रक्षा मंत्रालय
MINISTRY OF
DEFENCE

सत्यमेव जयते

KEY TAKEAWAYS

3rd DAs' Conclave:
Enhancing Defence Capabilities through Cooperation

29 October 2018 New Delhi, India

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A REPORT

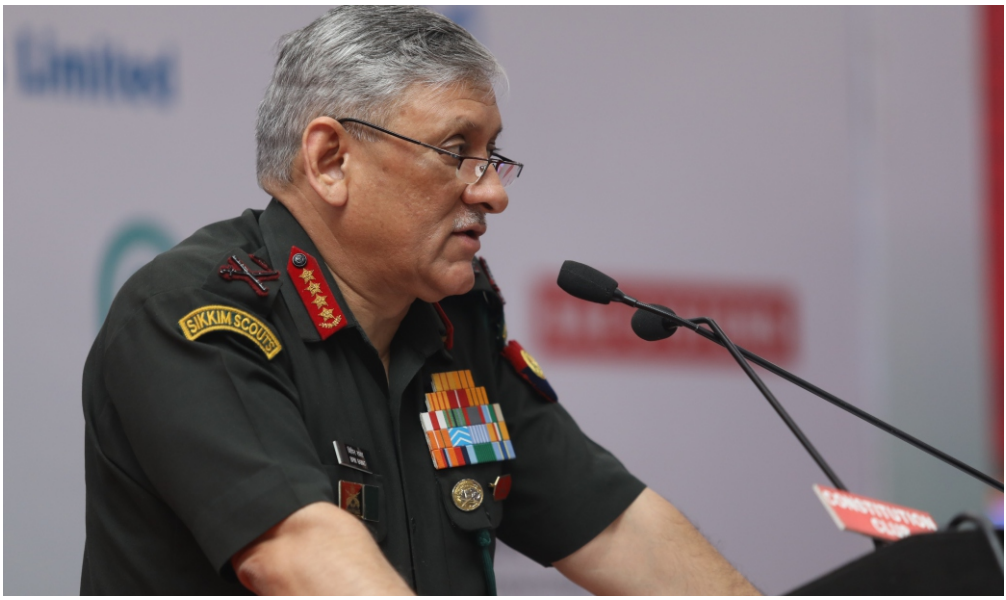
We at BharatShakti.in have been conducting the Defence Attaches' conclave with support from the Ministry of Defence, Govt. of India since 2016. This year was the third edition of the Conclave.

The concept of the conclave rests on the premise that in an era of globalization and an increasingly violent world, peace and stability are closely linked to nations coming together to fight common threats that transcend national boundaries. The way forward is collective effort to contain emerging threats by synergized use of hard and soft power.

We believe that India's growing defence sector has the wherewithal to support friendly foreign countries in building and enhancing capabilities of their forces at a lower cost to combat the common security challenges, both regionally and globally.

The conclave had **three Technical Sessions** that focused on the aspects of **Indigenisation, Innovation and Import Substitution; Exports, both Head and Tail Winds;** and **Offsets Mechanisms,** an area that requires greater attention.

