functions in line with ISO 9000 guidelines and also be in position to be auditable by DGQA for its ability to build quality into the product during its realization. Indigenisation for Naval equipment has already been transferred to NHQ in January 2006. No further action required.</p>
12.	3.34(e)	<p>For product development undertaken by DRDO there is need to involve the Industry, which will take up LSP (Limited Series Production) and BP (Bulk Production) from initial stages in vendor development. Ideally the Industry should do the vendor selection and development but this can be taken up gradually.</p>	<p>DROD involves industry during product development and for many complex products, industry is a major partner from the early stages of R&D and product development. The present procedure works well for initial delivery and for repeat order for relatively small numbers. For large volume of production, the infrastructure of these industries is not sufficient. DRDO is of the view that involvement of industry is economically sound and has several benefits. DRDO, therefore, reiterates that there should be "stake holdings" in establishing all private and public partnerships, in undertaking R&D leading to engineering development. DRDO is willing to assist the industry in funding in the ratio 70/30: 80/20. No further action required.</p>

13.	3.34(f)	<p>The Industry, both Public and Private and particularly the corporatized OFs must move towards a regime self-certification by first obtaining certification relating to international standards or satisfying the requirements enunciated by QA agencies in their guidelines (ideally it should be the same).</p>	<p>The Group of Officers in their report on "Improvement in the present system of Quality Assurance in the Ministry of Defence" has recommended that the production agencies in the Government sector such as DGOF, DPSUs should make concerted efforts to sell under self certification DGQA and DGAQA to it. In fact OFs have been granted self-certification for few clothing items. BEL too has been granted self-certification status for certain product ranges. No further action required.</p>
14.	3.34(g)	<p>The DGQA and DGAQA must amend the rules to include provision for deputation from other scientific organizations, corporatized OFs, DPSUs to fulfil the gaps for areas requiring highly trained manpower in the field of higher technologies.</p>	<p>Acceptance of the recommendation necessitate amendment in Service Rules. Recommendation not implemented.</p>
15.	3.5(1)	<p>Ordnance factories should be corporatized into a single corporation under leadership of a competitive management. This corporation should be accorded the status of Nav Ratna.</p>	<p>Government has not decided to corporatise the Ordnance Factories and there is no intention to implement this recommendation at present. No further action envisaged.</p>
16.	3.5(2)	<p>Corporatisation could be on the lines of BSNL.</p>	<p>No further action envisaged.</p>
17.	3.5(3)	<p>The process of corporatisation would require lot of hand holding for the Ordnance Factories in order to address their sensitiveness and insecurities. As part of handholding process, the existing dispensations by the government to the Ordnance factories should continue to be given to Ordnance factories for a period of three years to help them steer the change process internally. The dispensations should be gradually tapered off during the three year period for the Ordnance Factory Corporation to be completely independent at the end of this time period.</p>	<p>No further action envisaged.</p>

18.	3.5(4)	Along with this financial support, Ordnance factories would also require training support not only to upgrade their skill sets but also adopt modern management practices.	RM has directed Ordnance Factories to focus on training of personnel in the modern management practices and latest technologies through reputed institutes of India and abroad. Recommendation has been implemented.
19.	3.6	The Committee would also like to mention that corporatisation does not necessarily mean privatization.	No further action envisaged.

**MINUTES OF THE EIGHTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2006-07)**

The Committee sat on Thursday, the 30th November, 2006 from 1500 hrs. to 1700 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil - Chairman

MEMBERS

LOK SABHA

2. Shri Santosh Kumar Gangwar
3. Shri C. Kuppusami
4. Shri K.S. Manoj
5. Shri Adhalrao Shivaji Patil
6. Shri Shrinivas Patil
7. Dr. H.T. Sangliana

RAJYA SABHA

8. Dr. Farooq Abdullah
9. Shri R.K. Dhawan
10. Smt. N.P. Durga
11. Shri Arun Shourie
12. Smt. Viplove Thakur

SECRETARIAT

1. Shri S.K. Sharma - Additional Secretary
2. Shri R.C. Kakkar - Deputy Secretary
3. Shri D.R. Shekhar - Under Secretary

LIST OF REPRESENTATIVES FROM MINISTRY OF DEFENCE

1. Shri K.P. Singh - Secretary (DP)
2. Dr. M. Natarajan - SA to RM
3. Shri S. Banerjee - DG (ACQ)
4. Shri V.K. Misra - Secretary (Def. Fin.)
5. Shri P. K. Rastogi - Addl. Secy (DP)
6. Shri Ashok K. Baweja - Chairman, HAL
7. Dr. Prahlada - CCR&D (SI) & DS
8. Shri Ranjan Chatterjee - JS (HAL)
9. Shri Alok Perti - JS (SY)
10. Shri V. Somasundaran - JS (OF)
11. Smt. Anuradha Mitra - Addl. FA (AM) & JS
12. Shri Mohd. Haleem Khan - Addl. FA (H)

