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Defence Acquisition Procedure (DAP) 2020: Implications for the Indian Army

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Key Points

- As per SIPRI, India remained the world's second largest arms importer during the period 2015-19.
- The Defence Acquisition Procedure (DAP) was released by the Raksha Mantri on 28 September 2020, with an aim to make India a global defence manufacturing hub.
- Moving towards *Atmanirbhar Bharat* by synergising DAP 2020, IDEX and Mission *Raksha Gyan Shakti*.
- Implications of embargoing 101 defence products from being exported, would lead to greater indigenisation.
- The DAP 2020 encourages the Indian Army to indigenously develop capabilities to manufacture the required equipments.

Introduction

As per the Stockholm International Peace Research Institute (SIPRI), India remained the world's second largest arms importer during the period 2015-19, with Russia being the leading supplier with 56% of the supplies. [1]Currently, India heavily relies on import and the indigenous content for defence equipment is about 40 percent. Accordingly in a major reform initiative, the Raksha Mantri– Shri Rajnath Singh, on 09 August 2020 announced restrictions on import of 101 weapons and military platforms. The embargo is planned to be progressively implemented between 2020 and 2024.[2] This was followed by the unveiling of the Defence Acquisition Procedure (DAP) which is aligned with the vision of *Atmanirbhar Bharat* and provides impetus to the 'Make in India' initiative. The document replaces the Defence Procurement Procedure (DPP) 2016.[3]

Defence Acquisition Procedure (DAP)

The Defence Acquisition Procedure (DAP) was released by the Raksha Mantri on 28 September 2020, with an aim to make India a global defence manufacturing hub. The

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document contains 657 pages and also incorporates suggestions from a wide spectrum of stakeholders. The DAP will be effective from 01 October 2020 and will be valid for a period of five years. The document comprises of twelve chapters which deals with Acquisition Categories, Acquisition Planning, Indigenous Content, Procedures for Categories under Buy & Make Schemes and Procedure for Procurement under Make &Innovation categories. Apart from these, the document also covers acquisition of systems designed and developed by DRDO/DPSU/OFB, Fast track Procedure, standard Contract Document, Strategic Partnerships with the private sector, ICT Systems, Leasing, Post contract Management and procedure for Defence Ship building.[4]

In comparison to DPP 2016, DAP 2020 lays the procedure for improving the indigenous content of defence products. The next aspect pertains to Long Term Integrated Perspective Planning (LTIPP) which has been renamed as Integrated Capability Defence Plan (ICDP), covering 10 years instead of 15 years. The DAP enables Time Bound Defence Procurement Process and Faster Decision Making by setting up a Project Management Unit to support contract management and to streamline the acquisition process. The other important aspect is the Revised Offset Guidelines. As per the revised offset guidelines, there will be no offset clause in Government to Government dealings, Single Vendor and Inter Governmental Agreements. The offset policy was first adopted in 2005. As per the policy, for all defence capital imports above Rs 300 crores, foreign vendors with at least 30% of the value of the contract in India, were required to provide offsets. To ensure that trials are rationalised, the process would be restricted to physical evaluation of core operational parameters only.[5]

In order to develop India as a Global Manufacturing Hub, under a new Category — Buy (Global-Manufacture in India) — has been introduced to encourage companies from abroad to set up manufacturing units through their subsidiaries in India. To promote India and make it *Atmanirbhar*, categories like Buy (Indian Indigenously Developed and Manufactured – IDDM) has been introduced, only for Indian vendors with less than or equal to 49% Foreign Direct Investment. To promote indigenous production, the Ministry of Defence will notify a list of equipment banned for import. Steps have been taken to promote manufacturing of parts in India through establishment of co-production facilities through Inter Government Agreements. This would reduce the overall cost of the equipment in its life span and indigenisation of components. The indigenous content for all Buy & Make categories has been enhanced which would lead vendors to greater internal development and manufacture. In addition to reducing costs, 'Leasing' has been introduced as a new category for acquisition. This will be particularly useful for transport fleets, trainers, simulators and other equipments. [6]

