

Aerospace & Defence News



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Key Highlights

Regulatory Challenges -
Defence Offset

News Update

\$150 bn opportunity in defence
system requirements: DRDO

India will see more US
investment if defence FDI cap
raised: Boeing

Defence ministry initiates
blacklisting process against
AgustaWestland

BAE system offers to
modernise ordnance

Saab, Kalyani group tie up for
air defence systems

Tatas expect 40% rise in
revenue from defence sector

Embraer clinches \$2.9 bln
India deal with Air Costa

New aviation regulator gets
nod

Russia's Rosoboronexport
wants to team up with India
for military ware, technology



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REGULATORY CHALLENGES -DEFENCE OFFSET

The Indian defence market presents an attractive opportunity for Indian as well as foreign enterprises. In terms of the Defence Procurement Policy, 2013 (“DPP”), the offset clause would be applicable for all procurement proposals where indicative cost is Rs. 300 Crore or more and the procurement schemes are categorized as ‘Buy (Global)’ [involving outright purchase from foreign / Indian vendors], and ‘Buy and Make with Transfer of Technology’ [Purchase from foreign vendor followed by Licensed Production]. DPP contemplates discharge of offset can be achieved through manufacture of eligible products and services. Here, ‘services’ mean maintenance, overhaul, up-gradation, life extension, engineering, design, testing of eligible products and related software or quality assurance services with reference to eligible products. However, it excludes civil infrastructure related work.

Given the massive acquisition programmes India has embarked upon, the DPP presents an excellent opportunity for the foreign and Indian companies. DPP requires foreign Original Equipment Manufacturers (“OEMs”) to collaborate with an Indian partner to plan co-production arrangements, sourcing of products/materials, joint ventures, technical collaborations, etc.

1. Discharge of Defence Offset Obligation

The Defence Offset Obligations (“DOO”) can be discharged by *inter alia* in the following manner:

- (i) *Direct purchase of, or executing export orders for, eligible products and components manufactured by, or services provided by, the Indian Offset Partner (IOP).*
- (ii) *Direct foreign investment in Indian industries for industrial infrastructure for services, co-development, joint ventures and co-production of eligible products and components.*
- (iii) *Direct foreign investment in Indian organisations engaged in R & D as certified by Defence Offset Facilitation Agency (DOFA).*

It is clarified in the DPP that for ‘Buy (Global)’ category procurements, if an Indian firm (which is a joint venture between an Indian company and its foreign partner) is bidding for the proposal and is offering an indigenously developed product, then for such a case offset would not be applicable provided that the indigenous content in the product is more than 50 per cent.

2. Challenges

There exist certain challenges in implementing the offset policy by concerned parties.

- It is important to note that the term ‘Indian industry’ is not defined under the DPP policy, however, it seems that the MoD has internally taken a stand that companies with FDI exceeding 26%, whether in the manufacturing or services sector, do not qualify as a valid Indian offset partner. This stand is contrary to the provisions of the DPP which stipulates that the Indian offset partner should comply with the licensing regulations and FDI policy. There is no licensing requirement for the services sector. Further, in terms of the FDI

policy, there can be 100% FDI under the automatic route in a company which is engaged in the service sector.

The FDI Policy states that the FDI in manufacturing for the defence industry is subject to 26% cap under the government route. However, the term 'defence industry' or 'defence equipment' is not defined under the FDI Policy. Absence of such definition leads to ambiguity especially in case where dual use technology is involved.

3. Shortfalls

- The cap of 26% has deterred the inflow of FDI. OEMs are not keen to invest and share critical technology in a joint venture where they have only 26% stake with no significant control over their intellectual property, strict capacity and product constraints, no purchase guarantees, no open access to other markets (including exports) and a perceived unfair advantage to the public sector.
- The DPP stipulates that an Indian defence company has to be owned and controlled by resident Indian citizens or companies. For this, at least 51% of the equity should be held by the largest Indian shareholder in such company. In case of multiple Indian shareholders, they have to enter into a legally binding agreement to act as a single unit in managing the matters of a joint venture company. This is a significant concern for a widely-held public limited company whose shareholding is liberally dispersed and changes frequently.
- There is no cap on the time taken by the Foreign Investment Promotion Board (FIPB) to convey its decision to the foreign investor. In the past, it has taken four to six months to convey its decision. Combined with the time taken for an Industrial license, the total time before the start-up can extend between 10 to 12 months.