13.	Shri A.K. Lamba	-	DGOF
14.	Shri B Saha	-	Secy (OFB)
15.	R Admn (Retd) A K Handa	-	CMD, GSL
16.	Shri V R S Natrajan	-	CMD, BEML
17.	V Adml SKK Krishnan	-	CMD, MDL
18.	Adml T S Geneshan	-	CMD, GRSE
19.	Maj.Gen (Retd) Raajnish Gossain-	-	CMD, BDL

ARMED FORCES HEADQUARTERS

1.	Air Mshl B.N. Gokhale	-	VCAS
2.	Lt. Gen. Z.U. Shah	-	DCOAS (P&S)
3.	Air Mshl BU Chengappa	-	AOM
4.	V Adml B.S. Randhawa	-	COWP
5.	Maj Gen A K S Chandele	-	ADG EME (M)
6.	Rear Adml. RK Dhowan	-	ACNS (P&P)
7.	Air Cmde. P. Ramu	-	PD (Plans)
8.	Gp, Capt. P.K.S. Prasad	-	Director (Indigenisation)

OTHER OFFICERS PRESENT

1.	Comdt (Retd) Sunil Manshinde	-	CM, GSL
2.	Shri S. Radhakrishnan Dir.	-	Tech Acq.
3.	Shri Saurabh Kumar	-	Dir. (P&C), DDP
4.	Shri Ashok Kumar	-	Dir. (S-II), DDP
5.	Shri P.K. Hans	-	CPO (H), DDP
6.	Shri V.V.R. Shastri	-	Dir. BEL

2. At the outset, Hon'ble Chairman welcomed the Members and representatives of Ministry of Defence to the sitting of the Committee. The Chairperson then requested the Representatives of the Ministry to brief the Committee on the subject 'Indigenisation of Defence Production – Public-Private Partnership' and drew their attention to the Direction 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting.

3. The Members expressed their concern over the articles published in the Indian Express a news daily regarding functioning, projects and programmes of DRDO and desired that Ministry should investigate the matter and place facts before the Committee.

4. The representatives of the Ministry briefed the Committee about the efforts made by them for indigenisation of Defence production and Public Private Partnership. They also informed about the joint ventures in the private sector which were approved for production of equipment, optical instruments and repair of radar apparatus. Regarding joint ventures with Defence Public Sector Undertakings (DPSUs), they informed that British Aerospace and HAL Software Limited had joined hands in 1993 as an export oriented unit for Defence Software.

5. They also gave details about the other joint ventures between Defence PSUs and Ordnance Factory Board (OFB) with private sector/foreign industries.

6. The representatives also informed the Committee about the procedure to be followed in direct offsets that was to be discharged concurrently with the main contract itself. They further informed that in case of failure there was provision for paying penalty by vendors from outside.

7. On the question whether there was any clash of interest between the DPSUs and private sector, the representatives informed the Committee that there could be a clash of interest, as private sector was free to choose its products. The representatives further informed that 29 licenses were given to private companies to produce Defence items and also they have taken policy initiative to introduce 'make' procedure which was recommended by the Kelkar Committee for participation of the Indian Private Sector in R&D and high-technology areas.

8. On Defence capability plans, they stated that the Ministry had conducted studies by the Headquarters/IDSA and divided them into three categories. One is the high technology and security sensitive areas which were to be done by the DRDO; another was mature technologies.

Witnesses then withdrew.

9. The record of the verbatim proceeding was kept.

The Committee then adjourned.

**MINUTES OF THE THIRTEENTH SITTING OF THE STANDING COMMITTEE
ON DEFENCE (2006-07)**

The Committee sat on Monday the 18th December 2006 from 0900 hrs to 1015 hrs in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil - Chairman

MEMBERS

LOK SABHA

2. Shri Santosh Kumar Gangwar
3. Shri Adhalrao Shivaji Patil
4. Shri Shrinivas Patil
5. Dr. H.T. Sangliana

RAJYA SABHA

6. Dr. Farooq Abdullah
7. Smt. N.P. Durga
8. Shri K.B. Shanappa
9. Smt. Viplove Thakur

SECRETARIAT

1. Shri D.R. Shekhar - Under Secretary

LIST OF NON-OFFICIAL WITNESS

1. Dr. Vijay Kelkar

2. At the outset, Hon'ble Chairman welcomed Dr. Vijay Kelkar to brief the Committee about the salient features of the recommendations in the reports viz. 'Towards Strengthening Self-Reliance in Defence Preparedness' and 'Revitalising Defence Public Sector Undertakings and Ordnance Factories' and after implementation. He further stated that how these recommendations would be helpful to have a synergy between public and private partnership for the benefit of the country. The Chairman also drew his attention to the Direction 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting.

