



## India's New SOP for Arms Export

India has finalised a new system to speed up sale of military equipment to friendly countries like Bangladesh, Vietnam, Sri Lanka, Afghanistan, Myanmar and others through **defence lines of credit (LoC)**.

### Features of SOP

- At present, SOP is being operationalised for **defence PSUs** and the **Ordnance Factory Board**. It will be extended for private sector companies producing defence equipment after its working stabilises.
- It is akin to the much-touted **foreign military sales (FMS)** programme of the US. India has bought most of its weapon systems from the US, like the C-17 Globemaster-III strategic airlifters, C-130J "Super Hercules" planes and M-777 ultralight howitzers, through its **FMS programme**.
  - FMS route is much swifter and cleaner than the cumbersome global tender process, which takes several years and is often derailed by allegations of corruption.
- The SOP will be extended to both fresh as well as unutilised defence LoCs.
  - India has extended defence LoCs to Vietnam and Bangladesh but their actual execution has been quite patchy.
  - **Major hurdle:** in the implementation of defence LOCs has been the long-winded complex process of "**price discovery**" of the defence products identified by the friendly countries.

### Advantages

- The new standard operating procedure (SOP) will substantially enhance the pace of utilisation of the defence LoCs extended to friendly countries.
  - This will prevent third parties like China from undercutting India in countries like Bangladesh, Sri Lanka and Myanmar in terms of weapon supplies
- The Indian defence companies will now "**directly quote**" the prices of the identified products at the rate they were sold to the Indian armed forces, with built-in escalation and exchange costs.
  - Earlier, the process would get bogged down in bottle-necks. The overall aim of the new SOP is to shorten the negotiations and price discovery process.

### India's Defence Manufacturing Capabilities

- India still does not have a robust defence production sector, it does have some weapons systems like the BrahMos supersonic cruise missiles, produced in collaboration with Russia, and indigenous ones like the Akash surface-to-air missile systems, Tejas light combat aircraft and Dhruv advanced light helicopters, which can be successfully exported to other countries.
- China has emerged as the world's fifth largest arms exporter after the US, Russia, France and Germany — by a determined focus on indigenous defence production and reverse-engineering of advanced military technology.
  - China's biggest arms clients are Pakistan, Bangladesh and Algeria, with Beijing even

supplying submarines and corvettes to Dhaka.

### **A Line of Credit (LOC)**

It is an arrangement between a financial institution—usually a bank—and a customer that establishes the maximum loan amount the customer can borrow. The borrower can access funds from the line of credit at any time as long as they do not exceed the maximum amount (or credit limit) set in the agreement and meet any other requirements such as making timely minimum payments.

### **Foreign Military Sales (FMS)**

- The U.S. Department of Defense's **Foreign Military Sales (FMS)** program facilitates sales of U.S. arms, defense equipment, defense services, and military training to foreign governments.
  - The purchaser does not deal directly with the defense contractor, instead, the **Defense Security Cooperation Agency** serves as an intermediary, usually handling procurement, logistics and delivery and often providing product support, training, and infrastructure construction (such as hangars, runways, utilities, etc.).
  - The Defense Contract Management Agency often accepts FMS equipment on behalf of the US government.
  - FMS is based on countries being authorized to participate in the mechanism to procure services, and a deposit in a US Trust Fund or appropriate credit and approval to fund services.

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