

Rupee At All Time Low: Private Defence Players Badly Need Exchange Rate Variation (ERV) Risk Cover in DPP 2013

New Delhi, 22 June, 2013: The private sector in defence has taken an unprecedented toll due to the depreciating rupee in the recent past and will have tough times ahead with the free fall of the rupee. With the DPP 2013 failing to address the critical survival issue before the private sector today of risk cover against Exchange Rate Variation (ERV), the companies are left to fend for themselves in the tough economic conditions. The new policy document while going extra-mile with focus on indigenisation and speedier procurements does not convert policy intent into action. Raising the concerns of the industry, Dr A. Didar Singh, Secretary General, FICCI has written a letter to the Defence Minister stating the total denial to recognize the realities faced by the defence industry on ERV and need for rationalization of taxes and duties for private sector in the revised policy by the MoD has left the industry sour especially after the highlights of DPP 2013 released on April 20, 2013 gave hope that MoD is cognizant of these concerns and would take up the case strongly with the Finance Ministry.

This effectively means that the private sector will continue to reel under the effects of a depreciating value of rupee and high cost of inflation losing on competitiveness vis a vis foreign OEMs especially with the DCF methodology favouring foreign OEMs given the currency stability in the western world. The fallacy of the DCF calculation method in evaluating L1 bidder will continue to hamper selection of Indian private sector companies in global programmes thus ultimately hampering indigenisation. The problem gets further aggravated due to major delays from MoD in concluding contract negotiations requiring the vendors to hold prices over long periods and at times running into years from start of General Staff evaluation, as also to place the contracts after the final price negotiations have been completed. In the absence of any automatic provision to submit a revised bid, the industry is expected to hold the price for prolonged periods.

DPP 2013 also fails to re-affirm the hon'ble Raksha Mantri's publicly shared intent of ending the practice of nomination of DPSU's for major defence programs and conferring a 'level playing field' to private sector w.r.t foreign OEMs as well as DPSU's. The obvious gaps in the Policy and the Procedures need to be plugged to create a vibrant Indian Defence Industrial base and DPP needs to be in sync with government's Defence Production Policy, the apex policy document aimed at enhancing indigenisation and self-reliance, creating a conducive environment for private sector and an eco-system to promote R&D and new product development in the country.

Further, by not addressing rationalisation of taxes and duties on offsets, the Indian defence sector will remain at sub-component level and not move up the value chain to

achieve System Integration capabilities. Harnessing offsets to achieve this capability is vital for developing multiple vendors with overall systems capability. Unless this is facilitated by the policy, mistakes of the past will not get corrected and our indigenisation targets will continue to be chased, with poor success.

In spite clear articulation by the MoD for Level Playing Field, MoD's retention of 'Nomination of DPSU's / OFB' in DPP 2013 is glaring in the face of strong thrust on indigenization and compromises MoD's stated intent to make private sector a key player in defence production.

On the positive side, DPP has articulated bold steps forward such as creating hierarchy for categorization with Buy (Indian) as the most preferred choice, Buy & Make (Indian) with provision of Buy from foreign OEM to meet the urgent need of defence forces and articulating Buy (Global) as the least preferred option have created a watershed in its evolution. FICCI also welcomes the indigenous value addition norms introduced in DPP 2013 applicable for Buy (Indian), Buy & Make (Indian) & offsets in manufacturing. This will bring in the required transparency & probity in an environment which was recently clouded with controversies. Going forward, similar treatment needs to be applied to services eligible for offset obligation to avoid misuse. Provision of 'Maintenance ToT' to be transferred to private sector is yet another welcome step that will not only lead to developing Defence Industrial base in India but also bring choice before armed forces for equipment life cycle needs.

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