3. Dr. Vijay Kelkar then briefed the Committee about the historical development which paved the way for Private Sector Participation in Defence Production. He then briefed the Committee on the following important recommendations :-

- (i) The first part of the report was 'Towards Strengthening Self-Reliance in Defence Preparedness' and the second part was 'Revitalizing Defence Public Sector Undertakings and Ordnance Factories'.
- (ii) The first recommendation of the report was to make the report public.
- (iii) The terms of reference of Kelkar Committee were how to improve country's self-reliance in Defence preparedness, to improve efficiency in productivity of public sector undertakings and ordnance factories and to promote Defence exports.
- (iv) The major recommendation was to make available the 15-years Long Term Perspective Plan to public. The plan should contain long-term capability requirement and the motto to reduce imports and increase defence preparedness of this country, Indian Private Industries should be involved in the long-term planning for acquisition. The representatives of private industries should be members in the categorization Committee which categorised the equipment that should be imported or to be produced domestically.
- (v) There should be an independent Committee to judge the private industries capabilities, its track record, its R&D record and the financial viability and to designate them as Raksha Udyog Ratna in order to ensure the best private industries to produce Defence equipment for the services and should be allowed a level playing field to promote competition.
- (vi) He emphasised on to follow ISRO, Atomic Energy, CSIR and ONGC models for effective participation of private industries.
- (vii) Need for an independent scientific and technological review of the overall functioning of DRDO, on the line of review being done in all other scientific institutions like ISRO, CSIR, Atomic Energy Commission and ICMR etc.
- (viii) A member of CSIR should be represented on Defence R&D Board and DRDO should follow democratic approach by consulting other scientific institutions.
- (ix) One of the most important recommendations was in regard to giving scholarship to the Armed Forces Officers for higher education in scientific and technological studies.
- (x) Need for professionalisation of different acquisitions.
- (xi) The Defence Public Sector Undertakings and Ordnance Factories should be given more autonomy which can facilitate to have their own R&D and to decide the vendors and to fully exploit their technological capabilities. In this regard, Dr. Kelkar recommended to follow BSNL model.
- (xii) Regarding quality assurance our public sector undertakings and ordnance factories should have their own quality assurance organization.
- (xiii) Dr. Kelkar also emphasised that for effective Private Sector Participation in Defence Production, the title of Department of Defence Production in the Ministry of Defence should be changed to Department of Defence Industry.
- (xiv) Purchase and AQ (Capital) should be separated. These are two separate subjects.

4. The Members then put forth certain queries on the above mentioned issues and Dr. Kelkar replied them one-by-one.

The witness then withdrew.

5. A verbatim record of proceedings was kept.

The Committee then adjourned.

**MINUTES OF THE FIFTEENTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2006-07)**

The Committee sat on Tuesday the 09th January, 2007 from 1100 to 1315 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil - Chairman

MEMBERS

LOK SABHA

2. Shri Milind Deora
3. Shri Santosh Kumar Gangwar
4. Dr. K.S. Manoj
5. Shri Adhalrao Shivaji Patil
6. Shri Raju Rana
7. Shri H.T. Sangliana
8. Shri Mahadeorao Shiwankar
9. Shri Balashowry Vallabhaneni
10. Shri Rajesh Verma

RAJYA SABHA

11. Dr. Farooq Abdullah
12. Smt. N.P. Durga
13. Shri K.B. Shanappa
14. Smt. Viplove Thakur

SECRETARIAT

1. Shri P.K. Bhandari - Joint Secretary
2. Shri D.R. Shekhar - Under Secretary

REPRESENTATIVES OF CII

1. Sh. Satish Kaura
2. Col. R.S. Bhatia
3. Shri Ashok Kanodia
4. Shri R. Kakkar
5. Shri S. Niyogi
6. Shri R.K. Verma

REPRESENTATIVES OF FICCI

1. Shri Rahul Chaudhry
2. Shri Vivek Pandit
3. Ms. Vasundhara Bhargava

REPRESENTATIVES OF ASSOCHAM

1. Shri K.R. Palta
2. Shri Anup Keni

2. At the outset, Hon'ble Chairman welcomed the representatives of CII, FICCI and ASSOCHAM and requested them to brief the Committee on existing capabilities of private sector which could be used to reduce our imports and building self-reliance in major defence systems, benefits accrued to the private sector after implementation of Defence Procurement Policy 2005 and 2006; to keep revenue and capital items separate in order to ensure timely availability of items to the services as suggested by the various experts and also on benefits of 'offset clause' to be accrued in terms of increasing defence production and making Indian Defence goods competitive in international market. The Chairman also drew their attention to the Direction 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting.

