

# Arms Manufacturing

## Context for private sector participation in India

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## Context for private sector participation in India

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#### Summary

- The government's acquisition plan to meet requirements of special forces, internal security and defense and the emphasis on procurement from domestic sources makes arms manufacture a promising opportunity for industry
- Original Equipment Manufacturers will seek to partner with Indian companies to participate in these deals, some of which carry offset obligations
- From the perspective of willing private sector entrants however, some policy-related barriers to entry remain

#### Opportunity Outline

The Indian Ministry of Defence has floated global tenders for acquisition of arms. Key among these are listed below:

- Close-Quarter Battle Carbines (CQB) to be purchased for USD 1 bn (First issued 2008; Reissued 2010 and subsequently retracted). The original tender had a requirement of 43318 carbines, whereas the revised tender issued in Q4/CY10 had a revised requirement of 44618 units along with complements of ammunition, magazine, bayonet, sling, reflex sight, visible and invisible laser spot designator.
- The submission of responses for the same were earlier scheduled for Q1/CY12 but are now delayed to Q2/CY12. Submission of commercial bids closes May 16, 2011 whereas offsets submissions are due by August 16, 2011.
- The specifications which the Indian Army is looking at in the systems with a calibre of 5.56mm and a rate of fire of 600 rounds per minute.
- Indigenous manufacture, under Transfer of Technology arrangements, of a further 1,16,764 CQBs. 2,18,320 advanced carbines on the 5.56 model, valued at USD 500 mn are also to be manufactured by Ordnance Factory Board (Issued early-2008)
- In addition, 10,730 light-weight assault rifles (for Para-SF requirements) are

under procurement, in relation to the restructuring of the Parachute Regiment from the 10 existing battalions of Parachute Regiment, each with around 850 soldiers into seven Para-SF (Special Forces) and three Para-SF (airborne) units.

- Other procurement programmes that are underway include procurement of assault rifle of 7.62 x 51mm caliber that is capable of being carried under water in marine and water bodies, 12.7mm x 99mm/.50 HeavyMachine Gun.
- Early 2010 also saw a tender for 34,377 9x19 mm submachine guns (called 9mm Machine Carbine) for the Border Security Force to replace the 1A (Indian Sterling L2A1) and 2A1 (silenced Sterling Mark V). This contract has been awarded to Beretta.
- Platforms that may be presented by their OEMs for the competition include CRB SO, M110 ECP, Magpul Masada, SAR21M203, Galil 7.62 and Tavor 5.56. OEM Participants are expected to include FN Herstal, Beretta, IMI, IWI and Heckler & Koch and STK (currently under the OFB case investigation)
- India is also working intensively on its own submachine guns for the 5.56x30mm cartridge – MINSAS and ZITARA.
  - MINSAS, a scaled down INSAS rifle adapted for the shorter cartridge with a folding buttstock. The weapon has a barrel 330mm length with the overall length being 565/775 mm and weight of 2.8 kg.
  - Zittara, the Israeli IWI Tavor 2 multi-calibre weapon in bullpup design, adapted to 9x19, 5.56x30 and 5.56x45 mm ammunition. Zittara was intensively developed by the Defence Research and Development Organisation and called the MSMC (Modern Sub-Machine Carbine). The MSMC is gas operated submachine gun with a 300mm barrel and characteristic T-shape. The MSMC has a retractable buttstock and is fitted with a top mounted Picatinny rail. The weapon has an ambidextrous cocking handle, buttstock latch and fire selector.
- The Ordnance Factories Board is the officially nominated agency for Transfer of Technology.

#### **Policy: Outstanding Concerns**

- Government of India has in the past demonstrated some openness to private sector participation in arms manufacture. Since 2001, four firms in the private sector namely Max Aerospace [License Number 38 (2003)], Bharat Forge [License Number 44(2004)], L&T [License Number: 53 (2002)] and Punj Lloyd [License Number 35 (2007)] were issued licenses to manufacture arms and ammunition.

Most of these licenses have since lapsed as of date. Since 2010, Avadh Agencies (p) Ltd. has been the only fresh license applicant for arms and ammunition. Yet, there are significant hurdles in the way of realisation of an enhanced role for private players.

- There seems to be some confusion about the government policy on allowing private sector participation in the sector. This stems from security concerns vis-à-vis the manufacture of these systems as well as the competition which OFB may face should viable and sustained private sector participation take place. Currently the Issuance of fresh licenses to small scale sector units and enhancement in quota of existing firms are both disallowed.

Other concerns include :-

- Minimum capital requirements for FDI remain 26%, with the licensing authority required purely to ascertain adequacy of net worth of the foreign investor.
- The mandatory lock-in period for transfer of equity from one foreign investor to another has been set at 3 years. Eventual transfer is contingent on approval of the FIPB and the Government.
- Under the guidelines for licensing production of Arms and Ammunition, the Ministry of Defence is not required to offer a purchase guarantee for products but undertakes merely to provide information on planned acquisitions.

With Indian entities blocked from participating in a meaningful way, ill-equipped to generate the required quantum of investments and foreign investors constrained by lock-in and other requirements, the scope of private sector participation is left circumscribed.

The Ministry of Home Affairs has solicited industry opinion on taxation and other incentives that would aid indigenous capacity building in Small Arms manufacturing by the private sector in India.

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