



Cutting Edge: Aerospace and Defence





Editorial

Dear readers,

Greetings for the second quarter of 2018-19!

I am delighted to present the 37th edition of Cutting Edge, PwC India's Aerospace and Defence newsletter. Through this quarterly publication, we update our valued clients with news and analysis of the latest developments in the aerospace and defence sector in India. In the last quarter, there were several events—a proposed new defence production policy, amendments in offset guidelines, the revival of MMRCA and Digi Yatra scheme to digitise the boarding process.

The Centre has granted enhanced financial powers to the Defence Research and Development Organisation (DRDO) to help the organisation increase its efficiency as well as effectiveness. The DRDO chief can now sanction projects or procurements up to 150 crore INR (as against the 75 crore INR cap), while the DGs can sanction projects up to 75 crore INR (up from 50 crore INR). This step should hopefully speed up decision making in DRDO.

With Russia coming under the radar of Countering America's Adversaries through Sanctions Act (CAATSA), there may be hindrance in Indo-Russia military programmes. India's potential procurement deals from Russia, particularly the S-400 air defence system, Project 1135.6 frigates and Ka226T helicopters, will come under the radar of US authorities. CAATSA's could also affect the joint ventures (JVs) such as—Indo Russian Aviation Ltd, Multi-Role Transport Aircraft Ltd. and Brahmos Aerospace. The Act's implementation would also affect India's purchase of spare parts, components, raw materials and other support for which Indian entities are dependent on Russia for domestic licence manufacturing and upkeep of existing equipment. The US has recognised India as a major defence partner and bilateral ties are growing stronger. It is hoped and expected that India is likely to get some form of an exemption from CAATSA for progressing on committed projects with Russia.



To maintain peace and stability in the Indian Ocean, India and Seychelles have signed six MoUs to foster Seychelles' maritime defence capability. India had offered 100 million US\$ as credit, through which Seychelles would be able to buy defence equipment to boost their maritime capacity. This is expected to boost defence exports from India and will strengthen India's presence in the Indian Ocean region.

As stated above, Indo-US defence collaborations are increasing. The US State Department approved direct sale of stinger missiles to India, along with six AH-64E Apache attack helicopters and hellfire missiles. It can be adapted to fire from a wide variety of ground vehicles and helicopters. With this addition, India will join the select club of few countries using fourth generation missile system.

The Government of India (GoI) is expected to approve a 2 billion US\$ deal through the government-to-government route, to purchase anti-submarine warfare helicopters for the Indian Navy from the US. There is also a possibility of India placing a follow-up order for 12 more Boeing P 8I maritime surveillance aircraft.

The Government has not allocated any additional funds for emergency procurements of ammunition and spares in the Defence Budget for 2018-19. To cover up these expenses, the Indian Army has decided to drastically cut down its supplies from state-owned ordnance factories. The supply of products from State-run ordnance factories to the Army will be brought down from 94% to 50% to procure adequate stock of critical ammunition and spares for a short intense war. This move is expected to give impetus to private ammunition manufacturing.

As the country faces several potential threats in a highly militarised neighbourhood, India is trying to balance budgetary constraints with its need for arms and is working on increasing its own capabilities in manufacturing and exporting defence equipment. The Government has decided to set up a Defence Planning Committee (DPC) chaired by the National Security Advisor. It will focus on strategising the defence manufacturing ecosystem, strategy to boost defence exports, and priority capability development plans.



The Government recently proposed amendments in the ‘Defence Offset Guidelines’ introducing additional avenues for discharge of offset obligations for which comments from the industry have been invited. The proposed amendments expand the venues for discharge of offset obligations, which include one-time investments in specified projects, equity investments and investment in specified SEBI regulated venture capital funds for micro, small and medium enterprises (MSMEs) entering the Defence, Aerospace and Internal Security spaces. These amendments are welcome—on the one hand, they will channelise investments into priority projects, while on the other they will provide the much-needed capital to MSMEs. It is heartening to see that the Government will allow multipliers ranging from two to five for additional avenues. Making the new guidelines applicable to ongoing programmes is also a welcome step. This should incentivise domestic manufacturing and value addition.