Setting the Stage



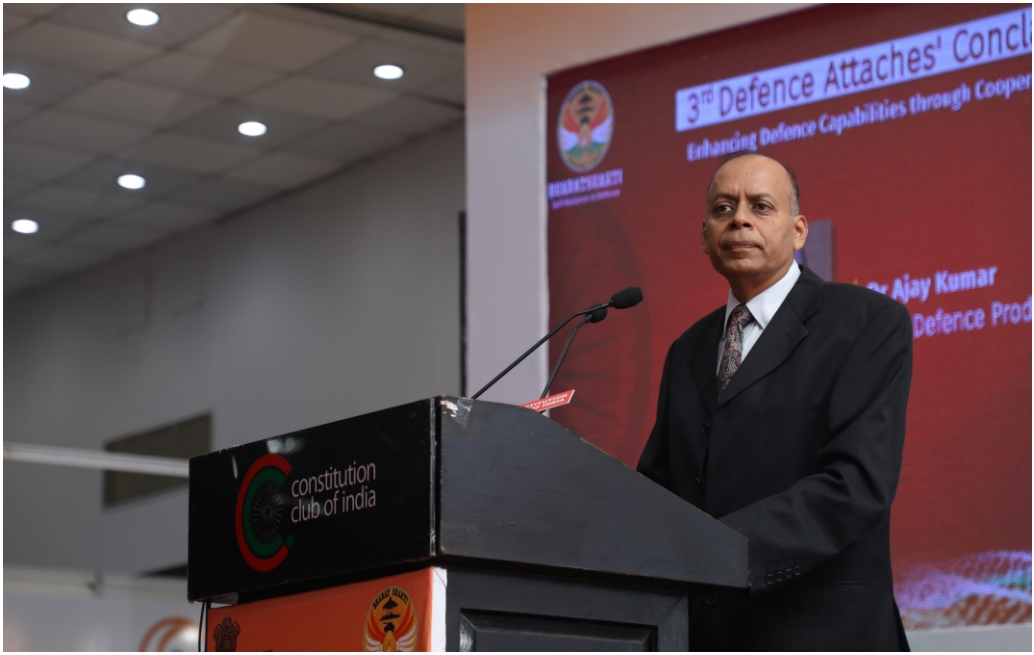
Nitin A. Gokhale, Founder and Editor-in-Chief of BharatShakti.in initiated the proceedings by highlighting the importance of cooperation among nations to combat emerging threats during the inaugural session that was attended by Indian Army Chief Gen Bipin Rawat and Secretary, Defence Production Dr Ajay Kumar.

Gen Bipin Rawat, in keeping with the theme of the conclave, gave a call for more cooperation among nations. “Transform through cooperation or perish,” he stressed. He appealed to the Indian defence industry to enhance its exports, with simplified procedures now in place.

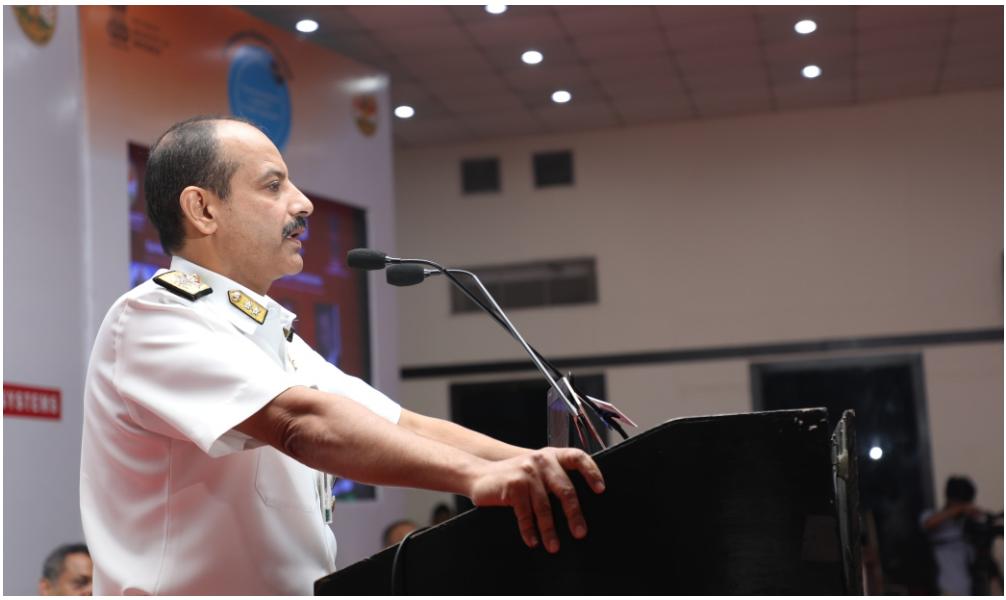
The COAS also pointed out that an Army Design Bureau is now operational to help enhance coordination between the Army's various branches and the industry. It's a single point of contact and is responsive to the industry's requirements. He emphasised on the need to enhance the pace of indigenisation of defence production in the country. The COAS also apprised the industry representatives present in the auditorium that the army requires a variety of high technology equipment which he hoped can be sourced from local MSME outfits in due course. A lot of these equipment are for use in extreme cold climate to include high technology habitats.

