

POLICY AND REGULATORY UPDATES

A. POLICY ON CIVIL REMOTELY PILOTED AIRCRAFT SYSTEMS (DRONES)

The Directorate General of Civil Aviation (**DGCA**) published certain requirements which approve the use of Remotely Piloted Aircraft Systems (**RPAS**), commonly known as Drones. These requirements seek to legalise the use of Drones in India from December 1st, 2018 onwards subject to certain restrictions. As per the published requirements, drones have been classified into five categories - Micro, Nano, Small, Medium and Large, depending on their size. The DGCA has introduced the concept of a Unique Identification Number for Drones and an Unmanned Aircraft Operators Permit for all people intending to fly them. Such permits would serve to help the authorities in identifying the numerous drones as well as their permitted users to prevent any unauthorised use of the same. Any person seeking to import drones into India must obtain approval from the Department of Telecommunications as well as obtain clearance from the DGCA. On receipt of such clearance, the person will receive an import licence from the Directorate General of Foreign Trade (**DGFT**) based on which he may apply for a Unique Identification Number or Unmanned Aircraft Operators Permit, whichever applicable. All applications for the same are to be done via an online platform known as 'Digital Sky Platform'. This Drone Policy of India is in line with the policies of nearly all the other developed countries where drone use has been legalised. The use of drones for commercial purposes such as event photography, geo-mapping, agriculture and infrastructure projects etc. has been permitted on receipt of the requisite approvals. However, it has expressly prohibited the use of drones for delivery of food or supplies, though a committee is being established to legislate on this issue in the future.

B. SPARK

The Support for Prototype and Research Kickstart (**SPARK**) framework for Defence related projects was introduced by the Defence Innovation Organisation under the aegis of the Ministry of Defence in partnership with Atal Innovation Mission. This framework is aimed at supporting Startups/MSMEs/Innovators to create prototypes and/or commercialise products/solutions utilised for national defence and security. The framework will call for proposals to address the specific technological needs of the Indian Defence Establishment. Applicants showing capability, intent, and promise to be able to produce functional prototypes or to productize existing technologies will be awarded grants of up to Rs. 1.5 crores, strictly on a milestone basis and starting, in the form of grant/equity/debt/other relevant structures. The exact amount and mode of each grant shall be decided by a high-powered committee based on the prototype application. Applicants under SPARK will be encouraged to spend the grant money only on Research & Development, Prototyping, Pilot Implementation and Market Assessment.

C. DRAFT SOP FOR IMPORT AUTHORISATION

The Department of Defence Production (**DDP**) had issued a draft Standard Operating Procedure (**SOP**) in accordance with an order by the Directorate General of Foreign Trade (**DGFT**), for the issuance of import authorisation to Indian private companies by the Ministry of Defence for restricted defence items. Under this SOP, the DDP can grant, renew, refuse, suspend or cancel a license for import of such classes of goods or services or technologies as may be specified by the DGFT. The DDP can issue such import licenses for two categories of items; Firstly, items for the end use of the Indian Armed Forces, DRDO, DPSUs, OFB, and other Government Departments and states, and secondly, items for the purpose of export, repair, participation in tenders and/or exhibitions, testing & evaluation or any other use spelt out by the applicant. The SOP provides for the mode of application to obtain such licenses along with the various exemptions, relevant authorities, penalties etc. relating to such import licenses. This SOP is still in the draft stage and was open to comments from all stakeholders till September 20th, 2018. A final policy is expected to be issued shortly.

D. FRAMEWORK FOR IDEX PARTNERS

iDEX (Innovations for Defence Excellence) envisages to work with India's innovation entities like existing incubators, which would help in discovery and exploration of Startups and/or MSMEs that can perform the function of co-creation. iDEX would work with these incubators closely, not only tracking upcoming Startups and/or MSMEs and Innovators, but also investing in them via the Defence Innovation Fund. The framework lays down the eligibility criteria for becoming such an iDEX Partner Incubator (**iDEX-PI**). The applicant incubator should be registered in India as a legal public or private entity, should have received establishment or grant support from a government of India ministry and/or department in the past and should have prior experience of having partnered with academia and the research sector etc. A suitably empowered committee will look at all applications to select the appropriate iDEX-PIs. Funding would be granted to these iDEX-PIs for programs related to specific military platforms, components, or

requirements as decided in consultation with the iDEX (Defence Innovation Organization) team. If the proposed program is deemed worthwhile by the iDEX team, it will disburse funding of up to 40 lakhs depending on the activity.

DEFENCE TRENDS

A. INDIA – UNITED STATES '2+2' DIALOGUE

India and United States (U.S.) have taken another step forward to forge a strong partnership by signing a military-information sharing pact known as Communications Compatibility and Security Agreement (**Comcasa**). Comcasa will give India access to advanced new defence systems like armed drones and will enable the armed forces to exploit existing U.S.-origin platforms much more efficiently. This, amongst other benefits, will boost India's surveillance capabilities to. and will pave the way for fitting special communications systems on Indian platforms that will enable them to interact with the U.S. military and transfer information in real time relating to any terrorist or hostile movements in a third country. India and the U.S. also agreed to open a hotline between their foreign heads that will serve to bolster bilateral ties between the two countries. Further, the two nations have agreed to hold joint exercises involving the air force, navy and the army off the eastern Indian coast in 2019.