Airport Authority of India has come up with the ‘Digi Yatra’ initiative, where Aadhaar-based Unique ID will be used to enable paperless boarding for passengers. This will help to eliminate long queues and congestion at airports. Digi Yatra will provide support to the UDAN-Regional Connectivity scheme (RCS). With sustained growth in domestic air passengers year-on-year, this will significantly improve airports’ capacity utilisation.

Another initiative under UDAN-RCS is to clarify that subsidies are also available for participating International Airlines. Foreign carriers such as Singapore International Airlines (SIA), Thai Airways and Malaysian Airlines will be entitled to subsidy from India if they are selected to operate cheap flights between India and Asean countries under the international UDAN scheme.

According to the Government, the aviation sector in India, currently growing at nearly 28%, will see an investment of close to 1 lakh crore INR in the next five years for capacity augmentation and development of new greenfield airports. Increase in government expenditure to improve aviation infrastructure, in line with the growing demand, both in terms of passengers and aircraft is likely to give impetus to the aviation sector.



The Ministry of Civil Aviation has given its go-ahead to build a 1 billion US\$ airport in Jewar, on the outskirts of Greater Noida. This will be the second civilian airport in the National Capital Region. We are proud to state that PwC has been selected as the consultant for this project. After technical feasibility study, the project now has site clearance as well as an in-principle approval. The Uttar Pradesh Government will spend 4,000 crore INR on land acquisition for the Noida International greenfield airport project. The State Civil Aviation Department will spend 1,500 crore INR while the Noida Development Authority will commit a matching amount.

Pawan Hans' stake sale was revived with fresh bids received for the carrier. The Government's step in disinvestment of the profit-making JV with ONGC will help in enhancing its efficiency.

Despite the extension of the last date to submit expression of interest (EoI) for stakes in Air India Ltd., there was no bid to seal the disinvestment move. We believe the bidding process failed due to four reasons— the magnitude of debt being passed was too huge; employee liabilities were unclear; government influence on the company and political risk with elections due in one year. There were also reports that the Government was considering an IPO. However, it is unlikely that retail and institutional financial investors will be interested in a debt-laden company given no interest from strategic investors who would have full management control. It appears that the Government has realised this and has shelved disinvestment plans for now. We believe the Government should use this time to restructure the offering, based on inputs and suggestions it receives.

We trust this edition of Cutting Edge will provide insights on all the aspects of the A&D sector. At PwC we always believe that to move forward you have to always give back to the society. Your feedback, trust and support encourage us to share our opinions with you. I would like to thank all our esteemed clients for their continued support and trust in PwC.

Sincerely,
Dhiraj Mathur
Partner and Leader
Aerospace and Defence

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Glossary

A&D	Aerospace and Defence	FSS	fleet support ship
AAI	Airports Authority of India	GCF	Gun Carriage Factory
AERA	Airports Economic Regulatory Authority	GoI	Government of India
AIESL	Air India Engineering Services Limited	HAL	Hindustan Aeronautics Limited
ALH	Advance light helicopter	HC	High Court
ATC	Air Traffic Control	IAF	The Indian Air Force
BEL	Bharat Electronics Limited	IATA	International Air Transport Association
CAGR	Compound annual growth rate	IDDM	Indigenous design, development and manufacturing
CSS	Coastal Surveillance systems	IPO	Initial public offering
DGCA	Director General of Civil Aviation	ISRO	Indian Space Research Organisation
DoD	Department of Defence	ITBP	Indo-Tibetan Border Police
DoT	Department of Telecom	JV	Joint venture
DPC	Defence Planning Committee	MHA	Ministry of Home Affairs
DPSU	Defence public sector undertaking	MoCA	Ministry of Civil Aviation
DRDO	Defence Research and Development Organization	MoD	Ministry of Defence
EoI	Expression of interest	MoEF	Ministry of Environment and Forest
FDI	Foreign direct investment	MoU	Memorandum of understanding