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\$150 BN OPPORUNITY IN DEFENCE SYSTEM REQUIREMENTS: DRDO

The defence system requirements for the country is opening up an opportunity of \$150 billion for the industry in the next five years, said A Sivathanu Pillai, chief controller (R&D), Defence Research and Development Organisation (DRDO) and CEO & managing director of BrahMos Aerospace Pvt Ltd. Out of this, over \$100 billion opportunity is for the Indian companies.

“The business opportunity for the defence system for the next five years is of \$150 billion. The items in which the opportunity emerges include the combat aircraft, land-based systems such as artillery and infantry and sea-based systems,” said Pillai, while addressing the 5th edition of Tamil Nadu Manufacturing Summit, organised by Confederation of Indian Industry (CII).

http://www.business-standard.com/article/economy-policy/150-bn-opporunity-in-defence-system-requirements-drdo-114021400791_1.html

INDIA WILL SEE MORE US INVESTMENT IF DEFENCE FDI CAP RAISED: BOEING

India will see more investments from American companies once it decides to raise the foreign direct investment (FDI) level in the defence sector from 26 to 49 per cent, a top Boeing executive has said.

"49 per cent will see more investment from US companies," Lt Gen Jeff Kohler, Boeing's vice president of international business development in defence, Space & Security, said at the Singapore Airshow.

Kohler made the comments on aviation industry-wide speculation about the government increasing FDI in defence sector to 49 per cent from the current 26 per cent, with some expecting an announcement in the near future.

<http://businesstoday.intoday.in/story/us-investment-india-defence-sector-if-fdi-cap-49-pc-boeing/1/203348.html>

DEFENCE MINISTRY INITIATES BLACKLISTING PROCESS AGAINST AGUSTAWESTLAND

The defence ministry has kicked off the process for blacklisting AgustaWestland, the UK-based subsidiary of Italian conglomerate Finmeccanica, after cancelling its contract for 12 VVIP helicopters on January 1.

"The (blacklisting) proposal is now being vetted by the ministry's legal team. We will then seek the opinion of both the law ministry and the CBI before taking the formal step," a top official told TOI.



<http://economictimes.indiatimes.com/news/politics-and-nation/defence-ministry-initiates-blacklisting-process-against-agustawestland/articleshow/30203294.cms>

BAE SYSTEM OFFERS TO MODERNISE ORDNANCE

British defence and aerospace giant, BAE Systems, has offered assistance in modernising the countrywide network of 41 factories in which the Ordnance Factory Board (OFB) manufactures weaponry, ammunition and equipment for the defence forces. The OFB is owned by the ministry of defence (MoD).

In 2011-12, OFB factories produced Rs 12,391 crore worth of equipment for the military, with an import content of just 9.82%. Yet, with the oldest of them dating back to 1801, and 8 factories over a hundred years old, an opportunity has been sensed by BAE Systems, which has spearheaded the modernisation and transformation of the UK's Royal Ordnance Factories since 1987.

http://www.business-standard.com/article/opinion/bae-systems-offers-to-help-modernise-defence-ordnance-factories-114021000503_1.html

SAAB, KALYANI GROUP TIE UP FOR AIR DEFENCE SYSTEMS

Defence and security company Saab and the Kalyani Group, a Indian MNC working in high-technology areas, have entered into an alliance to address short range missile and air defence requirements of the army, it was announced Monday.

A Saab release said that the agreement was signed by the company's CEO and president Hakan Buskhe and Kalyani Group chairman Baba Kalyani during the Defexpo exhibition last week.

"The teaming combines Saab's many decades as a leading developer and supplier of proven high-technology radar and missile systems, with the rich engineering and manufacturing capabilities of Kalyani," the release said.

http://www.business-standard.com/article/news-ians/saab-kalyani-group-tie-up-for-air-defence-systems-114021001327_1.html

TATAS EXPECT 40% RISE IN REVENUE FROM DEFENCE SECTOR

The Tata Group expects revenue from the defence sector to grow 40 per cent this financial year, boosted by new orders, senior officials said.

The Group's revenue from the sector, known for its minuscule participation by Indian private companies, is expected to rise to Rs 2,400 crore in FY14, said Tata Sons' group executive council member Mukund Rajan here on Wednesday. In FY13, group firms earned revenue of Rs 1,700 crore from the defence sector.

Rajan said 14 companies of the group were engaged in defence-related businesses. "It is a booming business. We have an order book size of Rs 8,000 crore. Many of these would be completed between the next one year to four years," he added.

http://www.business-standard.com/article/companies/tatas-see-defence-revenues-go-up-by-40-in-fy14-114012900891_1.html



EMBRAER CLINCHES \$2.9 BLN INDIA DEAL WITH AIR COSTA

Embraer SA(EMBR3.SA), the world's largest maker of regional aircraft, clinched its first major Indian deal for 50 jets valued at \$2.94 billion from start-up Indian domestic carrier Air Costa.