Dr Ajay Kumar, Secretary Defence Production, provided an informative brief about government policies and the resultant increased scope for the private sector to invest in defence production. Some important points Dr Ajay Kumar highlighted are:

- While being the biggest importer of defence equipment, India also produces defence equipment worth USD 10–12 billion thereby making it amongst the top ten manufacturers.
- Invited participation from companies abroad to join the 'Make in India' effort. Needs of other countries will be met by India which will help strengthen co-operation and collaboration.
- India now encourages deeper and wider private sector participation in the defence sector providing a level playing field at par with the public sector.
- Invited forces from other countries to procure Indian manufactured equipment since they undergo very rigorous testing protocols and therefore don't need separate testing in most cases.
- India is creating a defence manufacturing corridor which is open for participation by foreign OEMs.
- Large OEMs have set up development centres in India because of the economic and intellectual benefits available.



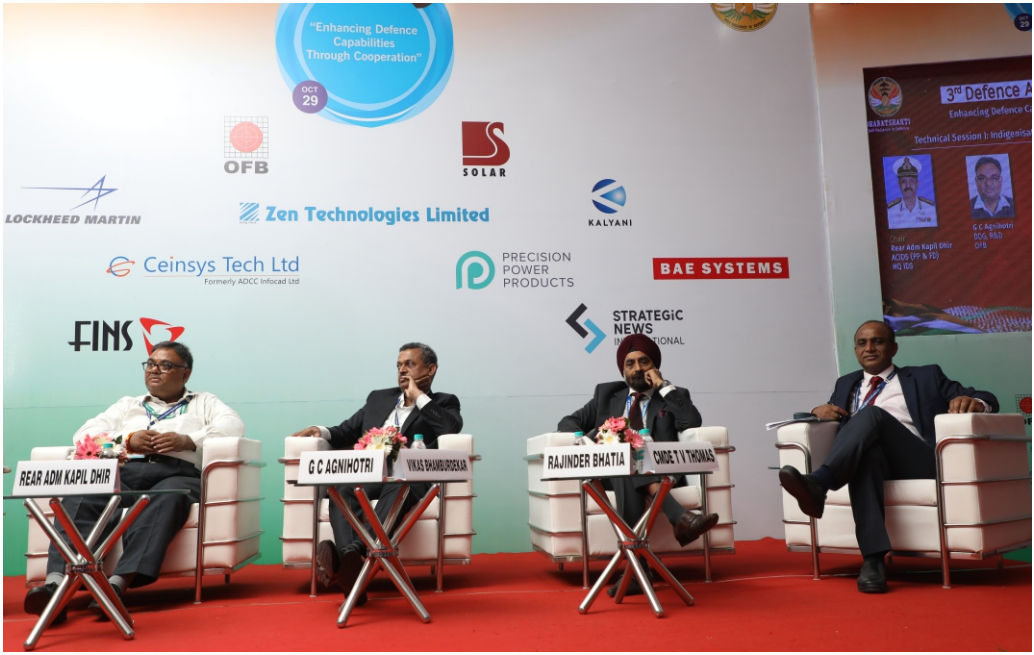
Technical Session I: Indigenisation, Innovation and Import Substitution