MSME	Micro, small and medium enterprises
NATO	North Atlantic Treaty Organization
NSDC	National Skill Development Corporation
OECD	Organisation for Economic Cooperation and Development
OEMs	Original equipment manufacturers
OFB	Ordinance Factory Board
ONGC	Oil and Natural Gas Corporation
PHL	Pawan Hans Limited
PIM	Preliminary Information Memorandum
PSU	Public sector unit
PTI	Press Trust of India
RCS	Regional Connectivity Scheme
RFP	Request for proposal
SEBI	Securities and Exchange Board of India
SIPRI	Stockholm International Peace Research Institute
UDAN	Ude Desh ka Aam Nagrik
WTO	World Trade Organisation



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To increase efficiency, Centre gives DRDO more financial powers

The Government granted increased financial powers to Defence Research and Development Organization (DRDO) to “enhance its efficiency and effectiveness”. However, the body requires a drastic overhaul, rather than mere tinkering, to ensure that India develops a robust defence industrial base in future.

Source: <https://timesofindia.indiatimes.com/india/to-up-efficiency-centre-gives-drdo-more-financial-powers/articleshow/64770965.cms>

India set to seal 500 million US\$ deal with Israel to buy 4,500 Spike missiles

India is ready to finalise a 500 million US\$ deal with Israel for the government-to-government purchase of around 4,500 Spike anti-tank guided missiles (ATGM) for the Army ahead of Israel’s Defence Secretary Udi Adam’s visit to New Delhi. He will be visiting India for the annual joint working group discussion on bilateral defence cooperation. Israeli defence contractor, Rafael won the contract to sell more than 8000 Spike ATGMs to India in a deal, which included manufacture of 3,000 missile systems in India through the ‘Make in India’ route.

Source: <https://www.hindustantimes.com/india-news/india-set-to-seal-500mn-deal-with-israel-to-buy-4-500-spike-missiles/story-wdT2lufrQ4ldybZFX76X5K.html>

Indian military to set up Defence Cyber Academy

The Indian Army is all set to get a new body, the Defence Cyber Academy, which will tackle cyber warfare. It will comprise around 1,000 personnel drawn from all three wings of the military. The Academy will defend military assets and also use its capabilities to fight proxy cyber warfare. On this aspect, the Army Chief said that cyber space is not only important in conventional warfare, but is equally relevant in the sub-conventional warfare or proxy war.

Source: <https://www.oneindia.com/india/indian-military-to-set-up-defence-cyber-academy-2724151.html>

Like Armed Forces, CAPF personnel will also get priority boarding on Air India flights now

State-run-carrier Air India has decided to accord priority to paramilitary forces in boarding its flights, similar to the facility given to defence forces—the Army, the Navy and the Air Force. The decision has been taken as a mark of honour and respect to Central Armed Police Forces (CAPF) for their services to the country. This development is a result of the Border Security Force’s (BSF) letter to Air India requesting for the facility.

Source: <http://www.newindianexpress.com/nation/2018/jun/27/like-armed-forces-capf-personnel-will-also-get-priority-boarding-on-air-india-flights-now-1834612.html>



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Committee to look into HAL's 'high price' for Indian improved Tejas Fighter

The Indian Ministry of Defence (MoD) has set up a commercial negotiations committee to look into the 'high price' quoted by Hindustan Aeronautics Ltd (HAL) for the manufacture of Tejas Mark1A fighter jet. Bangalore-based HAL has quoted a price of 463 crore INR (67.5 million US\$) per jet in April in response to a request for a proposal by the MoD to induct 83 Light Combat Aircraft (LCA) into the Indian Air Force under the 'Make in India' program. This is much higher than most fighter jets, as per newspaper reports. The report quoted an unnamed source as saying that the price raised questions in the Defence ministry as the price compared unfavourably even with more modern foreign fighters.

Source: http://www.defenseworld.net/news/22782/Committee_to_Look_into_HAL_s_High_Price_for_Indian_Improved_Tejas_Fighter#.WzReSNizZPY

Indian army stockpile revamp worth 150 billion INR

The Indian Army's ammunition will not even last 10 days in the event of a war. According to security protocols, the stockpile should be adequate for a month-long war. After three years of deliberation, the Army has finalised a 150-billion INR project under which the ammunition and equipment will be produced indigenously. This will help overcome long delays in imports and address the problem of a dwindling stockpile.

