Coronavirus package | Government throws open defence production

Part of: GS-III- Economy (PT-MAINS-PERSONALITY TEST)

Fourth tranche of stimulus focuses on reforms across industry, aviation and space.

Steps to **indigenise defence production** by banning the import of some weapons and platforms while hiking foreign direct investment into the sector were among the highlights of the fourth tranche of the **Aatmanirbhar Bharat Abhiyan package**, which seemed to focus more on industry reforms than any sort of economic stimulus.

Union Finance Minister also announced measures to **introduce commercial mining in the coal sector**, liberalise the mineral sector, ease airspace restrictions and encourage private involvement in space and atomic energy projects.

**Boost for growth**

- “Many sectors need policy simplification.
- Once we decongest sectors, we can also provide the necessary boost for growth and employment, noting that structural reforms were the focus of announcements.
- “These sectors with these reforms are going to be the new horizon for growth and, therefore, we see great potential in more investments which can be drawn with the reforms.
- More production can be clearly marked, and certainly it will lead to a lot more employment possibilities,” The measures to boost private participation had to go beyond mere intent.
- In a bid to enhance self-reliance in defence production, the Centre would notify a list of weapons and platforms that could not be imported, and widen it every year as domestic capacities grew.
- A **separate budget provision for domestic capital procurement** would help reduce the defence import bill, she said, adding that indigenisation of imported spare parts would also be given priority.
- The FDI limit in defence manufacturing under automatic route will be raised from **49% to 74%**.
- In another major policy change, the Minister announced that **Ordnance Factory Boards would be corporatised** and eventually listed on the stock market to improve autonomy, efficiency and accountability, emphasising, however, that they would not be privatised.

**Criticism**

- “This was less of a stimulus and more of industrial reforms, which could have been announced at any time.
- They have used this crisis time to utilise the ordinance route or other ways to fast-track industrial reforms, which would have faced resistance otherwise,” said Ernst and Young’s chief policy adviser **D.K. Srivastava**, who is also a member of the Advisory Council to the 15th Finance Commission.
- “The sectors covered are of strategic importance but these policies will be rolled out over a 3-6 month period, and any implication for supporting or reviving the economy as it
comes out of lockdown is missing,” he said.

- Mr. Srivastava noted that the **only direct budgetary cost in this tranche was the ₹8,100 crore to be provided as a hiked 30% viability gap funding to boost private investment in social sector infrastructure.**

Imp Points

- **The government monopoly on coal would be removed** with the introduction of commercial mining, allowing any private player to bid for a coal block and sell it in the open market.
- Earlier, **only captive consumers with end-use ownership could bid for coal blocks.** Almost 50 blocks will be offered immediately, with no eligibility conditions for bidding, apart from upfront payment with a ceiling.
- **A revenue sharing mechanism instead of the earlier fixed price per tonne will introduce competition, transparency and private sector participation in the market,** she said, adding that the private sector would also be allowed to participate in exploration.
- **Coal gasification will be incentivised through rebate in revenue share.** Infrastructure development worth ₹50,000 crore was promised.
- The Centre also plans to introduce a seamless, **composite exploration-cum-mining-cum-production regime for the mineral sector,** with 500 mining blocks to be offered through an open and transparent auction process, including a joint auction of bauxite and coal blocks to enhance the competitiveness of the aluminium industry.
- **The distinction between captive and non-captive mines will be removed** to allow transfer of mining leases and sale of surplus unused mineral blocks.
- Power distribution companies in union territories will be privatised.
- With regard to civil aviation, **six more airports are up for auction on private public partnership mode,** while additional private investment will be invited at 12 airports in a move expected to net ₹13,000 crore for the Airports Authority of India.
- **Steps will be taken to ease restrictions on Indian airspace, of which only 60% is currently available.** This will save flying time and aviation fuel, leading to a ₹1,000 crore per year benefit for the sector.
- **The tax regime is being rationalised to help make India a global hub for aircraft maintenance, report and overhaul.**
- Gov promised to create a level playing field for private players in the space sector, allowing them to use ISRO facilities and participate in future projects on space travel and planetary exploration.
- Public-private partnerships will also be introduced in the atomic energy sector, to set up a research reactor for production of medical isotopes and irradiation facilities for food preservation.