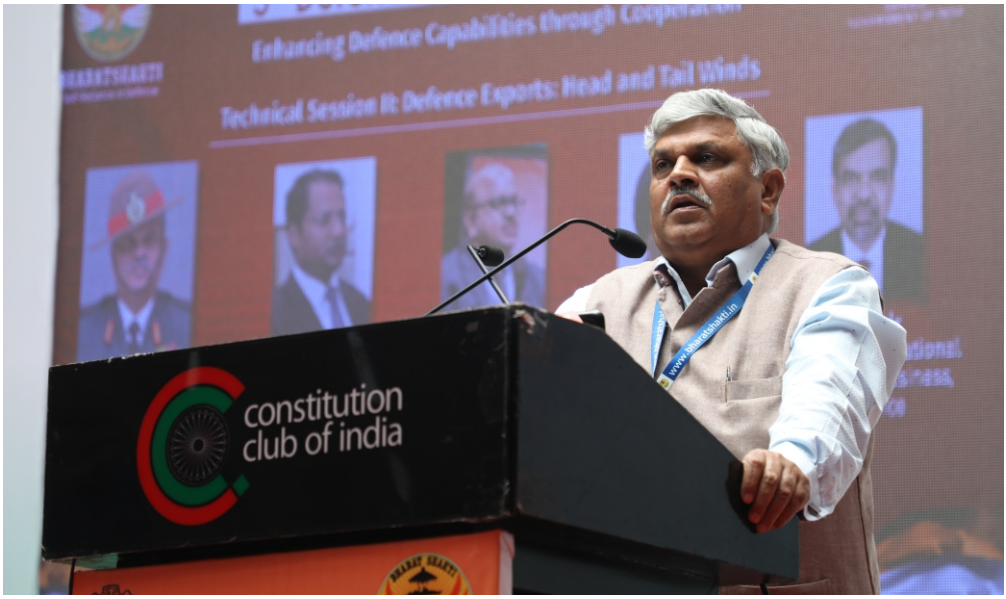
The session was chaired by **Rear Adm Kapil Dhir** ACIDS (PP & FD) HQ IDS. The three speakers included those from Indian majors in the defence sector and also MSMEs. Certain important issues that came up are:

- Indigenisation has achieved its greatest success in platforms where India faced the tightest technology denial regimes after the 1998 nuclear tests, such as the integrated guided missile development programme (IGMDP).
- For R&D activity of a particular product, the document must give out a detailed description of each product that the military needs, its specifications, the quantities needed and the timeframe for its induction.
- Disruptive technologies come out of nimble minds in agile start-ups. Today the number of start-ups in India are next only to the US.
- Large Indian defence private sector industries have invested in extensive network of laboratories and technology hubs. However, for major technologies government funding is a must.
- While major platforms are being made by Indian industries, the weapon systems, related equipment and sensors often cost up to 60 to 70 percent of the price and require indigenisation.
- Indigenous designing is the key area of focus.
- OFB and DPSUs are today getting their orders through the process of competitive bidding.

- With a huge defence budget, even at 1.6% of GDP, the market is huge and investment by industry is worth it.
- The OFB has made remarkable progress in the areas of guns, FICVs, rifles and a host of other equipment. OFB is ready to commit funds for all stages starting with preliminary design review to comprehensive design.
- Designing in India today has been able to get the academia also involved in a substantial way.
- Indian MSMEs have on their rolls technocrats with experience of working in developed countries who have returned to India to apply their expertise here.
- The focus of R&D needs to be on products rather than processes.
- For friendly foreign countries, now is the time to evaluate Indian defence products. These cost much less. Further, with India's techno savvy workforce and R&D facilities, tomorrows' equipment will be built in India. Potential foreign buyers need to source these from India and get the cost benefit.
- Indian OEMs are ready to create MRO hubs in foreign countries where their equipment is sold. The Indian government is ready to walk the extra mile to meet the requirements of friendly foreign countries.
- In India, there is a requirement of identifying cross-sector application of technologies developed to increase the market base of products.
- The winds of change are there for everyone to see. Some astute decision making and tweaking the policies is bound to give the desired boost to indignation