Source: <https://economictimes.indiatimes.com/news/defence/indian-army-stockpile-revamp-worth-inr-150-billion/videoshow/64748048.cms>





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Defence PSU Midhani eyeing to cut dependency on Chinese imports

The Mishra Dhatu Nigam (Midhani) Limited, a special grade metal manufacturer, is looking at reducing dependency on China for strategic metals used in defence products. According to a top official at the PSU, this is because it was facing issues over pricing and quality of imported materials. Midhani, a Government of India (GoI) enterprise under the MoD, produces special steel and super-alloys and is the sole manufacturer of titanium alloys in the country. The official said that Midhani, as a defence PSU, was in the process of taking various steps to reduce the dependency on China for strategic metals and make the country self-reliant in the sector.

Source: <https://economictimes.indiatimes.com/news/defence/defence-psu-midhani-eyeing-to-cut-dependency-on-chinese-imports/articleshow/64720278.cms>

India signs six MoUs with Seychelles, offers 100 million US\$ aid for defence

Prime Minister Modi, in his joint media statement with Faure, said, “With this credit, Seychelles will be able to buy defence equipment to boost its maritime capacity”. On the project to develop a naval facility at the island, which would give India a strategic advantage in the Indian Ocean region, Mr. Modi said, “We have agreed to work together on the Assumption Island project based on each other’s rights.” Faure, in his remarks, said the Assumption Island project was discussed and the two countries equally engaged to work together bearing each other’s interests.

Source: <https://www.oneindia.com/india/india-signs-6-mous-with-seychelles-offers-100-million-dollars-aid-for-defence-2722173.html>





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India set to clear 2 billion US\$ deal for US anti-submarine warfare choppers

Ahead of the crucial two-plus-two dialogue in Washington, the Narendra Modi government is expected to approve a 2 billion US\$ deal for the purchase of anti-submarine warfare helicopters for the Indian Navy from the US through the government-to-government (G2G) route, according to South Block officials. Bilateral negotiations on the Communications, Compatibility and Security Agreement (COMCASA) have moved forward and the military communication agreement could be initiated later this year after basic Indian concerns have been addressed by the Pentagon.

Source: <https://defenceaviationpost.com/india-set-to-clear-2-billion-deal-for-us-anti-submarine-warfare-choppers/>

US approves sale of Stinger missiles to India

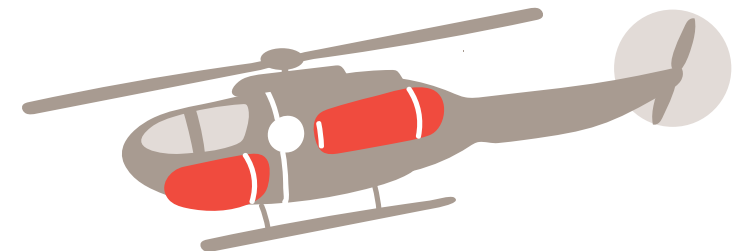
The US State Department has approved the direct sale of powerful stinger missiles to India, along with six AH-64E Apache attack helicopters and Hellfire missiles. Pentagon's defence security cooperation agency notified the US Congress about the State Department's decision. The sale is expected to pass through if no lawmaker opposes the notification. The sale of Stinger Block I-92H missiles, if it takes place, will bolster Indian Army's short-range air defence network significantly. The weapon prototype is widely popular among most US allies and NATO countries due to its compact size, mobility and multi-purpose usability as an air-to-air and surface-to-air strike weapon.

Source: <http://www.indiandefensenews.in/2018/06/us-approves-sale-of-stinger-missiles-to.html>

Tata Boeing Aerospace delivers first AH-64 Apache combat helicopter fuselage

Tata Boeing Aerospace Limited announced the delivery of the first AH-64 Apache combat helicopter fuselage ahead of schedule from its state-of-the-art facility in Hyderabad. The fuselage will now be transported to Boeing's AH-64 Apache manufacturing facility in Mesa, AZ, for integration into the final assembly line. This delivery comes within a year of the aerospace joint venture facility becoming operational. The facility, which is spread over 14,000 sq. m. and will be employing 350 highly skilled workers at full production, was inaugurated by Smt. Nirmala Sitharaman, Honourable Minister of Defence, Government of India, in March 2018. The facility will be the sole global producer of fuselages for AH-64 Apache helicopter delivered by Boeing to its global customers including the US Army. The facility will also produce secondary structures and vertical spare boxes for the multi-role combat helicopter.

