



DPEPP 2020 - a draft

Defence Production & Export Promotion Policy 2020

Towards 2025

August 2020

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The Ministry of Defence released a Draft Defence Production and Export Promotion Policy (DPEPP) 2020 on August 03, 2020. This appears to be the second draft of the draft Defence Production Policy 2018, albeit coupling it with an exports promotion policy also - thereby focusing on the twin objectives of

enhancing self-reliance (Atmanirbhar Bharat) and boosting exports.

Inputs/comments on the draft DPEPP 2020 are solicited latest by August 17, 2020

Present Status

- **Current production** - ~INR80,000 crore (Public sector vs Private sector ratio at 80:20)
- **More than 460 licences** issued to private companies
- **Over 8,000 MSMEs**

Focus areas
(identified in the draft policy)

Procurement Reforms

Innovation and R&D

Indigenization and support to MSMEs / start ups

DPSUs and OFB

Optimize resource allocation

Quality assurance and testing infrastructure

Investment promotion, FDI & Ease of Doing Business

Export Promotion

Goals and objectives

As with the draft Defence Production Policy 2018, the goals and objectives are:

- A **turnover of INR 175,000 cr** (~\$25bn) and **exports of INR 35,000cr** (~\$5bn)
- A **dynamic, robust and competitive defence industry** including aerospace and naval ship building
- **Reducing dependence on imports** and taking forward 'Make in India' initiatives
- **Promoting export** of defence products and becoming parts of global defence value chains
- Creating an **environment that encourages R&D, rewards innovation, creates Indian IP ownership**

and promotes a robust and self reliance defence industry

Governance

- DDP would be the nodal department for co-ordination of the DPEPP 2020
- Progress would be periodically reviewed and monitored by RM
- All stakeholders will conduct regular outreach programs in the country
- Institutional data collection regarding industries and trade would be further strengthened

Procurement Reforms

- Expeditious and streamlined procurement procedures
 - Draft DAP 2020 and on-going revision of DPM
- Negative list
 - Will be notified with year-wise timelines for placing an embargo on the import of such items
- PMU
 - With representation from Services would be set up to support the acquisition process and facilitate the management of contracts
- Technology Assessment Cell: With representation from Services
 - To assess TRL levels available in the country for all major systems
 - To provide advice for initiation of AoNs to avoid immediate procurement requests
 - To assess industrial capability for design, development and production of major systems
 - To carry out a scan of regional and global technological capacities to advise for SQRs
- Trials and testing procedures
 - Comprehensive review and overhaul would be done
- Family of weapons approach
 - To standardize and optimize inventory and supply chain management
- Providing industry greater visibility
 - Understanding future acquisition priorities and initiating AoNs by taking note of lead times

Our take

- TAC should also have industry representation to make it a comprehensive assessment
- Family of weapons approach would require companies to optimize & develop the ecology around their core segments

Indigenization and support to MSMEs / start ups

- Creating an industry ecosystem to indigenize imported components and sub-assemblies
 - 5,000 such items are proposed to be indigenized by 2025
- Indigenization portal developed for DPSUs / OFB / Services
 - With industry interface to provide development support
- The Make-II process further strengthened & monitored
- Inter-governmental processes would be taken forward to indigenize spares and components for legacy platforms and equipment
- Public Procurement Order will be made applicable for items for which capability exists
 - Defence Investor Cells will provide handholding to MSMEs, investors and vendors
 - Use of TReDS would be mandated for improving liquidity and timely payments
 - Long term orders (where feasible) will be considered for critical products and materials being imported
 - Hand holding by Services through the process

Our take

- The list of such 5,000 product should be released at the earliest for the MSMEs and startups can plan their capacities and investments
- Further strengthening of the DICs and TReDS is required by monitoring for lacunae and plugging them
- Long term orders will enable growth and bring focus to technology development

Optimize resource allocation

Target for domestic procurement to reach INR140,000 crore by 2025 out of the total turnover target of INR175,000 crore by 2025

- Strategies proposed for the same
 - Carving a distinct budget head for domestic capital procurement
 - Enhancing allocation for domestic capital procurement @15% p.a. minimum for the next five years
- Efforts to scrutinize, evaluate and optimize various items of expenditures in the defence budget
- OFB / DPSUs will be mandated to increase productivity, enhance quality, reduce costs and ensure timely execution of orders

Our take

- With the commitments from current emergency purchase orders, it will be difficult to have a meaningful capital budget head allocation for domestic procurement. Hence OFB and DPSUs should be further mandated to outsource manufacturing.