Air Costa will become the first customer of the E-Jet E2s, the upgraded re-engined variants of the company's aircraft, in India when it receives its first aircraft in 2018, company officials told a media briefing at the Singapore Airshow on Thursday.

It will be the first airline to order and operate a large number of regional jets in India, a market which has seen substantial losses in recent years due to over-capacity and intense price wars among its carriers.

<http://in.reuters.com/article/2014/02/13/airshow-singapore-embraer-idINDEEA1C04X20140213>

NEW AVIATION REGULATOR GETS NOD

The DGCA would be replaced with a financially independent Civil Aviation Authority

In what might help India regain its higher safety ranking from the US' Federal Aviation Administration (FAA), the Union cabinet on Wednesday approved amendments to the Bill for replacing the Directorate General of Civil Aviation (DGCA) with a financially autonomous Civil Aviation Authority (CAA).

A senior official in the ministry said on Thursday, "The standing committee (of Parliament) on transport had recommended certain amendments to the CAA Bill. Some of these were approved by the cabinet yesterday. The Bill would now be tabled in Parliament. The CAA would be financially independent and, to a large extent, help address the issues raised about India's safety oversight mechanism by the FAA."

http://www.business-standard.com/article/economy-policy/new-aviation-regulator-gets-nod-114021301465_1.html

RUSSIA'S ROSOBORONEXPORT WANTS TO TEAM UP WITH INDIA FOR MILITARY WARE, TECHNOLOGY

Rosoboronexport is looking to expand cooperation with India and is focussing on joint production with the country, the Russian firm said Friday.

"Expanding joint development and production efforts on weaponry and military equipment and transfer of technology will be among the key topics during the talks between Rosoboronexport and Indian partners," said Ivan Goncharenko, first deputy general director of Rosoboronexport, who led the company's delegation at the DefExpo.

"This is India's biggest arms exhibition and therefore Russia is present on a large scale. Clearly, we're planning to promote a large number of army and naval equipment, air defense systems and aircraft models at the expo."

According to another senior official, Russia exported \$4.78 billion worth of arms and military equipment to India last year.



<http://www.financialexpress.com/news/russia-s-rosoboronexport-wants-to-team-up-with-india-for-military-ware-technology/1224517>

AVIATION MINISTRY TO SEEK TAX RELIEF FOR MROS

The aviation ministry will seek some exemptions on the service tax for the aircraft maintenance, repair and overhaul (MRO) industry from the finance ministry on Friday, as it tries to make the nascent industry lucrative in India.

Aviation secretary Ashok Lavasa is scheduled to meet finance secretary Sumit Bose to discuss the issue of a possible relaxation on service tax levied on the MRO industry.

http://articles.economictimes.indiatimes.com/2014-02-07/news/47126394_1_mro-services-service-tax-finance-ministry

INDIA CASHES IN \$38 MILLION IN GUARANTEES FOR AGUSTAWESTLAND DEAL

India has cashed in two bank guarantees worth 2.4 billion rupees backing a scrapped helicopter deal with AgustaWestland, a unit of Italy's state-owned Finmeccanica (SIFI.MI), a defence ministry statement said on Wednesday.

The government cancelled the deal for 12 high-end choppers last month. It had already frozen payments for the contract in February 2013, after Finmeccanica's then chairman Giuseppe Orsi was arrested for allegedly paying bribes to middlemen to secure the deal.

<http://in.reuters.com/article/2014/02/05/india-helicopters-agustawestland-idINDEEA140BC20140205>

PILATUS TO SET UP MANUFACTURING FACILITY IN INDIA

Swiss aircraft maker Pilatus is planning to set up a manufacturing facility in India. The company, which is supplying 75 basic training aircraft PC-7 to the Indian Air Force, intends to set up a facility that will initially manufacture airframes for its single-engine turboprop PC-12 aircraft, Jim Roche, deputy CEO of the company, told FE ahead of the DefExpo. "Our long-term goal is to be capable to design, develop and manufacture the complete range of our aircraft products in India, for the Indian market primarily, but with a view to expansion within the region," he added.

To this end, the Swiss company plans to establish Pilatus Aircraft India in the next 36 months. In the meantime they have been granted permission to open their project office.

<http://www.financialexpress.com/news/pilatus-to-set-up-manufacturing-facility-in-india/1223502>

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