Source: <http://www.indiandefencereview.com/news/tata-boeing-aerospace-delivers-first-ah-64-apache-combat-helicopter-fuselage/>





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Indian Army to cut 50% of supply from state-run ordnance factories

The Indian Army has decided to drastically reduce its supplies from state-owned ordnance factories. The money will instead be used to procure adequate stock of critical ammunition and spares for a short intense war, as the Centre has not provided additional funds for emergency procurements of ammunition and spares. Supply of Ordnance factories' products to the Army will be brought down from 94% to 50%. However, supplies to soldiers such as clothing (combat dress, berets, belts, shoes) will be hit due to the move. Soldiers will have to spend their own money to buy uniforms and other clothes from civilian markets. Even spares for certain vehicles will suffer.

Source: <https://economictimes.indiatimes.com/news/defence/paucity-of-central-budget-may-force-soldiers-to-buy-uniforms-on-their-own/articleshow/64441020.cms>



Nashik and Coimbatore selected as Defence Innovation Centret

The Union Minister of State for Defence, Subhash Bhamre, said that the proposed innovation centre would help start-ups and other industries involved in manufacturing of components for the Defence sector in making the right kind of products. "The Union government has decided to promote innovators in defence manufacturing sector. As part of this, we recently announced first defence innovation centre at Coimbatore. And now Nashik has also been identified as the second defence innovation centre," Bhamre said. "The innovation centre will provide a platform to start-ups and innovators in the field of defence innovation. They will make new defence products for the defence-end users like Army, Indian Air Force and Indian Navy," he added.

Source: <https://timesofindia.indiatimes.com/city/nashik/nashik-selected-as-defence-innovation-centre/articleshow/64563801.cms>

India's plan to buy helicopter carriers falters

A visit to Mumbai's port by the Spanish multi-purpose warship Juan Carlos 1 has highlighted India's requirement for four similar vessels, also known as landing helicopter docks (LHDs). The Spanish warship builder Navantia is a bidder for the Indian requirement, in partnership with domestic company Larsen & Toubro (L&T). However, the procurement process has been disrupted by financial problems of rival bidder Reliance Naval and Engineering, which has tied up with French warship builder DCNS.

Source: <http://www.defencenews.in/article/India%E2%80%99s-Plan-To-Buy-Helicopter-Carriers-Falters-558811>



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Boeing sees two-year wait for world's biggest fighter jet deal

Boeing is well placed in the race to supply the Indian Air Force with 110 fighter jets, Gene Cunningham, Boeing's Vice President of global defence sales, told Bloomberg News on Sunday on the side lines of a security forum in Singapore. The company is a finalist in a separate competition to supply 57 fighter jets to the Indian Navy. "We have gotten to know Indian industry, understand the Indian process," Cunningham said. The tender for 110 combat aircraft mandates building at least 85% of the order locally. The deal is likely to be worth at least 15 billion US\$.

Source: <https://economictimes.indiatimes.com/news/defence/boeing-sees-two-year-wait-for-worlds-biggest-fighter-jet-deal/articleshow/64442627.cms>

India Army is said to pare down rifles order to 250,000

The Indian Army will place an order for only 250,000 modern assault rifles, which is just one-third of its total requirement, driven by budgetary constraints and the need to speed up deliveries. The 1.3 million-strong military pruned its original requirement for 800,000 rifles, which would have cost 2.5 billion US\$. The move was to prioritise its spending and advance the purchase of more up-to-date equipment, according to unpublished sources. The Army has 450,000 infantry troopers, of whom only half go into ground battle and use the rifle as their primary weapon.

