

# COMMENTS ON THE DRAFT DEFENCE PRODUCTION POLICY 2018

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## I. PRELIMINARY

1. This submission presents preliminary comments on the draft Defence Production Policy 2018 (draft policy) published by the Department of Defence Production under the Ministry of Defence, Government of India. We thank the Department of Defence Production in instituting this consultation process and appreciate the opportunity to provide our inputs.
2. We whole-heartedly support the draft policy's vision of being among the world leaders in the aerospace and defence industries, and agree that we need to develop these industries to attain self-reliance in defence production.<sup>2</sup> We appreciate the recognition of the potential of startups in the development of these industries, in line with the vision of the Startup India programme.<sup>3</sup>
3. In our submissions, we have attempted to be mindful of, and seek to further realize the vision of the Make in India initiative and Startup India programme of the Government of India.

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We thank Vipul Singh, co-founder and CEO, Aarav Unmanned Systems Pvt. Ltd., and Group Captain Rajiv Kumar Narag, Senior Research Fellow, Centre for Air Power Studies in New Delhi, for their valuable contributions.

<sup>2</sup> ¶2, Draft Defence Production Policy, 2018.

<sup>3</sup> ¶1.4, Draft Defence Production Policy, 2018.

## II. EXECUTIVE SUMMARY

1. Unmanned aerial vehicles should be included in the list of weapons systems/platforms that should be indigenously developed to reduce dependence on imports.
2. Regulatory sandboxes be setup to encourage domestic design and manufacturing activities and for exploring potential of emerging technologies such as artificial intelligence in the defence sector.
3. Permit use of defence testing facilities and laboratories by private enterprises on payment of stipulated fees.
4. Create manufacturing clusters for private defence industry.
5. Liberalization of licensing requirements for defence industries; we suggest an independent mechanism for licensing system of items with commercial applications (dual use items). Alternately, terms and conditions for issue of licenses for such dual use items may be reconsidered and rationalised. Commercial applications should be recognised and de-licensed, or licensed differently with fewer restrictions.
6. Indian manufacturers have to comply with separate policies for export and import of goods by independent ministries and departments. Review of rules for import and export of goods is recommended to ensure level playing field for Indian manufacturers.

## III. DETAILED COMMENTS

| Serial Number | Issue   | Relevant Provision          | Recommendation  |
|---------------|---|-----------------------------|---|
| 1.            | Indigenous development of weapon systems and platforms to reduce dependence on imports. | Suggested Addition - ¶3.1.1 | Design, development and manufacturing of innovative, indigenously designed, developed and manufactured (IDDM) products should be facilitated and encouraged. Funding for research and development may be increased to |

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|    |   |  | support this.  |
| 2. | Indigenous development of weapon systems and platforms to reduce dependence on imports. | ¶3.3<br>The draft policy provides a list of weapons systems and platforms that should be developed indigenously. | Unmanned aerial vehicles should be included in the list of weapons systems/platforms that should be indigenously developed to reduce dependence on imports.  |
| 3. | Promotion of IDDM.  | Suggested Addition - ¶4.7  | Promotion of IDDM may be included as one of the strategies.  |
| 4. | Simplification of industrial licensing mechanism.                                       | Suggested Addition - ¶4.8  | Simplifying the industrial licensing mechanism may be included as a strategy.  |
| 5. | Creation of regulatory sandboxes.   | ¶5.1<br>The draft policy provides suggestions for increasing ease of doing business in defence production        | Regulatory sandboxes may be setup to encourage domestic design and manufacturing activities and for exploring the potential of emerging technologies such as artificial intelligence in the defence sector.  |
| 6. | Liberalisation of licensing requirements for defence industries.                        | ¶6<br>The draft policy recommends rationalization of licensing processes.  | With the objective of enabling a level playing field, we recommend that the permissions needed for the sale of licensed items to third parties be harmonized with import policies, in circumstances where the authorizing authorities are different for manufacturers and importers. |