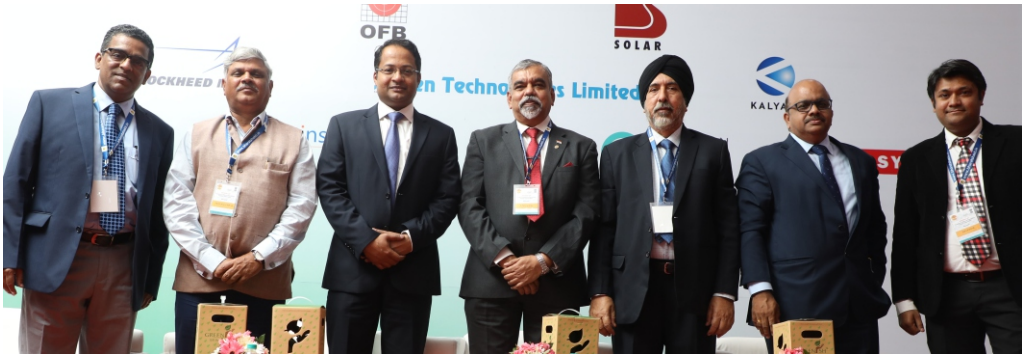
Technical Session II: Defence Exports - Head and Tail Winds



The session was chaired by **Lt Gen Ravi Thodge (Retd)**, Chairman, VDIF Maharashtra. Panelists included government officials and major Indian exporters. Certain important issues that came up are:

- The Indian import-export ratio does not even match countries with much smaller defence industrial base. The impediments for exports are multiple. Non-existence of cutting edge technology, uncompetitive pricing, negative list of countries to whom exports are prohibited, a large number of clearances, procedural hassles, skewed national export policy lacking incentives add to the malady.
- Disruptions that India can bring in the global market include the critical issue of affordability
- The proven military platforms that are 'Made in India', such as the Su-30 fighter or the T-90 tank, are licensed productions with Intellectual Property Rights (IPR) held by foreign defence firms. India cannot export these. Even in the case of the BrahMos missile which has been jointly built by India and Russia, the approval of the BrahMos board is required for its export.

- For the indigenous military platform to become attractive to a foreign buyer, it will have to be tested and inducted into the Indian armed forces, and its operational performance displayed.
- Harmonising the list that classifies the list of items that are to be exported is required.
- Streamlining export licencing, speeding up NOC procedures by the creation of Green Channel for express processing, a Yellow channel for deliberation, Red channel for detailed processing is required.
- Need to set up/ galvanize Defence export promotion council.
- Better facilitation and time-bound clearances of private sector proposals; System of no fresh clearance for a repeat order must be in place.
- Greater private-public sector harmony. Exports can only be feasible for tested and in service items which currently are in the domain of the Public sector.
- Creating an export facilitation agency.
- Easing of taxes and duties.
- Non-defence Line of Credit to various countries should also be available for purchase of products of private companies.
- It's only very recently that a political directive has been received to look at export of defence stores and consider it as a part of the performance matrix.
- Defence partnerships are not built in a day, nor are they discarded too early.



