Strategic partnership model

Why in news?

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The Defence Acquisition Council (DAC) approved the broad contours of the Strategic Partnership Model (SPM) in its meeting held on May 20, 2017 under the chairmanship of the Defence Minister.

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What is the partnership being about?

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- The policy is intended to **engage the Indian private sector in the manufacture of hi-tech defence equipment in India.**
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- It is an establishment of long-term strategic partnerships with qualified Indian industry majors through a transparent and competitive process.
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- The Indian industry partners would tie up with global OEMs (original equipment manufacturer) to seek technology transfers and manufacturing know-how to set up domestic manufacturing infrastructure and supply chain.
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What is action plan of SPM?

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- SPM will kick start the process by selecting strategic partners for four segments, namely, **fighter aircraft, submarines, armoured vehicles, and helicopters.**
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- In a separate process, MoD will also select the foreign Original Equipment Manufacturers (OEM) who could supply a particular platform required by MoD with transfer of the requisite scope, range and depth of technology for its manufacture in India.

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- The process of selecting the platform would have to follow the same procedure as laid down in the Defence Procurement Procedure, which, among other things, entails lengthy field trials.
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What are the problems with the model?

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- There are **procedural difficulties** with the make schemes in the defence sector.
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- Price discovery is an important component of the scheme, MoD needs to build up capabilities in costing and cost based challenges.
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- It is not clear whether it is these strategic partners who will tie up with the chosen OEMs and participate as prime vendors in the MoD tender.
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- The presumption underlying the SPM is that the OEMs will be happy to transfer technology to Indian companies or Joint Ventures (JVs) with Foreign Direct Investment (FDI) up to 49%.
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- But there is the sensitive **issue of Intellectual Property Rights (IPR),** which is one of the reasons why foreign OEMs are generally reluctant to transfer technologies.
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- It is doubtful if the adoption of SPM will lead to an acceleration of this process.
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- Binding a strategic partner through a long-term legal covenant and its subsequent upgrade, which may spread over several decades would be quite a challenge.
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- These problems have been faced even in the context of a few ‘Make’, which, incidentally, continue to be a work-in-progress.
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What is the way forward?

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- **Pervasive scrutiny** should ensure that no loose ends are left untied; at present the SPM looks like a closed-door club.
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- Unless the scheme provides an entry route for new companies and MSME, the scheme may not be in tune with the competition law that aims to prevent practices that have an adverse effect on competition.
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- There are several other issues which must be addressed before unveiling the scheme in its entirety. Some of these issues seem intractable from a distance.
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Source: IDSA

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