

# Keynote Address at the National Seminar on Defence Acquisition

*A. K. Antony\**

Our defence forces require timely and cost effective acquisition of defence equipment to enable them to meet any challenge to the country's security. Especially all of you who represent the strategic community know very well that we are living in an era of challenges from many quarters. The emerging security scenario is very challenging. Nobody can say what will happen in some of our neighbouring areas. The situation is that critical. So India will have to be fully prepared, our armed forces will have to be fully prepared to meet any challenge from any quarter and they must be able to protect every inch of Indian territory. So, to do that we have to equip them continuously with the most modern equipments. Of course, we have to constantly try to safeguard their welfare, along with providing equipment and training. It is very important for keeping the morale of the armed forces up.

Defence equipments are technology intensive involving heavy investments. Moreover, the equipment remains in an inventory for a long time. Acquisition of defence equipment requires expertise in diverse fields from technical to administrative such as military, technology, industry, market research, contract management, project management, administration and policy making. Defence acquisition is, therefore, a time consuming and a cumbersome process especially in a vibrant democracy. There are some countries which can acquire equipment at the will and pressure of whoever is at the helm of affairs at a particular time, India cannot. India is a vibrant democracy, we have to be answerable to various constitutional bodies and also ultimately to the people of India. India has emerged as a large defence market. This is evidence for the fact that we have made a provision for approximately 8.5 billion US dollars for capital acquisition in our defence budget for the current financial year. Over the next 5-6 years the total budgetary provision is likely to reach 50 billion US dollars. Impressive as it may sound, the challenge it poses to the acquisition functionaries is equally enormous. If we are to effectively meet this challenge

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\* This is the text from the speech of Shri A. K. Antony, the Hon'ble Minister of Defence at the National Seminar on Defence Acquisition held on October 27, 2009 at the Institute of Defence Studies and Analyses, New Delhi.

we must adopt a holistic approach towards defence acquisition right from the planning to final disposal of the weapon system without compromising transparency, fairness and probity at any level.

We have set up the Integrated Defence Staff (IDS) to strengthen the planning process in acquisition. The mandate of the IDS is to formulate integrated perspective plans spread out over a period of time. These integrated plans are crucial for time bound and cost effective acquisition of weapons and platforms required by our armed forces. The various tasks of acquisition, production and research and development are supervised by different agencies such as defence acquisition council, defence procurement board, defence production board and defence production and development board. Defence procurement procedure is central to our acquisition process. Besides institutional mechanism, we have revised our capital procurement procedure from time to time. Earlier, the defence procurement procedure was revised every two years, we have now decided to do it on an annual basis with a view to keeping it abreast with the requirements of changing times and infuse the lessons learnt through our experience. We have tried to establish a rule-based procurement system in which each procurement case has to be processed through a set of pre-defined steps starting from the definition of systems requirement to post-contract management. These steps have been set out in great detail in successive DPPs including DPP2008. DPP2008 has been in vogue since last September. We have laid special emphasis on greater transparency and speed in defence acquisition in DPP2008. Abridged promulgation or request for proposal RFPs must now include broad details of the trial methodology to enable the vendors to understand the modalities by which their products will be evaluated at the outset. Besides, directions to vendors during the course of trials and the results/evaluations along with reasons for disqualification, if any, are to be communicated in writing and placed on record.

To expedite acquisition extension of submission of technical and commercial offers against RFP have now been limited to only 8 weeks. We have asked our personnel to revise the DPP annually and are ready to promulgate DPP2009 with effect from November 1, 2009. The current review is primarily focused on two essential areas of promoting and facilitating wide participation of defence industry and enabling transparency and integrity in all acquisitions. Under the current procedure in buy and make cases RFP is issued only to foreign vendors who are required to transfer technology to an Indian defence industry called production agency. This

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does not promote setting joint ventures or co-production arrangements in India by big foreign OEMs. In order to obviate the above shortcoming a new category buy and make Indian is being introduced which will allow issue of RFP for Indian industries having requisite financial and technical capabilities to absorb technology and undertake indigenous manufacture. The DPP from 1st November onwards will enable the Indian industry to march ahead in our endeavour for speedy indigenisation. The new procedure will be akin to the existing make procedure with a vital difference where the production and development by the Indian industry will be through transfer of technology and not through research and development. This is primarily aimed at encouraging proactive participation by the Indian industry who could establish production arrangements with any foreign manufacturer. The needs of the Services will be shared with capable Indian firms who in turn would submit a roadmap for development and production of a particular item over a time cycle.

