



## CAPS/CII SEMINAR 10/11 SEP 14

### ENERGISING INDIAN AEROSPACE INDUSTRY

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It is my privilege to welcome you once again to the 9<sup>th</sup> CAPS/CII Seminar on Energising Indian Aerospace Industry. It is encouraging to see a full house and more. This is indicative of the popularity of our programme. My special welcome to those that have come from far off places and an even more special welcome to those that have come from distant lands. We are delighted to have amongst us the Vice Chief of Air Staff and CMD HAL. We look forward to your inputs.

Last year the conference started and ended on a note of some despair. The refrain was that not much has been done to buttress Indian Aerospace Industry and although the remedies stare us in the face, somehow, the urgent does not translate into policy.

Nevertheless, as promised then, we did send out a list of our recommendations to the required quarters and they elicited general appreciation. We fondly believe that some of our recommendations have resulted in serious contemplation and some policy decisions have been taken that were recommended by us last year. The omens are good. Once again we will formulate and forward the list of recommendations that emanate from this conference. Be that as it may we have the dubious distinction of being the largest importer of defence equipment. That must change.

With a new government in place, defence issues are no longer on the back burner. The despair and desperation have receded. A silver lining is discernible, barely but it is there. Much needs to be done particularly in terms of policy stipulations.

A few recent pronouncements should have been well received by our private industry. Some of these are raising FDI limit to 49%, stipulation that the Avro replacement will be made by the private industry, the PM's assertion on the occasion of commissioning INS Kolkatta that we must change from a major importer of military hardware to an exporter (16Aug14). This was a clear statement that our continuing with ever increasing import bills is unsustainable. We must export and I think that we should set ourselves a target of our military exports totalling some 25% of our defence budget in the not too distant future. Licensing norms have been simplified and there are signs that accountability aspects will not be given short shrift.

Other initiatives announced include the plan to set up state level export commissions, and that the IAF may have to look elsewhere for the IJT requirements. Again, the US Defense Secretary stated that India and the US should co-develop and co-produce military hardware. How will the proposal be furthered?

The pronouncements will remain baby steps in the right direction unless they are fleshed out to make them functional. There are legal and financial issues of considerable import involved. We can look forward to hard bargaining but should aim for a win-win result.

It is a year since we said that indigenisation implies **made in India** and not necessarily **made by Indians**. Indigenisation is old hat; the requirement now is indigenous manufacture. As someone said indigenous promotes leadership; indigenisation is akin to followership. We will all agree that modernisation is essential but as I just mentioned if we have to rely largely on imports, the process is unsustainable. Can the defence budget be increased?

For some years the defence budget has been restricted to under 2% of GDP. Some Indian strategic analysts believe that defence budget should be increased to 3% of GDP. It is mentioned by them that the Chinese declared budget is some three times ours and the real budget is likely to be considerably higher. That is probably true but each country has specific needs and plans and size of budgets alone is not indicative of present or future capabilities. In the budget presented to our Parliament on 10 Jul 14, the defence budget was pegged at 1.74% of GDP. To examine the defence budget as percentage of GDP has limited value. Far more important is the absolute value, and the percentage of total government expenditure allocated to defence.. The current budget is Rs 230000 (\$38.33 billion approximately) or 13.0% of government expenditure but as 'plan'

expenditure should not be reduced, the defence budget is 18.85% of non-plan expenditure. If we were to set aside the amounts for subsidies and interest and loan repayments, the defence budget is 26% of the remaining non-plan expenditure. For a developing country, this figure is substantial and not much more can be expected.

Then what can we do? I hope the next two days will give us some answers.

Some issues suggest themselves.

1. Impetus required for technical education to build the required human capital.
2. The offset regime has not really worked. We should not dispense with it but make it worthwhile both for us and the supplier. Some efforts have been made to improve the functioning of the Defense Offset Monitoring Wing. A 'Facilitation Cell' has been opened with the objective of enhancing transparency and facilitating free and easy access to industry participants to approach DOMW for speedy redressal of grievances and/ or discussion of any matter pertaining to the offset policy.
3. Is it possible that the DPSUs concentrate on integration and let the MSMEs and the private sector deal with components, sub assemblies etc. The Rs 500 crores mandated by the Defence Production Policy is a positive and welcome step.
4. Greater government sponsored and private sector sponsored R&D. An absolutely essential requirement. Aerospace industry is indeed a milch cow.
5. Guidelines for joint ventures should be strengthened and supportive rather than a hindrance. We should also ensure increasing share in indigenous production and staffing.
6. Recognition that indigenous production will have growing and cascading beneficial effects.
7. We have to insist on quality and efficiency. Only then will our products be acceptable in the international market.

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There are many other issues that demand attention but I will stop there with a final thought that policy formulation in isolation is not the best method. Somehow the stake holders should be party to the policy formulation.

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