In addition to DAP 2020, the Government has taken three other initiatives for improving defence production domestically. First is The 'Innovations for Defence Excellence' (IDEX)., which has been operationalised to provide necessary incubation and infrastructural support to the startups in the defence area. It would be further scaled up to engage with 300 more startups and develop 60 new technologies/products during the next five years.[7] The second initiative pertains to the 'Draft Defence Production and Export Promotion Policy' (DPEPP 2020) to enhance defence production and improving defence exports to Rs 35,000 crores by 2025. The third initiative is 'Mission Raksha Gyan Shakti' which was launched in the year 2018 by the MoD with the objective of creating greater Intellectual Property (IP) in the Defence Production Ecosystem. This would lead to filing a higher number of patents in Defence Sector Public Undertakings (DPSUs) and Ordnance Factory Boards (OFBs). *Atmanirbhar* in defence manufacturing will improve the nation's defence capability. The DAP 2020 encourages domestic manufacturers by indigenisation of defence technology, but also provides impetus for foreign investment in the country. For self-reliance in defence production, there is a need for synergy between the Government, the DRDO, the Armed Forces, and the manufacturing sector comprising of the public sectors and the private sectors. The DAP 2020 in conjunction with IDEX, Draft DPEPP and *Raksha Gyan Shakti* will accelerate our defence production which would in the long run enhance our ability to be operationally prepared to combat external threats.

Significance of DAP 2020

Right from the year 2002, DPP editions were formulated with good intentions. It provided the opportunity to achieve self-reliance through greater involvement of the private sector that emerges as the focus of DAP 2020. It is pertinent to note that such opportunities to private defence production could not be exploited simply because timely and bold decisions were not taken or executed.[8] This can be observed in the high gestation periods in the past while procuring and inducting equipment. To illustrate the Pinaka Rockets, the Arjun tank or the 155 mm series of Guns and the Nag Anti-tank Guided Missiles have taken a long time for development and trials. However, with a deficit of Rs. 103,536 crores in the current financial year, it would be extremely difficult, despite DAP 2020, to become self-reliant in defence production. It would be pertinent to examine two issues embargoing 101 defence products and offsets.

Implications of Embargoing 101 defence products

The 101 defence products which are to be on an import embargo till December 2025 will boost the Atmanirbhar process. These items include missiles, artillery guns, ammunitions, assault rifles, radars, helicopters and transport aircrafts.[9] It is pertinent to note that these items are currently being developed or manufactured indigenously. The items are briefly enumerated below:-

- Light Combat Aircraft (LCA): Developed by DRDO and manufactured by HAL.
- Helicopters. Manufactured by HAL with collaboration with Russia.
- Light Combat Helicopter. Manufactured by HAL.
- Light Transport Aircraft. Manufactured by TATA and Air Bus to make C 295.
- 155 mm Ammunition. Manufactured by Ordnance Factory Board (OFB).
- Small Arms and Ammunition. Manufactured by OFB.
- Simulators. Manufactured by Bharat Electronics Limited and Private sector industries.
- 155 mm Ultra-Light Howitzer. Manufactured by Mahindra Defence in collaboration with BAE Systems.
- Radars. Manufactured by DRDO and Bharat Electronics Ltd.
- Land Attack Cruise Missiles. Manufactured by DRDO and BrahMos Aerospace Ltd.
- Torpedoes and other sea munitions. Manufactured by Naval Science and Technological Laboratory of DRDO and Bharat Dynamics Limited.
- Tanks –. Manufactured by DRDO and Heavy Vehicles Factory of OFB.
- Communication equipment. Manufactured by DRDO and Bharat Electronics.
- Artillery Guns 155 mm ATAGS, K 9 Vajra. Manufactured by DRDO, TATA, L&T and Bharat Forge.
- Anti-Tank Guided Missile. Manufactured by DRDO and VEM technologies.

As can be observed, practically all these items on the negative list are developed in India and many of them are on 'limited series production'. The other equipment are under product improvement after undergoing user trials. Further, products like BrahMos supersonic cruise missile, tanks, helicopters and artillery guns have already being requisitioned for induction into the armed forces. As the Chief of Defence Staff has said, the initial numbers will be from abroad while the remaining would be 'Made in India'. The armed forces will procure these items from the Indian manufacturer once the same is cleared for induction.[10] Such a regulation will energise our companies and be of great benefit to the defence sector.