3. The representative of CII informed that they took initiative to start Defence industry 14 years back and constituted their own Committee in 1993. He stated that efforts were made to make the country self-reliant in Defence Sector but there are still some areas which are to be addressed. He further stated that to make the country self-reliant in the field of Defence production, there was a need to cut the import bill, develop indigenous capability and provide the best technology equipment to the Armed Forces for the Defence of the country. He further stated that industry was trying to look at linkages between science, technology and products coming out of using indigenous technology. At present, the industry was willing to invest money in that area as the requirement was about Rs. 38,000 to Rs. 40,000 crore a year and the production was only Rs. 18,000 to Rs. 20,000 crore.

4. As regard the Public and Private Partnership in Defence Sector he also highlighted the following points: -

- (i) Need to have a very focused and concerted efforts towards developing the local industries.
- (ii) To include the private sector as a key player along with the public sector for Defence production.
- (iii) Need to frame clear guidelines through policies to facilitate the building process.

5. Through slide presentation, representative of CII briefed the Committee on flexibility to form a consortium or join hands with the private sector; availability of Infrastructure with DRDO; offset clause allowing foreign supplier to choose Transfer of Technology partner from public and private sector companies having defence manufacturing licence; sharing of long term procurement plan in order to utilise that the capability skills of the industry.
6. Through slide presentation, representative of FICCI briefed the Committee on the following points :-
 - (i) There was no incentive for creating 26% owned company in the country.
 - (ii) Implementation of make policy which stated that all upgrades should be done by Indian Companies only.
 - (iii) A ban on the imports could bring FDI to the tune of 49 per cent and Indian Companies with the help of foreign partners could fill technology gaps.
 - (iv) On the question of following the U.S. Model by the industry, he replied that the US was the most vibrant and largest Defence industry. Out of 300 billion dollars capital defence equipment, contribution of US was about 200 billion dollars.
 - (v) There was a need for strong public private partnership even after the implementation of Defence Procurement Policy -2006.
 - (vi) There was a need to get offset banking introduced so that the industry and foreign partners engaged before finalisation of RFPs.
 - (vii) To curtail the time of procurement he suggested that user should directly be involved in the process. Even a 80:20 clause of make procedure the user was missing, therefore, there was a need to involve the user so it could tell whether the process was going right.
 - (viii) The fall clause of DPP- 2006 stated that if a company which has provided a system, has to guarantee that it has not provided that system to the Government in any other form or cost.
 - (ix) In Twined Lead Approach where two development agencies should be involved should be implemented.
7. The representatives of CII stated that DRDO should not waste their energy on small areas. They should try and excel in strategic areas and rest should be handed over to private sector.
8. The representative of ASSOCHAM informed that the country was importing expensive equipment without any technology built up, therefore, private sector should be allowed to experiment in the Defence Sector also on the lines of ISRO. He further stated that if Indian vendor partnering more than 51%, than foreign vendors would also come into but any industry which was supposed to enter in Defence Sector, they have to do 'No Cost No Commitment (NCNC)' trial.

9. In reply to a query regarding how SMEs would be benefited, through offset obligation, representative of CII informed the Committee that SMEs supply the sub-assemblies to the bigger manufacturers and sometimes SMEs could supply directly.
10. The representatives of the industry also replied to the queries of the Members on DGQA, Certification on Procurement, etc. They also stated that after the development of the product in partnership with DRDO there was no seamless transfer from development to production. Therefore, order for production should be given to the industry which developed the product and not to a nominated agency.

The witnesses then withdrew.

11. A verbatim record of proceedings was kept.

The Committee then adjourned.

**MINUTES OF TWENTY- NINTH SITTING OF THE STANDING COMMITTEE
ON DEFENCE (2006-2007)**

The Committee sat on Thursday, the 10th May 2007 from 1500 to 1615 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Santosh Kumar Gangwar
3. Shri Shriniwas Patil
4. Dr. H. T. Sangliana

RAJYA SABHA

5. Shri Jai Prakash Aggarwal
6. Smt. N.P. Durga

SECRETARIAT

- | | | |
|-----------------------|---|---------------------|
| 1. Shri P.K. Bhandari | - | Joint Secretary |
| 2. Shri Gopal Singh | - | Director |
| 3. Shri D.R. Shekhar | - | Deputy Secretary-II |
| 4. Smt. J.M. Sinha | - | Under Secretary |

