

Private Corporations in Defence Production Hollowing Out Strategic Autonomy

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With the National Democratic Alliance government pushing the entry of private corporations into the military sector, there are a number of ongoing tie-ups between Indian corporate oligarchs and foreign original equipment manufacturers. The former are saddled with huge debts and have a sullied record, while the latter are reluctant to part with their proprietary technologies. Concurrently, the public defence sector is being hollowed out and is shedding jobs. How do these developments advance India's strategic interests?

The National Democratic Alliance (NDA) government's "Make in India" policy appears to be unravelling even before it takes off, hurting India's military preparedness where it matters most. On 3 August 2017, the US-India Business Council (USIBC), which represents 400 firms in the United States (US), wrote to the Ministry of Defence seeking guarantees that US firms would be allowed to retain control over sensitive technology even as junior joint venture partners. The USIBC letter said that

[t]o allow foreign Original Equipment Manufacturers to provide the most advanced technologies the partnership arrangements between an India-owned "strategic partner" company and a foreign OEM needs to provide an opportunity for the foreign OEM to retain control over its proprietary technology.

They also opposed a clause in new rules that held foreign firms jointly responsible for the quality of platforms provided to the Indian military (Kalra and Miglani 2017). The same news report also refers to Lockheed Martin's (India) president, Pratyush Kumar, telling a conference organised by the Centre for Air Power Studies that Indian private firms lacked experience in the aerospace sector and most of them were starting from scratch. He pointed out that he could not find a single example worldwide of a private enterprise with limited experience building a plane under transfer of technology.

Lockheed Martin was considered a front runner in landing the lucrative contract for fighter jet production in India. The US original equipment manufacturer (OEM) behemoth entered into a tie-up

with Tata Advanced Systems for manufacturing F-16 Block 70 fighter jets as part of a strategic partnership for Make in India. When the F-16 was first offered, their sales pitch was that the entire Lockheed Martin plant would be transferred from Forth Worth, Texas, lock, stock and barrel. It was claimed that it "positions Indian industry at the centre of the most extensive fighter aircraft supply ecosystem in the world." They offered "to produce, operate and export F-16s Block 70 aircraft" from India (Pabby 2017a). They remained silent on proprietary control over technology. A few months later, they began to speak of India as a maintenance, repair and overhaul hub, and not a manufacturing hub (Shukla 2017). Now that it is clear from the USIBC letter that US firms are loath to part with their proprietary control over technology, the field would narrow down to Dassault and Saab Gripen. But, even here, there is no clarity as to whether these foreign OEMs would be willing to part with their proprietary technology. But, what is equally interesting is the lack of confidence exhibited by Lockheed Martin in partnering an Indian private enterprise in such ventures.

It appears that the lessons of successful public ventures were studiously ignored by successive governments, which instead dogmatically kept promoting the entry of private corporations into the military sector as was evident in the Rafale deal struck with French OEM Dassault by the NDA government. The Reliance Anil Dhirubhai Ambani Group, the only private contender, was preferred over Hindustan Aeronautics Ltd (HAL), the partner envisaged originally under the deal for 126 Rafale jets signed by the Manmohan Singh government. Eric Trapper, the CEO of Dassault, was reported as saying that his company signed up with the Anil Ambani Group because "we were told that HAL was fully booked. We talked to Reliance and they were very keen to create such capabilities in India. They

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have a track record and the financial capabilities as well” (Pubby 2017c).

Neither the issue of the “track record” of the Anil Ambani Group, nor whether HAL’s hands were actually too “full” to take up the joint manufacturing of Rafale jets were followed up on. The Anil Ambani Group, one must point out, is known for its non-performing assets totalling ₹1,250 billion; its group companies are unable to meet even their interest payments. If despite this Dassault found them suitable, one wonders if it is because they came recommended by the highest echelons of the Indian government.

Another OEM in contention, the Swedish company Saab Gripen, has tied up with the Adani Group, which too has no track record of any kind in the military sector, let alone the aerospace sector, and has the distinction of being number four on the list of the top 10 defaulting corporations with debts totalling ₹96,031 crore. Dassault and Saab Gripen presumably believe that their chances improve if they join hands with cronies of the current political dispensation. The question is: How do such tie-ups between Indian corporate oligarchs with huge debts and a sullied record, and foreign OEMs reluctant to part with proprietary technology, advance India’s interests?

Hand-holding Private Companies

The rot runs deep. Consider the July 2015 report of the Committee of Experts for Amendments to Defence Procurement Procedure (DPP) 2013, including Formulation of Policy Framework headed by Dhirendra Singh. It held that the private sector, foreign or Indian, will invest provided there are “assured orders” (Section 3.3.09 [i]). It also argued that Indian private entities, because they are new in this sector, need “handholding” by the collaborator as well as the Ministry of Defence (Section 3.3.09 [v]) and encouraged a tie-up between the strategic partner and the public sector (Defence Public Sector Undertakings [DPSUs]) because of “latter’s head start” (Section 3.3.09 [viii]). Elsewhere in the report, the committee returns to advocate allowing the Indian private sector to “utilise” government-owned facilities like DRDO labs, quality-testing

facilities under the Directorate General of Quality Assurance (DGQA), Ministry of Defence, and proof firing ranges, etc, on a “payment basis” (Section 6.2.03 [v]).