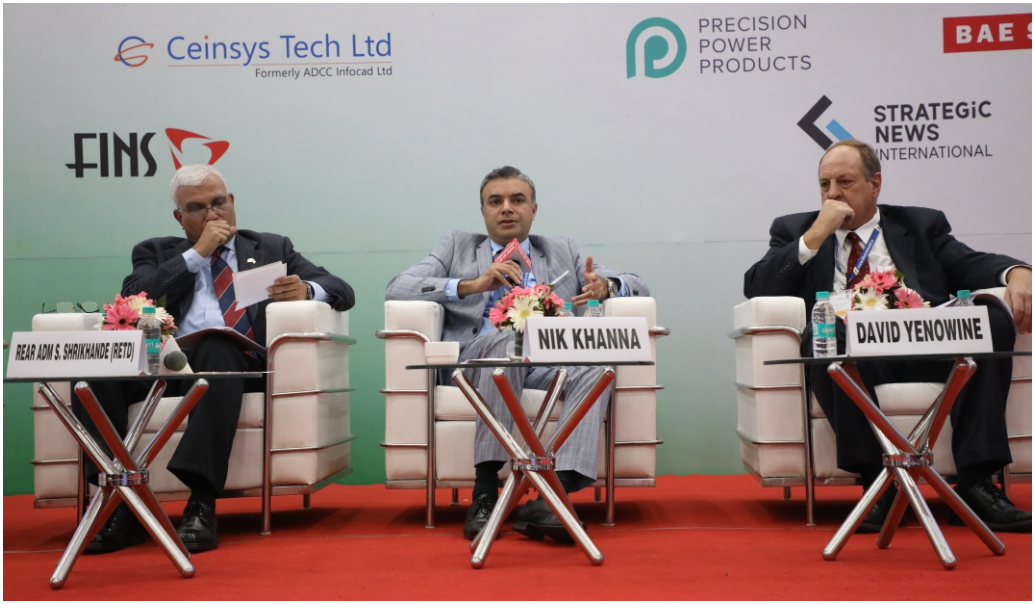
Before the start of the third technical session, a Department of Defence Production representative apprised the gathering about the forthcoming AeroIndia 2019 exhibition to be held at Bangalore in February next year and advised all foreign Defence Attaches to take advantage of the early bird concessions besides highlighting key features of the prestigious aerospace show.

Technical Session III: Offsets Mechanism

The session was chaired by **Rear Adm S. Shrikhande (Retd)**, Fmr Chief of Foreign Coopn. & Intelligence, IN. Panelists included foreign OEMs. Highlights of the session are:

- Despite a general perception that Offsets are not delivering the intended benefits, in the view of some OEMs, Offsets in India have indeed been successful in delivering what the Government of India is seeking: technology, investment, exports and jobs. For OEMs, the Offsets story is not an issue of performance, but rather GOI recognition.
- Globally, Offset requirements by any name (IC, Localization) are growing in complexity and with more specific targets for the type of projects desired.
- Over 60 countries now have requirements, all different and all with various methods to incentivise projects in the most desired areas. Business wise, direct participation in systems is not always feasible as these products are spread out across many countries.
- OEMs need to target projects to countries with the best credits returns, so in a manner of speaking, countries are competing for the most desirable technologies and projects as well as OEMs competing for programs. India needs to consider this perspective in constructing its policies to increase FDI, implement projects of higher complexity, and reduce OEM risks/issues.

- Offset policy has continued to evolve, additional avenues for discharge in the pending 2016 amendment are welcome.
- For OEMs, India presents many challenges to deliver on the IC targets, ToT requirements and Offset, if applicable. In many countries, the IC and ToT are the means for satisfying Offsets and not additional, though can be the case in some of the acquisition categories.
- OEMs are encouraged by improvements in administration in the form of credit verifications, and documentation requirements.
- OEMs would like to see some processes accelerated such as audit, project approvals and resolution of administrative matters, as well as policy changes that relook at deductions for import content, non-liquidating penalties and higher multipliers for target areas.
- The establishment of a single point of accountability for the entire Offset process within the MoD responsible for the evaluation of offset proposals as part of the acquisition process, approving projects during implementation and approving the Offset credits gained for that project.
- Keep the valuation of Offset projects as simple as possible and establish reasonable documentation requirements for crediting purposes. Project valuation could be mutually agreed to by the provider and recipient, before being presented to the Offset authority for final approval.



Drawing the Curtain

Dr Satheesh Reddy, DG DRDO and Scientific Advisor to the RM delivered the Valedictory Address. The main points that he flagged were:

- Cooperation between nations was vital.
- The battlefield is changing from conventional to asymmetric with more non-state actors and rogue elements in the fray.
- Cyber security, AI, Deep Learning are the areas that require greater focus.
- India requires core technologies rather than engineered products.
- India doesn't require just licenced production with no technology being passed on.
- 1200 to 1300 industries are working with DRDO.
- In the Akash project 90% of the work is being outsourced to private industry.
- We now have indigenous SAMs, ATGMs, Glide bombs, the best of radars.

His advice to the Indian Industry was to be proactive and not passive.

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