Source: <https://economictimes.indiatimes.com/news/defence/india-army-is-said-to-pare-down-rifles-order-to-250000/articleshow/64450104.cms>

India to go ahead with S-400 deal with Russia not withstanding US sanctions

India has very clearly conveyed to the US that the "time-tested" Indo-Russian cooperation in the Defence sector will continue, including the deal for S-400 Triumph air defence missile systems for the IAF, notwithstanding the US sanctions against Moscow. Sources said that India wants its defence transactions with Russia to be insulated from the purview of stringent American law CAATSA and is likely to raise the issue with the US when the two sides meet in Washington for the 2+2 talks in July.

Source: <https://economictimes.indiatimes.com/news/defence/india-to-go-ahead-with-s-400-deal-with-russia-notwithstanding-us-sanctions/articleshow/64466311.cms>

Defence MSMEs claim armed forces cancelled orders

The Federation of MSME vendors operating in in the A&D sector today alleged that ordnance factories supplying vital defence equipment, including guns, to the armed forces had cancelled orders worth thousands of crores placed with the MSMEs. The move, the Federation alleged, would lead to huge losses and large-scale entrenchment of workers. Addressing a press conference here, Neeraj Raizada, the federation's president, also claimed that the Government had slashed the budget of the MSMEs from 16,000 crore INR in 2017-18 to 10,000 crore INR in 2018-19.

Source: <https://economictimes.indiatimes.com/news/defence/defence-msmes-claim-armed-forces-cancelled-orders/articleshow/64479203.cms>

India's very own drone hunter

India's Bharat Electronics Limited (BEL) has developed a 'Drone Guard System' (DGS) to detect, track and neutralise adversarial drones. This is seen as especially important as recent reports have pointed out that Pakistan-based drug smugglers are using drones to deliver contraband drugs across the border. Sources in the intelligence wing of the Border Security Force (BSF) confirmed that recently smugglers were found using a drone in a border village in Gurdaspur. The BSF had confirmed 36 sightings of drones along the western border.

Source: <https://economictimes.indiatimes.com/news/defence/indigenous-device-all-set-to-track-and-kill-enemy-drones/articleshow/64493188.cms>





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Dhanush artillery gun clears final test, ready for induction: official

India's first indigenous, long-range artillery gun 'Dhanush' has passed its final test at Pokhran, paving the way for its induction into the Army, according to a senior Army officer. Between 2 and 6 June, fifty rounds of shells each were fired from six Dhanush guns, Gun Carriage Factory (GCF) Senior General Manager SK Singh told reporters here. Dhanush is a 155mm x 45mm calibre artillery gun and is also called the 'Desi Bofors'.

Source: <https://economictimes.indiatimes.com/news/defence/dhanush-artillery-gun-clears-final-test-ready-for-induction-official/articleshow/64511167.cms>

DRDO to deliver advanced Pinaka rocket version by 2020

The Armament Research and Development Establishment (ARDE), a laboratory under the DRDO, will deliver guided Pinaka rocket with an enhanced range of up to 75 km to the army by 2020. The current range of Pinaka is 40 km. "An upgraded version of Pinaka rocket, with new guided system and an enhanced range, was successfully test-fired at Chandipur in Odisha recently. The results of the trial were excellent," said PK Mehta, Director General, Armament Combat Engineering (ACE).

Source: <https://economictimes.indiatimes.com/news/defence/drdo-to-deliver-advanced-pinaka-rocket-version-by-2020/articleshow/64538511.cms>



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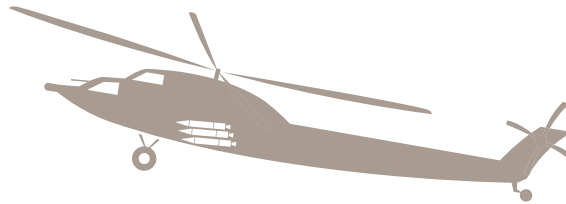
IAF not keen on getting more Sukhoi fighter jets

At a time when the Russians have offered to sell 40 more Sukhoi-30 combat aircraft to India, it seems that the Air Force is not keen to add more of these heavy weight and high maintenance fighter jets to its inventory. The Indian Air Force (IAF) already has more than 220 of these Russian planes in its fleet and has plans of inducting all the 272 planes ordered by it over the years by the end of 2020.