The Dhirendra Singh Committee, in a questionnaire meant for “Interaction with Expert Committee/Mod (DPP): DPP 2013 Review,” also posed, among other things, two questions that are worth noting in this connection: (i) “What are the views on corporatisation/privatisation of OFBs [Ordnance Factory Boards]? Can the infrastructure of OFBs be opened up for private industry?” and (ii) “DPSUs have over the years established extensive design, testing as system integration infrastructure, which are considered capital as well as time intensive. Can these be opened up for use by private industry in their initial endeavours?”

In a scenario where the government is pushing ahead with a policy which requires the public sector to “hand-hold” the private entities entering the military sector while foreign OEMs exhibit a reluctance to let go of their control over proprietary technology, how will such policies enhance the country’s strategic autonomy? What is required instead is to bring the publicly held military sector in line with successful public ventures such as the Space Commission. The government should enable the type of indigenisation the Indian Navy was able to effect when it successfully designed and built Godavari Class guided missile frigates, Vikram Class offshore patrol boats (the backbone of the Coast Guard) and is now building submarines, including, nuclear-powered ones.

Instead, on 16 August 2017, the union cabinet also approved a new mechanism to speed up “strategic disinvestment” in public assets, including Bharat Earth Movers Ltd (BEML), whereby a substantial portion of its stake would be sold along with the transfer of management control. In some cases, minority stakes would be sold. It also set up a Core Group of Secretaries empowered to take “policy decisions” on procedural issues and consider deviations necessary from time-to-time for “effective implementation.” The fact that a successful venture like BEML is on the chopping block only highlights the fact that the process of diminution of the public defence sector has picked up further

steam. With the BEML sale imminent, the sword hangs over other units because Indian rulers dogmatically cling to privatisation as a panacea for what ails the military sector and sell a dream of India as a major weapons exporter, as though there is value in becoming a merchant of war.

Moreover, in June 2016, the Indian government issued tenders for ammunition for howitzers to anti-aircraft guns, with bids being invited to supply the items for the next 10 years. A surprise clause made its way into this tender which says that the “bidder shall be free to enter into a Transfer of Technology agreement with a company that has been banned in [the] past or is currently under [a] ban for dealings with [the] Government of India as the Government does not envisage dealing directly with such a company.” In other words, companies banned from entering into agreements to supply weapons to India can now circumvent the ban by tying up with a private Indian company (Pubby 2017b). For instance, Israeli Weapons Industries, formerly a small weapons unit of the Israeli state-owned Israel Military Industries (IMI) was blacklisted in 2012 along with five other defence contractors and barred for 10 years from bidding for Indian defence contracts, for “bribing the former director of Ordnance Factories and other officers to win contracts” (Coren 2012). A probe was ordered into IMI in 2009. The CBI investigated this and this action was taken in 2012 on the basis of their findings.

Even as our military sector gets privatised, there has been recurring job-shedding in the publicly held defence entities. As a result, as of January 2017, ordnance factories had a total technical staff of 70,810, 41% less than the 1,20,000 sanctioned. Also, there was a 44% shortage of non-technical staff; 15,083 against a sanctioned strength of 22,524. Grade A officers are 40% short, with 1,808 against 2,981 sanctioned. As a result, an order for 3,00,000 pieces of Coats for Extreme Cold Conditions was taken away from Ordnance Clothing Factory (Avadi) and given to Bengaluru-based Gokuldas Exports due to manpower shortage (Kumar 2017)! This appears to be a deliberate

policy to disable the publicly held military sector piece-by-piece.

It is in the very nature of the military that marks it out from other economic activity. This is one sector where the private sector should play second fiddle to the public sector. Why? Because in the military sector the government is the main buyer, and sovereign states or corporations enjoying sovereign guarantee, its potential trade partners. If this sector is privatised, the government, as monopoly purchaser, will have to assure continued orders for the private sector so that it can profit from its investment and ensure a “reasonable” rate of return for its investors. Not only that, they can also influence, if not dictate, choices, orders and prices by using their control over the media to hype up security fears and propagate anxieties about the loss of jobs and

retrenchment to arm-twist governments to place orders. A heightened sense of insecurity and fear-mongering is conducive for generating profits for the private weapons industry. Not only orders, but costs itself can be jacked up. Besides, whereas the public sector is audited by the Comptroller and Auditor General (CAG) of India and accountable to Parliament, the rapidly expanding privatised military sector has no regulatory mechanism in place to ensure that public funds are not squandered or misappropriated.

It is against this background that one has to assess the changes being brought about at a rapid pace in the military sector. As the NDA-led government gets shrill about its “nationalist” credentials, the Indian public needs to become ever more vigilant about the hollowing out of our strategic autonomy and independent

foreign policy under this verbose and vacuous regime.

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