Investment promotion, FDI & Ease of Doing Business

Opportunities in the aerospace industry identified in the following segments:

- Aircraft Build Work
 - Aircraft MRO
 - Helicopters
 - Engine manufacturing and MRO work
 - LRUs
 - UAVs
 - Upgrades and retrofits
- **Investment promotion**
 - Investments would be encouraged on specific identified segments and technological areas.
 - Development of aero engines complex
 - MRO
 - Critical technologies and materials
 - Efforts would be made to address identified gaps in those segments and offer incentives to set up design and manufacturing facilities in India.
 - Investments in these segments would also be channelized with higher multipliers for offset obligations
 - **Defence corridors**
 - The defence corridors will be specifically targeted by providing additional support and higher offset multipliers for offset discharge
 - **FDI**
 - Efforts have been made to liberalize FDI in the defence sector
 - Efforts will be made to attract FDI through Invest India and Defence Investor Cells
 - **Licensing procedures:** Will continue to be eased

Our take

- Domestic capabilities are reportedly higher in land systems and naval systems (float segment) compared to aerospace systems. However, identifying opportunities for investment in the former two systems also is required to make them more potent export products.

Innovation and R&D

- **Defence R&D:** Strategies proposed to harness nationwide R&D capabilities
 - DRDO in consultation with services and other scientific, industrial establishments to set up missions in select areas - indicative list as below:
 - Gas Turbine engines
 - Hypersonic Missiles
 - Ballistic and cruise missiles
 - Armored vehicles
 - Submarines
 - FGFs
 - Transport aircraft (military)
 - Secure communication devices
 - Cyber security infrastructure
 - Surveillance systems
 - AI, Robotics, UAs
 - Airborne sensors
 - Strategic materials
 - **Defence corridors**
 - The DICs will be specifically targeted by providing additional support and higher offset multipliers for offset discharge
- **FDI**
 - Efforts have been made to liberalize FDI in the defence sector
 - Efforts will be made to attract FDI through Invest India and Defence Investor Cells
- **Licensing procedures**
 - Will continue to be eased
- **Innovation**
 - IDEX to engage with 300 more startups in developing 60 new technologies during the next five years
 - Mission Raksha Gyan Shakti to be scaled up for promoting IP creation
 - Offset policy would be reformed to encourage defence investments and acquisition of critical technologies through higher multipliers

Our take

- Offset policies currently have multipliers for technology transfer. It is unclear if the offset policies in the procurement procedures would be further reformed for higher multipliers as suggested by this draft policy

DPSUs and OFB

Strategies proposed to be adopted to reform the DPSUs and OFB so that they work in tandem with private industry:

- Corporatization of OFs
- Position DPSUs as system integrators
- OFB / DPSUs mandated to maximize outsourcing from indigenous sources
- Disinvestment of DPSUs will be pursued
- Focus on modernization and technological up-gradation
- DPSUs encouraged to move towards Industry 4.0
- Partnership model be formulated for the development of critical technologies and components in DPSUs / OFB to provide a focused approach to the development of indigenous capabilities

Our take

- Execution of these proposed strategies would be key in getting to the target of 2025 as well as beyond

Quality assurance and testing infrastructure

Strategies proposed to cut down hold points and reduce cycle time:

- Review and streamlining of QC and QA processes with QA process being monitored by developing an IT platform with industry interface
- Organizational reforms in DGQA / DGAQA
- Outsourcing certain QA functions to accredited third party inspection bodies
- Encouraging 'Zero Defect Zero Effect' with self-certification and Green channel route
- Mapping pool of testbeds / QC-QA labs and their enhancement be planned
- Existing testing infrastructure be made available for the private industry on equal priority and also be upgraded by test rigs / test chambers/simulation-based testing
- Appellate mechanism for QA testing through IEMs would be created
- DTIS with assistance to industry to set up Common Testing Facility

Our take

- Along with third party inspection and self-certification it may also be mandated to have a DGQA certified QA auditor for each entity above a certain threshold in revenues.
- Capacity constraints possible hinder the availability of test facilities to everyone - hence the requirement to have more testing infrastructure and more importantly, at accessible locations within a certain radius of the area.

Export Promotion

Strategies proposed to achieve INR 35,000 defence exports by 2025:

- Supplementing efforts of Defence Attaches, DPSUs would be positioned to work as export promotion agencies for certain countries with earnings linked to success fees
- Domestically manufactured products be promoted through G2G agreements and LCs
- DPSUs and OFB mandated to have at least 25% of their revenue from exports including success fee earned as target by 2025
- DDP, in collaboration with industry associations, would facilitate onboarding of IOPs
- OGEL would be utilized to encourage export of selected items to friendly countries

Our take

- While defence exports have increased significantly in the last few years, it is important to further strengthen the capabilities and capacities and execution of these strategies will be key

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