Source: <http://www.indiandefensenews.in/2018/06/iaf-not-keen-on-getting-more-sukhoi.html>

US approves 30 million US\$ sale to India of six apache attack helicopters

According to a Defence Security Cooperation Agency release, the US State Department approved the sale of equipment including Hellfire and Stinger missiles, supporting a proposed direct commercial sale of six Boeing AH-64E Apache attack helicopters.



Source: <http://www.indiandefensenews.in/2018/06/us-approves-930-million-sale-to-india.html>



BEL negotiating with Oman to supply Coastal Surveillance Systems

India's Bharat Electronics Limited (BEL) has been invited for commercial and technical negotiations from the Oman government for supply of Coastal Surveillance systems (CSS). The CSS provides scalable surveillance solutions for vessels, ports, waterways, high threat-prone assets and offshore facilities. Using the system, it is possible to monitor an entire coastline, as the system presents the complete scenario at a centralised Command Centre on a digital map. The system is also useful in large-scale search and rescue operations.

Source: <http://www.indiandefensenews.in/2018/05/bel-negotiating-with-oman-to-supply.html>



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Indian Navy commissions first indigenously built floating dock

The Indian Navy (IN) has commissioned its first indigenously designed and built floating dock to repair and service its major platforms. Referred to as Floating Dock Navy-2 (FDN-2), the 185 m long and 40 m wide platform was inducted into the service on 25 May in a ceremony held at Port Blair in Andaman and Nicobar Islands, which is the headquarters of the IN-headed tri-service command. FDN-2, which is now the second floating dock in service with the IN, has the capability to lift ships and submarines of up to 8,000 tons displacement, which includes almost the entire range of the IN's combat assets.

Source: <http://www.indiandefensenews.in/2018/05/indian-navy-commissions-first.html>

New equipment for Indian armed forces

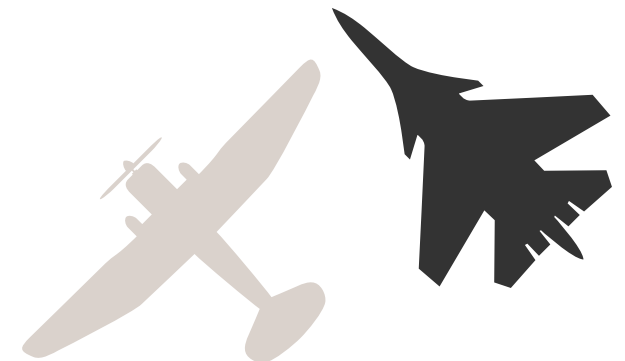
India's Defence Acquisition Council has approved the procurement of equipment worth more than 1.02 billion US\$ for the Indian Armed Forces. The equipment includes thermal imaging night sights for 84 mm rocket launchers of the Army and the Air Force, and long-range dual-band infrared imaging search and track systems (IRSTs) for the air force's Su-30MKI aircraft.

Source: <http://www.indiandefensenews.in/2018/05/new-equipment-for-indian-armed-forces.html>

MoD proposes draft modifications to Defence Offset Guidelines

The MoD has proposed an amendment in the existing offset policy to provide additional avenues for foreign defence companies to invest a percentage of the value of a military deal in India. The ministry has made public the draft amendment in the offset guidelines and sought opinion of the stakeholders on it. According to the defence procurement procedure, foreign arms manufacturers and vendors are mandated to invest a percentage of the value of any deal above 50 million US\$ in India. According to the draft amendment aerospace and internal security-related enterprises will be allowed to fulfil their offset obligations through investment in defence-related infrastructure projects such as setting up of testing labs and skill centres.

Source: <https://timesofindia.indiatimes.com/business/india-business/govt-proposes-to-widen-scope-to-fulfil-offset-obligations-by-foreign-defence-firms/articleshow/64006539.cms>





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ITBP to get 514 satellite phones from Ministry of Home Affairs for forward area postings

Post Doklam standoff, Indo-Tibetan Border Police (ITBP) will get 514 satellite phones under a Ministry of Home Affairs (MHA) project that also covers other central armed police forces and some strategically important states for better communication and security coordination. Moreover, the Intelligence Bureau will get 420 satellite phones. BSF and CRPF will get 117 and 307 such devices. Jammu and Kashmir, Chhattisgarh, Arunachal Pradesh and West Bengal are among the states getting these phones.