WITNESSES

REPRESENTATIVES OF MINISTRY OF DEFENCE

- | | | | |
|-----|---------------------------|---|------------------------|
| 1. | Shri Shekhar Dutt | - | Defence Secretary |
| 2. | Shri K.P. Singh | - | Secretary (DP) |
| 3. | Dr. M. Natarajan | - | SA to RM |
| 4. | Shri S. Banerjee | - | DG (ACQ) |
| 5. | Shri V.K. Mishra | - | Secretary (Def. Fin.) |
| 6. | Dr. (Mrs.) Rekha Bhargava | - | Special Secretary (B) |
| 7. | Shri P.K. Rastogi | - | Addl Secy. (B) |
| 8. | Dr. W. Selvamurthy | - | CCR&D (LS&HR) |
| 9. | Shri Gautam Chatterjee | - | JS (O/N) |
| 10. | Shri Binoy Kumar | - | JS (E) |
| 11. | Shri Harcharanjit Singh | - | Secy (BRDB) / JS (ESW) |
| 12. | Shri S.N. Mishra | - | Addl FA(M) |
| 13. | Shri Alok Perti | - | JS (SY) |
| 14. | Dr. (Mrs.) Kiran Chadha | - | JS (X) |

15.	Shri T. Ramachandru	-	JS (S)
16.	Shri Ranjan Chatterjee	-	JS (HAL)
17.	Shri Mohd. Haleem Khan	-	Addl FA (H)
18.	Smt. Anuradha Mitra	-	Addl FA (AM)
19.	Shri Amit Cowshish	-	Addl FA (A)
20.	Shri S. Ghosh	-	Chairman/OFB
21.	Shri V. Somasudaram	-	JS (OF)
22.	Shri B. Saha	-	Secy, OFB
23.	Shri Sharad Ghodke	-	OSD (P)
24.	Shri Ashok K. Baweja	-	Chairman, HAL
25.	Shri V.R.S. Natarajan	-	CMD, BEML
26.	Shri M. Narayana Rao	-	CMD, MIDHANI
27.	Shri VVR Sastry	-	CMD (BEL)
28.	Rear Adm (Retd.) A.K. Handa	-	CMD, GSL
29.	Rear Adm T.S. Ganeshan	-	CMD, GRSE
30.	Vice Admn S.K.K. Krishnan	-	CMD, MDL
31.	Maj. Gen (Retd.) R. Gossain	-	CMD, BDL
32.	Shri PRK Hara Gopal	-	Dir (Fin.), BEL
33.	Shri SK Mehta	-	Dir (R&D), BEL
34.	Shri Devjit Ghosh	-	LO. MIDHANI
35.	Commdt. Sunil Mane Sinda	-	CM, GSL
36.	Shri Yogesh Sharma	-	Regional CM, MDL
37.	Commander Hardev Inder IN (Retd.)	-	Addl GM
38.	Lt. Gen. HS Lidder	-	CISC
39.	Lt. Gen. Deepak Kapoor	-	VCOAS
40.	V. Adml. Nirmal Verma	-	VCNS
41.	Air Mshl AK Nagalia	-	DCAS
42.	Lt. Gen. SS Dhillon	-	MGO
43.	Lt. Gen. Thomas Mathew	-	AG
44.	Air Mshl VR Iyer	-	AOP
45.	Vice Adml Sunil K. Damle	-	COP
46.	Surg Vice Adml VK Singh	-	DGAFMS
47.	Lt. Gen. LP Sadhotra	-	DGMS (Army)
48.	Air Marshal HK Maini	-	DGMS (Air)
49.	Surg Vice Adml Yogendra Singh	-	DGMS (Navy)
50.	Maj. Gen. Suresh Chandra	-	Addl DGAFMS
51.	Maj. Gen. J. Jayram	-	Addl DGAFMS (MR)
52.	Maj. Gen. R.K. Kalra	-	MD-ECHS
53.	Maj. Gen. A.K. Mehra	-	ADG WE
54.	AVM N. Vijaya Kumar	-	ACAS (FP)
55.	R. Adml. R.K. Dhowan	-	ACNS(P&P)
56.	Brig. Kunwar Karni Singh	-	Dy. DGAFMS (P&T)
57.	Brig. Satish Malik	-	Dy. MD-ECHS
58.	Col. A.K. Verma	-	Dir MS (H)
59.	Col. Pawan Kapoor	-	Dir AFMS (P)
60.	Col. G. Ghosh	-	Dir. ECHS

2. At the outset, Hon'ble Chairman welcomed the representatives of the Ministry of Defence to the sitting of the Committee and requested to tender oral evidence on the subjects 'Review of Defence Procurement Policy, 2006' and 'Status of New Acquisition' and 'Indigenisation of Defence Production – Public-Private Partnership' and read out Direction 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting. The Committee desired to be briefed on the overall improvement made in the procurement procedure to cut delays and speed-up the acquisition programme including the fast-track programme after commencement of the Defence Procurement Policy 2006. The Committee also desired to know about the involvement of producers, Government, private, experts/scientists/ technologists in preparing the long-term plan, preparing of roadmap for indigenisation, modernization, Defence preparedness, optimum use of existing capabilities of the Defence PSUs, Ordnance Factories and of private sector to reduce imports and providing level playing field to the private sector through direct funding for R&D activity in various industries etc.