Defence Offset Policy

The key objective of the Defence Offset Policy is to leverage capital acquisitions to develop the Indian Defence Industry by focusing on three areas vis developing internationally competitive enterprises; augmenting capacity for Research & Development; and finally encouraging development of synergistic sectors like civil aerospace and internal security. There are a set of combination of methods by means of which offset obligations may be discharged. The first is ‘direct purchase or executing export orders’ for eligible products manufactured by the Indian enterprises. The second would be ‘Foreign Direct Investment’ in joint ventures with Indian enterprises for manufacture and provision of eligible services. The third would be ‘investment in kind in terms of Transfer of Technology (TOT)’. The fourth would be ‘investment in kind in terms of provision of equipment’ for manufacture by Indian enterprises. Fifth would be ‘provision of equipment and TOT ‘as also augmenting capacity for Research and development to include Indian industries and DRDO. Last of all pertains to ‘technology acquisition’ by the DRDO in areas of High Technology.[11]

The Indian Offset Partner (IOP) comprise Indian enterprises &institutions and is also engaged in the manufacturing of eligible products and/or provision of eligible services, which includes the DRDO. The IOP shall comply with the guidelines/licensing requirements stipulated by the Department of Industrial Policy and promotion as applicable. The OEM/Vendor/Tier 1 sub vendor will be free to select the IOP for the task provided. The agreement between OEM/vendor/ Tier -1 sub vendor and IOP shall be subject to the laws of India.[12]

As per the CAG 2019 offset report, only Rs. 5457 crores worth of offsets i.e. have been accepted. The remaining offset obligation of about Rs 55,000 crores is due to be completed by 2024. The CAG is not very hopeful of the obligations being met by that time. As per the CAG audit, the foreign vendors made various offset commitments to qualify for the contract but later, were not earnest in fulfilling these commitments.[13]The report is sharply critical of the administrative system in the Ministry of Defence where the verification of the offset systems are extremely slow. Like in the case of the Poseidon-8i (P8i) maritime surveillance aircraft contract, where 90% offsets have been claimed but only 6% have been verified. The report mentions Mi-17 V5 helicopters from Russia, UAVs from Israel, the Rafale Deal and the issue discussed above P8i. This definitely benefits the foreign firm.[14]

Besides financial failure, the offsets policy has failed in acquiring advanced technologies or significantly enhancing industrial or manufacturing capabilities –both of which are stated objectives of the offset policy. The main area was the direct purchase of goods and services and the figure of FDI was low. Further, the capability of absorption of technology is also low.

Out of a sample of 28 Offset contracts just 16 IOPs has bagged five or more offset projects and three IOPs has bagged 59% of the projects, hence, revealing the narrow base of the Indian defence industry. As only a summary of the report has been released, therefore, it would be appropriate to say that India currently needs to develop a technically competent system to identify technological gaps in the Indian ecosystem and formulate offset projects which it should pro-actively pursue while being organically linked with defence acquisitions. Currently, more than 130 countries have offset programmes. We can definitely improve if the project is on a mission mode.

Meanwhile in order to stabilise the situation, DAP 2020 has removed offsets from Government to Government procurements, procurement from a single vendor and with countries which have an Inter Government Agreement. In these cases there is no competitive pricing and the value of offsets would often be added to the price, thereby making it incorrect to take offsets. This appears to be logical and would make the policy more flexible.[15]

Implications for the Indian Army

> ***"To be prepared for war is one of the most effectual means of preserving peace"***
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> —George Washington (First President of USA), 1790.[16]

The Indian Army has to be prepared for a two and half front War against adversaries who are focusing and rigorously working on modernisation. Therefore, to counter such threats, modernisation of our equipment is a necessity. The process of acquisition has undergone deliberate changes ever since the DPP commenced in 2002. At every step the Army has strained every sinew to modernise with indigenous equipment, but the process has not worked due to lack of coordination between the nodal agencies.

The most important aspect of DAP 2020 for the army is that, time would be managed by project management unit. This would assist in keeping a check on timelines. Further, the newly formed Army Design Bureau (ADB) has been playing a stellar role in linking with the DRDO and the private sector. Our first step would be to formalise an Integrated Capability Defence Plan for the next 10 years, visualising the correct threat perception. This would lead us to the equipment we need and their associated technologies. Viewing the current environment in addition to the existing technologies, the future would demand greater investment in artificial intelligence, quantum communications, satellites in outer space and cyber technology. While the DRDO would do its utmost, success will come only if the private sector is also involved. For this the Indian Army would have to provide a 'level playing field' to the private sector. In the next 10 years, the Indian Army would need a variety of drones, quantum communications and combat robots. These robots would be first used in the logistics field and thereafter be used for sentries onwards to live combat. As a matter of fact, robots have already entered our country in the field of education and logistics.

Conclusion

The DAP 2020 encourages the Indian Army to indigenously develop capabilities to manufacture the required equipments, which would need close synergy with the DRDO and the private industry. Apart from this, the trials needs to be speedily done and Army should be involved in the development process which would give confidence to the DRDO and private industry. Overall the DAP 2020 will benefit the Indian Army, provided decisions are taken by the authorities with speed and precision.

End Notes

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