B. RAFALE DEAL

Claims and counterclaims are flying thick and fast over India's deal to buy 36 Rafale fighter aircrafts as the Congress-led opposition is relentlessly raising questions over the financial terms of the agreement and alleging that the BJP-led National Democratic Alliance (NDA) government ended up paying a lot more for the French manufactured jets than the price which was being negotiated by its predecessor, and that Anil Ambani's Reliance Defence will be a key financial beneficiary at the expense of the state-owned Hindustan Aeronautics Limited (HAL).

This month, the Supreme Court adjourned hearing a plea seeking a stay on the Rafale fighter jet deal between India and France till October 10th. In the interim, Dassault Aviation released a statement clarifying its position on how the transaction was a Government to Government agreement and that Dassault itself had decided to partner with the Reliance Group.

C. INDIA-CZECH REPUBLIC RELATIONS

India's President Ram Nath Kovind invited Czech defence companies to take advantage of the opening of the defence manufacturing sector in India and set-up joint ventures to produce for the country and for rest of the world. The President held talks with his Czech counterpart Milos Zeman to discuss the immense potential for India-Czech defence collaboration to meet the growing requirements of the Indian defence industry and the two leaders also took stock of the ongoing defence co-operation between the two countries. Czech major Skoda Auto and its parent company Volkswagen have announced plans to invest USD 1 (**one**) billion in India under the 'Make in India' initiative. An India-Czech Joint Economic Commission meeting is to be held next month at the Ministerial level that will deliberate in detail and take steps to enhance trade and investment cooperation and diversify the partnership into new areas.

NEW DEALS

- A. Days ahead of the India-U.S. '2+2' dialogue in New Delhi, India cleared the procurement of 24 Sikorsky MH-60 Romeo maritime helicopters, which is expected to be worth about USD 1.8 billion and will fill a critical gap in the Indian Navy. The Defence Acquisition Council (DAC) chaired by Defence Minister, Nirmala Sitharaman approved major projects worth about Rs 46,000 crore, including 24 anti-submarine capable Naval Multi Role Helicopters (NMRH). It has also approved 111 Naval Utility helicopters and 150 Advanced Towed Artillery Gun Systems (ATAGS) for the army. These guns, which the ministry terms "the mainstay of artillery in the near future" are being procured under the "Make – Indigenously Designed, Developed and Manufactured (IDDM)" category. The Defence Research and Development Organization (DRDO) has overseen their development and two private firms will build the guns in parallel -- the Kalyani Group and Tata Power (Strategic Engineering Division).
- B. The DAC approved procurement of two Regiments of Akash Missile Systems under 'Buy (Indian)' category from M/s Bharat Dynamics Ltd. The Missile to be procured is an upgraded version of the previously inducted Akash missiles and will include seeker technology, possess 360 degree coverage and will be of compact configuration with reduced signature. The DAC also accorded approval for progressing Design and Development of Individual Under Water Breathing Apparatus (IUWBA) for T 90 Tanks. Developed by DRDO Lab DEBEL, the IUWBA is used by the crew of Tanks as a safety gear and is required by the Tank crew for emergency escape when

negotiating water obstacles while deep fording. The DAC also accorded approval for Design and Development of Test Equipment for Guided Weapons System of T 90 Tank.

- C. On September 19th, the Ministry of Defence issued a Request for Information (RFI) for twin engine heavy helicopters. The Indian Coast Guard intends to procure 14 such twin engine heavy helicopters for maritime surveillance, interdiction, search & rescue and other operations.

ELP COMMENTS

- a. With the Indian elections around the corner, regulators, investors and industry are adopting a more cautionary approach. Whilst policies/framework/SOP's such as SPARK, iDEX, Import Authorisation are being issued, on-the-ground implementation of physical projects seems to have slowed down. Many of the critical policies such as Defence Production Policy, Amendment to Offset Policy which were in the draft stage are yet to notified. Most of these deals approved in the DAC are still in the Acceptance of Necessity (AON) stage and will take years before they actually hit the ground running. Given this scenario, will the defence sector get the much-needed fillip it was hoping for? Unfortunately, for now, it seems to be just a waiting game.
- b. Parallely, India has joined the league of many nations which have adopted a formal policy for drones. While Indian Policy is yet in the nascent stage with most of the mass commercial applications still restricted, it's a start which is worthy of appreciation. Various policy aspects such as privacy protection, application expansion, insurance coverage etc are yet to be deliberated and formulated, yet this policy paves the way for simpler applications such as event photography, site inspection and monitoring, geo-mapping, agricultural activities (except spraying pesticides) etc. A clarity has been given in terms of the approvals required and process to be adopted which we see as a welcome move.

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