Confederation of Indian Industry

Centre for Air Power Studies

REPORT ON THE 10TH INTERNATIONAL CONFERENCE ON 'ENERGISING AEROSPACE INDUSTRY: THE ROAD AHEAD' CONDUCTED BY CENTRE FOR AIR POWER STUDIES & CONFEDERATION OF INDIAN INDUSTRY

08-09 SEPTEMBER 2015

1. An international conference on 'Energising Indian Aerospace Industry: The Road Ahead' was conducted by Centre for Air Power Studies (CAPS) and Confederation of Indian Industry (CII) in association with Indian Air Force, on 08 and 09 September 2015 at New Delhi. The broad objective of the conference was to identify opportunities that are abound for aerospace industry in India, articulate issues that are roadblocks for the private industry from becoming equal partners in manufacture of defence products and generate a pathway to foster a constructive and mutually beneficial environment between the users and aerospace industry. The Services and members from the strategic community, think tanks and Indian and foreign industry took part in the initiative. The discussions were free and frank and there was a general consensus that the Government's 'Make in India' drive is achievable provided some innovative decisions are taken to make the private industry an equal partner in the movement.

2. The two-day deliberations turned up a host of ideas and suggestions; these are summarised below.

3. **Recommendations**

(a) Defence Public Sector Undertakings (DPSUs) and major companies with good capital resources, financial strength and burgeoning market presence need to be mandated to largely adopt the role of a system integrator while sourcing modules and sub-modules from MSMEs. Outsourcing by these big enterprises to MSMEs must be audited to ensure implementation.

(b) Many MSMEs lack information about the facilities being advanced to them by the Government to help them enter the defence market, despite the presence of a dedicated Ministry. A mechanism needs to be instituted to overcome this lacuna.

(c) The sustainability and future growth of MSMEs is greatly impacted by high capital cost, low domestic demand, long gestation period, limited availability of skilled labour and advanced technical know-how. Conducive policy formulation and financial support to MSMEs (due the high cost of capital) will provide the requisite impetus for their growth and capability enhancement.

(d) A new procurement category called 'Buy from MSME' for projects below a stated cost would go a long way in making the 'Make in India' initiative a success. The cash out flow may be more due absence of foreign bidders for the project but in the long run it would give a fillip to innovation, enhance financial viability of MSMEs and augment their potential for delivering cost effective products.

(e) In cases of capital procurements, the provision of evaluation of the products on a 'no-cost no-commitment' (NCNC) basis is weighted against MSMEs, as likely financial benefits are not commensurate with the risks involved. Additionally, in spite of qualitative superiority which comes at added cost, the lowest bidder criteria will be difficult to be met by an MSME when pitted against big companies and MNCs who have deep pockets. Certain concessions by appropriate policy formulation to aid MSMEs will encourage their participation.

(f) Tax rationalization needs to be undertaken at the earliest. A case in point is the 'level playing field' created by taxing DPSUs at par with the private industry, which has only resulted in Indian products getting costlier vis-à-vis foreign manufactured items. Thus, in an open tendering process, Indian manufacturers may find it difficult to be L1.

(g) "Joint ventures are made at human levels," said a successful company at the Seminar. Thus, it is important to have good programme management to bridge the gap between the OEM and the user.

(h) The Indian market is not sufficiently big to support a sizeable defence industry. It is important, therefore, that manufacturing take into account foreign customers at all stages. A case in point is the successful aerospace joint venture of Tatas with Sikosrsky and Lockheed Martin which was solely for foreign customers - this is now serving as a stepping stone to manufacturing for the Indian market.

(i) Testing and certification rules need to be well publicized so that MSMEs can get their equipment cleared for internal aerospace use. There are private companies who have supplied high quality critical products like valves and pumps for the Indian space programme (Mangalyan, etc) but have come a cropper in the aviation sector due insufficient knowledge about aviation certification requirements.

(j) Setting up an aviation enterprise is an extremely costly proposition. The system of 'plant in plant' needs to be explored such that costly government infrastructure can

be utilised by private players for MRO, manufacturing etc. This would also free-up scarce skilled manpower of the Services for direct use in operational areas and tasks.

(k) The Rs 100 crore Technology Development Fund set up by the Government for the small scale players is yet to be operationalised. On the other hand, successful small scale players who need funds to expand may be lost to acquisition by foreign firms who are fast in extending the required capital. This would be a great loss of Indian entrepreneurship but a gain for foreign OEMs, and at a later date India may be buying equipment that may well have been produced in-country but which lost out due to slow decision making.

(l) A National level strategy focusing on aerospace industry which could be leveraged for nurturing and nourishing the aerospace ecosystem is a must. A right step in this direction will be the establishment of an Aerospace Commission.

(m) Defence procurement is a very specialized field and steps must be taken urgently to institutionalize formal training for personnel involved.

(n) There are 1.8 million jobs on offer in the next 10 years in the strategic sector. Is the county's education system capable of generating such skilled manpower? A multi-dimensional and multi-ministry approach would be necessary to meet this requirement.

(o) Establishing and nurturing a strong industry-academia-government triumvirate link for leveraging domain specific knowledge and competencies in fuelling the growth of aerospace industry will accrue rich dividends to academic institutions as well as to

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Aerospace industry. Necessary curriculum modification, based on demonstrated need and relevance, at university level may overcome the present disconnect between the acquired knowledge and the specific skills sought by aerospace industry.

(p) Invitations for such Seminar are always extended to MoD and other concerned Ministries but attendance by Government reps has been scant, if at all. It would be worth the while for decision makers to attend such gatherings to get a first-hand view of the problems facing the aviation sector and some very positive suggestions that flow out from the deliberations.

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