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| 7.  | Liberalisation of licensing requirements for defence industries.             | ¶6.1<br>The draft policy recommends minimizing the number of items that require licensing by excluding all items not specified within a negative list from mandatory licensing requirements. | We recommend that all items that have commercial applications be removed from the proposed negative list. In the alternative, commercial applications should be recognised and de-licensed, or licensed differently with fewer restrictions.   |
| 8.  | Multiplicity of regulating authorities.                                      | Suggested Addition - ¶6.4  | Indian manufacturers have to comply with separate policies for export and import of goods by independent ministries and departments. This has an unfavourable effect on the Indian manufacturers.<br>Therefore, review of governing rules and policies for import and export of goods is recommended to ensure a level playing field for Indian manufacturers. |
| 9.  | Development of defence industry corridors.                                   | Suggested Addition - ¶14.1.4   | We recommend single window clearance mechanisms along with tax incentives to promote the proposed defence industry corridors.  |
| 10. | Leveraging existing defence testing infrastructure for private industry use. | ¶14.2<br>The draft policy provides for permitting private industry use of existing defence   | It should be clarified that commercial technology may also be tested by private industry on such existing testing infrastructure.  |

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|     |   | testing infrastructure.  |   |
| 11. | Leveraging existing defence testing infrastructure for private industry use.                                | Suggested Addition - ¶14.2.4   | <p>A transparent and common policy should be formulated for the use of testing facilities and laboratories of DPSUs, R&amp;D organisations and armed services on payment of stipulated fees.</p> <p>We recommend that private sector enterprises involved in the development of defence related products and innovative and commercial products with cutting edge technology be permitted to use these testing sites, with the objective of promoting innovation in private sector.</p> |
| 12. | Single window mechanism.  | Suggested Addition - ¶14.2.5   | We recommend the introduction of a web based application process for research and development organization, DPSUs and defence services as a single window mechanism to ensure allotment and use of testing facilities in an efficient and transparent manner.   |
| 13. | Promotion of mutually advantageous projects between the Ministry of Defence and Ministry of Civil Aviation. | <p>¶20.1.1</p> <p>The draft policy mandates promotion of “<i>mutually beneficial projects between military and civil aviation for expansion</i>” and indigenization.</p> | We recommend that the Ministry of Civil Aviation and the Ministry of Defence jointly set-up test sites and manufacturing clusters. In addition, a mechanism should be created for certification of military and civil aviation products. We also recommend creation of manufacturing clusters for the purpose of promoting domestic industries.   |
| 14. | Leveraging capabilities of  | Suggested Addition - ¶20.1.1   | The design and manufacturing capabilities of ADE  |

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|     | government agencies, private industries and academia.   |                             | (DRDO), NAL, HAL, private industries and academia should be leveraged for the purpose of producing unmanned aerial vehicles (UAV), UAV swarms, autonomous UAV and associated technologies to facilitate beyond visual line of sight (BVLOS) operations for military as well as civilian purposes. |
| 15. | Transparency and accountability in the payment mechanism.                                     | Suggested Addition - ¶22.13 | In order to bring transparency and accountability in the payment mechanism, we recommend implementation of a web-based system to upload documents and ensure timely payment   |
| 16. | Elimination of multiple submissions.  | Suggested Addition - ¶22.14 | We recommend that a mechanism that allows simultaneous uploading of all documents necessary for payment clearance on an online repository “ <i>for each case by all parties</i> ” be implemented in order to eliminate multiple submissions.  |
| 17. | Exemption to Indian companies for import of components with research and development end use. | Suggested Addition - ¶22.14 | Exemption to be provided to Indian companies with industrial licences for the import of components or sub-systems with the objective to facilitate their research and development initiatives.  |
| 18. | Liberalisation of licensing requirements.   | N/A                         | We recommend the liberalization of licensing requirements for defence industries. We suggest an independent mechanism for licensing system of items with commercial applications (dual use items). Alternately, terms and   |

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|     |  |     | conditions for issue of licenses for such dual use items may be reconsidered and rationalised.  |
| 19. | Rating and affiliation mechanism for small and medium enterprises. | N/A | <p>We recommend a rating and affiliation mechanism for small and medium enterprises, on the lines of the NAC rating, to identify enterprises that provide the best quality of products independent of the turnover of the enterprises.</p> <p>Such a mechanism will incentivize smaller enterprises to focus more on quality. In addition, it will facilitate healthy competition similar to the competitive market of vendors on e-commerce websites.</p> <p>Subsequently, minimum eligibility ratings may be laid down for procuring products for defence production from small and medium enterprises.</p> |
| 20. | Periodic Review Mechanism.   | N/A | A period review mechanism of the draft policy is recommended to ensure adaptability.  |