3. The representatives of the Ministry briefed the Committee about the number of steps taken by the Government for speedy acquisition of capital items and to strengthen the public private partnership by formulation new DPP 2006. The Ministry further informed that the budgetary allocation in comparison to the beginning year's Tenth Plan i.e. Rs. 54,265 crore, has been increased to Rs. 96,000 crore during the year 2007-08. He expressed the feeling of gratitude for the interest shown by the members of the Committee which resulted in a number of positive changes in the policies and abilities of Ministry of Defence.

4. He further briefed the Committee on the issues of encouraging industries by direct funding by the Ministry of Defence and project-wise funding by DRDO, as per the need. On indigenous R&D, he also informed that out of Rs. 4500 crore turnover of the Bharat Electronics 81 percent was done by indigenous technology. HAL and BEL were spending 8 per cent and 5 per cent of their turn over on research respectively. 95 per cent of OFB products and its turnover depend totally on indigenous technology.

5. On categorization of acquisition, he informed that there were three main categories under which acquisitions were made i.e. Buy, Buy and Make and Make under New DPP 2006 first time, make procedure would cover all capital acquisition of high technology complex system upgrades undertaken by indigenous research, design and development. These would be undertaken by Ordnance Factory Board (OFB), Defence Public Undertakings and Indian Industry/Raksha Udyog Ratna (RUR)/Consortia on a level playing field on shared development cost.

6. The representatives of the Ministry also resolved the other queries raised by the members one by one.

The witnesses then withdrew

7. The verbatim record of the proceedings was kept.

The Committee then adjourned.

**MINUTES OF THE THIRTEENTH SITTING OF THE STANDING COMMITTEE
ON DEFENCE (2007-2008)**

The Committee sat on Thursday, the 3rd January 2008 from 1130 to 1310 hrs. in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Santosh Gangwar
3. Dr. K.S. Manoj
4. Prof. Mahadeorao Shiwankar
5. Shri Manavendra Singh
6. Shri Anil Shukla Warsi

RAJYA SABHA

7. Dr. Farooq Abdullah
8. Smt. Shobhana Bhartia
9. Shri R.K. Dhawan
10. Smt. N.P. Durga
11. Shri K.B. Shanappa
12. Smt. Viplove Thakur

SECRETARIAT

1. Shri Gopal Singh - Director
2. Shri D.R. Shekhar - Deputy Secretary-II

WITNESSES

REPRESENTATIVES OF CONFEDERATION OF INDIAN INDUSTRIES (CII)

1. Lt. Gen. S.S. Mehta, PVSM, AVSM & Bar, VSM (Retd.), Director General.
2. Brig. K.A. Hai (Retd.), Chairman, CII Defence Sub Committee on Land Systems and Chief Executive.
3. Shri N. Nigam, Chairman, CII Defence Sub Committee on R&D and Executive Vice President.
4. Shri Vikram Sahgal, Chairman, CII Defence Sub Committee on SMEs and Chairman and Managing Director
5. Shri Ashok Kanodia, Chairman, CII Defence Sub Committee on IT and Chairman and Managing Director.
6. Shri Pradeep Sharma, Chief Executive Officer.
7. Shri S. Niyogi, Deputy Director General.
8. Shri Vikram Badshah, Head - Public Policy.
9. Shri Sujith Haridas, Director & Head Defence & Aerospace.

**REPRESENTATIVES OF FEDERATION OF INDIAN CHAMBERS OF
COMMERCE AND INDUSTRIES (FICCI),**

1. Shri Rahul Chaudhry, CEO-Strategic Electronics Division, TATA Power Co. Ltd. & Co-Chairman, FICCI Defence Committee
2. Shri Jayant D. Patil, Vice President, Larsen & Turbo Ltd.
3. Shri Partha Guhapatra, Wipro

**REPRESENTATIVES OF ASSOCIATION OF CHAMBERS OF
COMMERCE AND INDUSTRIES (ASSOCHAM)**

1. Shri M.M. Bhagat, MD, Bhagat Group of Companies.
2. Shri Anil Kapoor, Manager, Bhagat Group of Companies.
3. Shri Ashish K. Mukherjee, MD, Textron Global Technology Centre Pvt. Ltd.
4. Shri Rahul Gangal, General Manager, Tata Industrial Services Ltd.

2. At the outset, Hon'ble Chairman welcomed the representatives of the CII, FICCI and ASSOCHAM to the sitting of the Committee on the subject 'Indigenisation of Defence Production – Public - Private Partnership' and drew their attention to Direction 58 of Directions by the Speaker, Lok Sabha. The Committee desired to be briefed on joint ventures signed by the Private Sector with the foreign companies for transfer of technology and defence production etc.

