

Prefer co-production to localisation: Industry on India-EU defence pact

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The Indian defence industry expects the recently-signed defence pact with the European Union (EU) to mark a structural shift in India's role — from a buyer or low-end supplier to a long-term industrial partner integrated into European defence supply chains.

This transition, however, will depend on swift follow-through on India's entry into key enabling agreements and mechanisms that underpin the EU's security cooperation and capability development.

Nonetheless, there is a sense of optimism that this week's signing of the India-EU Security and Defence Partnership (SDP) — described as “first-of-its-kind” and “overarching” in the joint statement — will open new pathways for Indian firms towards co-development, co-production and sustained participation in European defence programmes, rather than limiting engagement to transactional contracts or localisation of foreign platforms.

The signing of the SDP coincided with the successful conclusion of negotiations on the India-EU Free Trade Agreement (FTA).

European defence majors already maintain manufacturing bases in India and have expanded their partnerships with Indian industry, primarily for the localisation of their products.

A key example is Tata Advanced Systems' (TASL's) milestone in October 2024, when it established India's first private-sector military aircraft manufacturing facility — the final assembly line for the Airbus C295 transport aircraft for the Indian Air Force.

TASL is also setting up a production facility in Hyderabad, Telangana, to manufacture fuselages for the Rafale combat aircraft — for both domestic and global markets — under a partnership with France's Dassault Aviation. In January, the Ministry of Defence's Defence Procurement Board also accorded its recommendation to a proposal to acquire 114



The way ahead

- European defence majors already localising manufacturing
- Concluding a Security of Information Agreement will be a key enabler
- New defence industry forum must offer visibility into European defence programmes
- Early pilot programmes could help build trust on both sides

additional Rafale jets.

However, experts and industry insiders said that the shift the SDP could usher in would be deeper and genuinely two-way integration.

EY India partner and National Aerospace and Defence Leader Pawan Khatter said the framework would boost the “Make in India, For the World” initiative aimed at turning the country into a global manufacturing hub.

He also noted that the SDP framework covers cooperation in capacity building, which will enhance partnerships through increased joint ventures, co-development and co-production in India by leveraging EU technology and Indian industrial ecosystems.

Raghu Vamsi Aerospace Group founder and managing director Vamsi Vikas Ganesula said the SDP would provide Indian manufacturers with a route into European defence supply chains that are sustainment-driven, long-term and stable. “The India-EU defence treaty acknowledges India's status as an indus-

trial partner, rather than solely a customer,” he added.

There are still some details to be worked through, with negotiations launched on a “Security of Information Agreement”. Since at least March 2025, both sides have also been engaged in discussions on the modalities of Indian participation in the EU's Permanent Structured Cooperation (PESCO) framework. Stating that cooperation is intended to commence with immediate effect in terms of dialogue, exploratory engagement and project scoping, Khatter said, “Deeper integration — such as India's association with specific PESCO projects on a case-by-case basis — and the conclusion of enabling instruments like a Security of Information Agreement are likely to unfold in the near term over the next 1–2-year timeframe.”

Ganesula said that participation in PESCO would determine whether Indian firms are considered for meaningful roles in European defence programmes, while a Security of Information Agreement would enable technical and programme data to be shared with confidence.

“They will enable Indian manufacturers to move beyond build-to-print work into build-to-specification, integration, and sustainment roles,” he added.

With one key highlight being the establishment of a new industry-led forum to facilitate tie-ups between the Indian and European private sectors, Ganesula said in the short term, the forum should focus on small, executable outcomes rather than broad cooperation frameworks. “One immediate goal should be to identify a limited set of European defence programmes or subsystems where Indian private companies can participate within the next 12–24 months,” he added.

Cautioning that, from an industry standpoint, the forum would only be effective if it provides practical visibility into European defence programmes for Indian private manufacturers, especially Tier-II and III companies, Ganesula said, “The forum should close this gap.”

He added that another key objective should be to standardise engagement expectations early, including certification pathways, audit requirements, data-sharing protocols and commercial structures. “Success will be measured by whether factories receive repeat orders...,” he added.

The industry expects that, if all goes to plan, the ultimate deliverable will be the joint design and development of cutting-edge defence applications.

Stating that defence collaboration between the EU and India offers an opportunity to generate long-term value, Sagar Defence Engineering founder Captain Nikunj Parashar (Retd) highlighted shared design responsibility, collaborative intellectual property development, and the ability of partners to independently produce and develop systems over time as the key elements of true co-production.

“A new stage of defence industry collaboration has begun with the India-EU FTA and the Defence Industry Forum,” he added.

Explaining what distinguishes true co-production from mere localisation, Ganesula said it would involve Indian companies being treated as programme stakeholders rather than simple capacity extensions. “That shift—from task execution to outcome ownership—is what differentiates co-production from localisation.”

Going forward, early pilot programmes, even at a modest scale, could help build trust on both sides and set the right tone for deeper defence cooperation ahead. While there is currently no estimate of the scale of investments that could flow from either side, it is worth noting that the European Commission's “ReArm Europe Plan/Readiness 2030”, presented in March 2025, proposes to leverage over 800 billion euros in defence spending before the end of the decade. Meanwhile, India aims to double domestic defence production to ₹3 trillion by FY29 and significantly expand the private sector's contribution.