In ensuring transparency and enhanced awareness in the Indian industry we will prepare a public version of the 15-years long term action plan of the armed forces. This will be placed on the MOD website and shared with industry associations to create requisite awareness among them. It should help Indian industry to work out the technological requirements and build in capabilities in order to meet the future defence requirements. I am sure that the industry will respond positively to this new proposal. In addition, we have made mandatory issue of request for information on the MOD website in all acquisition cases to enable participation of the industry in defence acquisition planning. We will, henceforth, invite representatives of the industry for consultation and presentation in high level procurement meetings before a decision is taken on the source and methodology for procurement of defence weapons and equipments.

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To enhance probity in defence procurements, we propose to enhance the role of independent monitors to scrutinize complaints with regard to violation of integrity pact, which is the binding agreement prohibiting corruption in defence deals. In order to facilitate discharge of offset obligations an enabling clause to permit change of offset partners in exceptional cases has also been incorporated. The offset provisions for the offset clause has been amplified to state that the offset will not be applicable in cases when the same was not included in the original contract. I am hopeful these changes will bring in greater degree of probity in the procedure and also encourage domestic defence industry to develop.

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Defence acquisition as I mentioned earlier is a complex process. Despite several institutional and procedural improvements the problems continue to occur. These are manifested in time and cost overruns of some of our important acquisition projects. This is not at all desirable and needs to be rectified. We need to undertake all the necessary reforms to further improve the acquisition system. We need a robust acquisition system to ensure where the defence procurement procedures are fully understood and adhered to in letter and spirit. At this point of time I wish to highlight a few priority areas of defence acquisition which should be discussed at this seminar. The first relates to capability definition and QR formulation. QR formulation is a real problem and services, even after preparation of QR, used to change it occasionally. That also is one of the reasons for the delay. Not only the procedure in the MOD or the Finance Ministry there is a tendency of changing QR occasionally also creates problems. We must find a solution to that also. You must do real homework before preparing the QRs, to avoid changing them

every now and then.

I have requested IDSA to go into details and come out with a proposal on two things – to avoid delay in issuing RFP after it is cleared by the DAC and to find a solution to this problem of changing QRs in the mid way. That means you have to start again from day one. If we can find a solution to both these things half of the delay can be avoided, the MOD, Finance Ministry and CCS will have to find a solution to the other half. We have to take both seriously. We must ensure that the QR formulation is done in a manner that fulfils the end user's basic requirements. At the same time it would also encourage the widest possible competition. It is only through competition that we can ensure the maximum value for our money. It is important to have broad based and realistic QRs that will lead to multi-vendor competition. When you are preparing QR, don't think of one country or one OEM in your mind. That will lead to lot of complications. QRs must lead to help the competition, QRs must lead to multi-vendor situations, you must try to avoid single vendor situation as far as possible. Then many of the problems can be solved. The second aspect relates to the technical and commercial aspects of evaluation. These changes often take the maximum time in completion of the acquisition cycle. We need to ensure that these vital stages are completed not only in a fair objective and transparent manner but within the stipulated timeframe.

Let me now touch upon the all important goal of self-reliance. No major power

in the world today can do without a strong defence industrial base. Given India's growing status and international profile, the need to develop a strong defence industrial base is stronger than ever before. Our acquisition system should work in such a way that our defence enterprises both in the public and private sector become truly world class. They must engage in a healthy competition and make India truly self-reliant in defence production. Presently we are importing about 70% of our defence equipment requirements from foreign countries. This heavy dependence on imports makes us vulnerable, vulnerable means really vulnerable. So, we have to try our best to reduce this dependency. We cannot and must not allow this to happen. To reverse the situation we have opened defence production to private sector and incorporating make procedure and offset policy in our DPP. We want industry to play a more substantial role in defence production. Under the make procedures, Indian companies can play a lead role in design and development of the total system. Defence Ministry has made a provision for bearing about 80% of development cost incurred by Indian companies in design and development of prototypes which were selected under make procedure. The offset policy is expected to bring in nearly 10 billion worth of offset by the end of the current plan period. The offset policy has been designed to help our domestic defence industry to cope with the complex job of defence production and partner with international defence companies. We need to ensure that the full advantage of the measures we have undertaken benefit our indigenous industry. This will not only provide us with a stronger defence production base but also economic benefits in terms of higher industrial production and more jobs for our youth.

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There are several other issues that need deliberations. These issues are logistics management, life cycle support, life cycle cost, project management, contract and post-contract management. We need to develop efficiencies in these crucial areas also. I am confident that today's deliberations will significantly contribute to our efforts by developing a more steady and efficient acquisition system. I urge all the participants to discuss all relevant issues in a free and frank manner to promote a better understanding and resolve problem areas. I wish the seminar all success and look forward to any suggestions that you may offer to bring about an improvement in the acquisition system. 