3. During the discussion following points were raised by the members viz. difficulties being faced by Private Sector in implementation of Government Policies, i.e. buy, buy & make and make procedures, status of Raksha Udyog Ratnas(RURs), Private Sector Participation with Defence Public Sector Undertakings(DPSUs)/Ordnance Factories(OFs) and Defence Research & Development Organisation(DRDO), effects of Foreign Direct Investment (FDI), Process of Nomination of DPSUs to perform certain works, investment in R&D by Private Industries, letter of credit, level playing field, uniformity in Taxes & Payment, Brahmos model, offset clause etc. ASSOCHAM during the interaction favoured US model to select two vendors to work on R&D under Public Private Partnership and Transfer of Technology wherever necessary. The representatives of CII, FICCI and ASSOCHAM clarified the issues one by one.

4. The Committee also desired that a joint memorandum from CII, FICCI and ASSOCHAM highlighting the views and difficulties of the Private Industry might be submitted to the Committee at the earliest.

5. A copy of verbatim record of the proceedings has been kept.

The Committee then adjourned.

**MINUTES OF THE FOURTEENTH SITTING OF THE STANDING COMMITTEE
ON DEFENCE (2007-2008)**

The Committee sat on Friday, the 11th January 2008 from 1100 to 1300 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil – Chairman

MEMBERS

LOK SABHA

2. Shri Santosh Gangwar
3. Dr. K.S. Manoj
4. Shri Raju Rana

RAJYA SABHA

5. Dr. Farooq Abdullah
6. Shri Abu Asim Azmi
7. Smt. Shobhana Bhartia
8. Shri S.P.M. Syed Khan
9. Shri K.B. Shanappa

SECRETARIAT

1. Shri A. Louis Martin - Joint Secretary
2. Shri Gopal Singh - Director
3. Shri D.R. Shekhar - Deputy Secretary-II

REPRESENTATIVES OF THE MINISTRY OF DEFENCE

1. Shri Vijay Singh - Defence Secretary
2. Shri Ajoy Acharya - Addl. Secy (Defence Production)
3. Shri S.N. Misra - JS (HAL)
4. Shri V.Somasundaran - JS (OF)
5. Shri Satyajeet Ranjan - JS (X)
6. Shri T.Ramachandru - JS (S)
7. Smt. Sungita Sharma - Dir. (S-I)
8. Shri V.K. Adhana - CPO (A)
9. Shri Ashok K. Baweja - Chairman, HAL
10. Shri V.V.R.Sastry - CMD (BEL)
11. V.Adml. S.K.K.Krishnan - CMD (MDL)
12. Shri A.M.Naik - Member, OFB
13. Dr. Prahlada - CCR&D (SI)
14. Shri G.Elagovan - CCR&D (R&M)
15. Lt Gen HS lidder - CISC
16. Rear Adml S. Chakravorty - ACIDS (WSOI)
17. Lt. Gen. M.L. Naidu - VCOAS
18. Lt. Gen ZU Shah - DCOAS (P&S)
19. Air Mshl PV Naik - VCAS
20. Air Mshl NAK Browne - DCAS
21. Air Mshl KM Rama Sundara - AOM
22. AVM LK Malhotra - ACAS (PO)
23. V Adml. Nirmal Verma - VCNS
24. V Adml Dilip Despande - CWP&A
25. Rear Adml. V.Karunanithi - DG WESEE

2. At the outset, the Chairman welcomed the representatives of the Ministry of Defence and drew their attention to the Direction 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting. Thereafter, a representative of the Ministry of Defence briefed the Committee regarding 'Indigenisation of Defence Production- Public Private Partnership'.

3. The points raised by the Members during the discussion included involvement of the Private Sector in indigenisation of Defence Production, nomination of Defence PSUs only for defence production, involving private sector in categorization Committee, role in Ordnance Factories etc. The representatives of the Ministry of Defence responded to the queries. As regards the points on which the representatives could not readily respond, the Committee desired the Ministry to furnish written information at the earliest.

Witnesses then withdrew.

4. x x x x x x x x

5. A copy of verbatim record of the proceedings has been kept.

The Committee then adjourned.

x *Not related with the sitting of the Committee.*

**MINUTES OF THE SIXTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2008- 09)**

The Committee sat on Friday, the 26th September 2008 from 1100 to 1245 hrs. in Committee Room No. '53', Parliament House, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil - Chairman

MEMBERS

LOK SABHA

2. Shri Milind Murli Deora
3. Shri Santosh Gangwar
4. Dr. K.S. Manoj
5. Shri Raju Rana
6. Dr. H.T. Sangliana
7. Prof. Mahadeorao Shiwankar

RAJYA SABHA

8. Shri Jai Parkash Aggarwal
9. Shri Abu Asim Azmi
10. Shri R.K. Dhawan
11. Shri A. Elavarasan
12. Shri M.V. Mysura Reddy

SECRETARIAT

1. Shri A. Louis Martin - Joint Secretary
2. Shri Rajeev Sharma - Director
2. Smt. J.M. Sinha - Under Secretary

MINISTRY OF DEFENCE/ARMED FORCES HEADQUARTERS

1.	Shri Vijay Singh	-	Defence Secretary
2.	Shri M. Natarajan	-	Secretary (R&D)
3.	Shri Pradeep Kumar	-	Secretary (Def. Prod)
4.	Smt. H.K. Pannu	-	Financial Advisor (Def. Services)
5.	Shri S.K. Sharma	-	DG (Acquisition)
6.	Shri R.K. Mathur	-	Additional Secretary
7.	Shri Shekhar Agarwal	-	Financial Advisor (Acquisition)
8.	Shri Sudipta Ghosh	-	Chairman & DG OF
9.	Shri Ashok K. Baweja	-	Chairman (HAL)
10.	Shri V.V.R. Shastry	-	CMD, BEL
11.	Dr. Prahlada	-	CCR&D (SI) &DS
12.	Shri Binoy Kumar	-	JS (O)
13.	Shri Bimal Julka	-	JS (Air)
14.	Shri T. Ramachandru	-	JS (S)
15.	Shri S.N. Misra	-	JS (Aero)
16.	Smt. Preeti Sudan	-	JS& AM (MS)
17.	Shri Chaman Kumar	-	JS& AM (LS)
18.	Shri R.K. Ghose	-	JS & AM (Air)
19.	Dr. K.K. Kirty	-	Director (Acquisition)
20.	V Adml. Raman P. Suthan	-	VCNS
21.	Lt. Gen. M.S. Dadwal	-	DCOAS (P&S)
22.	Air Mshl NAK Browne	-	DCAS
23.	Lt. Gen. I.J. Koshy	-	DG Arty
24.	Lt. Gen. J.S. Dhillon	-	DGQA
25.	Lt. Gen. S.S. Dhillon	-	MGO
26.	Maj. Gen V.K. Tiwari	-	ADG Arty (A)
27.	Maj. Gen. Surendra Kalra	-	ADG QA (L)
28.	Maj Gen. S. Sunder	-	ADG WE
29.	Maj Gen. I. S. Chaturvedi	-	TM (LS)
30.	R. Adm. Samir Chakravorty	-	ACIDS (WSOI)
31.	R. Adml Girish Luthra	-	ACNS (P&P)
32.	AVM R.K. Srivastava	-	ACAS (ENG A)

2. At the outset, the Chairman drew the attention of the representatives of the Ministry of Defence to the Direction 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting and invited the representatives of the Ministry of Defence to brief the Committee on salient features of Defence Procurement Policy - 2008. The representative of the Ministry then briefed the Committee on the issues relating to the fast track procedure, five year defence plan, sharing of defence plan with public and private sector, availability of perspective plan regarding requirement of the forces on website, upgradation of equipment during the contract period etc. During deliberations, the representatives of the Ministry also informed the Committee that power has been given to Defence Acquisition Council to vary the percentage of the offset in certain cases.

3. On the question of identification of organisations for selection as Raksha Udyog Ratnas (RURs), the representative of the Ministry informed that it was still under considerations and it had not been notified so far.
4. The representative of the Ministry also clarified the points raised by the Members on the issues relating to Foreign Direct Investment and present level of Indigenisation.
5. As regards the points on which the representatives could not readily respond, the Committee desired the representatives to furnish written information at the earliest.
6. A copy of verbatim record of the proceedings has been kept.

The Committee then adjourned.

**MINUTES OF THE NINTH SITTING OF THE STANDING COMMITTEE ON
DEFENCE (2008- 09)**

The Committee sat on Wednesday, the 5th November, 2008 from 1500 to 1530 hrs. in Committee Room `B', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil - Chairman

MEMBERS

LOK SABHA

2. Shri Santosh Gangwar
3. Shri Jigajinagi Ramesh Chandappa
4. Dr. K.S. Manoj
5. Shri Shrinivas Patil
6. Shri Raju Rana
7. Prof. Mahadeorao Shiwankar
8. Shri Rajesh Verma
9. Shri Anil Shukla Warsi

RAJYA SABHA

10. Shri Jai Parkash Aggarwal
11. Shri Abu Asim Azmi
12. Shri R.K. Dhawan
13. Shri K.B. Shanappa
14. Smt. Viplove Thakur

SECRETARIAT

1. Shri A. Louis Martin - Joint Secretary
2. Shri Rajeev Sharma - Director
3. Shri D. R. Shekhar - Deputy Secretary

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee. The Committee, thereafter, took up for consideration the draft report on the subject `Indigenisation of Defence Production – Public Private Partnership', and adopted the same, without any modification.

3. The Committee then authorized the Chairman to finalise the report in light of the factual verification of the narrative portion of the draft Report by the Ministry of Defence and present the same to the Parliament.

The Committee then adjourned.