Source: <http://www.indiandefensenews.in/2018/05/itbp-to-get-514-satellite-phones-from.html>

India issues an Request for Proposal for acquiring 200 Kamov helicopters from Russia

The MoD issued a Request for Proposal (RFP) to procure and co-produce 200 Kamov Ka-226T helicopters from Russian Helicopters, part of Russian corporation, Rostec. The project is worth 21,000 crore INR and is meant for the Indian Army and the Indian Air Force. The Kamov helicopters will replace the ageing Cheetah helicopters. In 2015, India and Russia had signed an intergovernmental agreement (IGA) for the supply and localisation of helicopter production in India.

Source: <https://economictimes.indiatimes.com/news/defence/india-issues-an-rfp-for-acquiring-200-kamov-helicopters-from-russia/articleshow/64191899.cms>

Indian army finalises 15,000-crore INR ammunition production project

The Indian Army has finalised a mega 15,000 crore INR project, under which a range of ammunition for its critical weapons and tanks will be produced indigenously to overcome long delays in imports and address the problem of a dwindling stockpile. Eleven private firms will be involved in the ambitious project, the implementation of which is being monitored by the top brass of the Army and the MoD. Initially, ammunition for a range of rockets, air defence system, artillery guns, infantry combat vehicles, grenade launchers and various other field weapons will be produced.

Source: <https://www.bloombergquint.com/business/2018/05/13/indian-army-finalises-rs-15000-crore-ammunition-production-project>





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Foreign countries have shown interest in Akash missile: DRDO

Several countries have shown interest in procuring India's indigenously developed Akash missile. Developed by the DRDO, the missile system has the capability to neutralise aerial targets such as fighter jets, cruise missiles, air-to-surface missiles and ballistic missiles. The DRDO Chairman, S Christopher, said, "There is a growing demand for the Akash, an all-weather medium-range surface-to-air missile, and many nations have shown interest in it."

Source: <http://www.newindianexpress.com/nation/2018/may/19/foreign-nations-have-shown-interest-in-akash-missile-drdo-1816776.html>

US defence budget for fiscal 2019 aims at improved ties with India

National Defence Authorisation Bill (or NDAA-2019) proposes to plan and provide necessary forces, military infrastructure, logistics capabilities, and bilateral and multilateral training in the region through the Indo-Pacific Stability Initiative. The plan is to bolster the Department of Defence's efforts. The US will invest in critical military capabilities to deter aggression and respond rapidly to crisis. The country supports strong missile defence systems to counter North Korea's nuclear and missile programmes, including the DoD's development of new capabilities and efforts to provide for a layered defence of the homeland.

Source: https://www.domain-b.com/defence/general/20180525_budget.html

Government working on applications of AI for military use

The Defence Minister, Smt. Nirmala Sitharaman, at a workshop of stakeholders involved in putting in place a framework for use of artificial intelligence by the defence forces said that AI can be used in a range of areas including guarding the country's borders and securing outer space. She added that applications of AI can be effective for aerial, land-based and naval platforms, in addition to its use in monitoring any sort of chemical and nuclear warfare.

Source: <http://www.newindianexpress.com/nation/2018/may/22/government-working-on-applications-of-ai-for-military-use-defence-minister-nirmala-sitharaman-1817764.html>

Indigenisation in defence sector has to be on top of agenda: Sitharaman

Defence Minister Nirmala Sitharaman addressing Defence Research and Development Organisation (DRDO) scientists said that manufacturing of defence equipment cannot be done with borrowed technology and indigenisation has to be on top of the agenda for India, which is one of the largest importers of arms in the world. Referring to the Government's Make in India initiative, she commented, "India being the largest procurer of defence equipment, the emphasis on indigenisation has to be reiterated. This is exactly what has happened from 2014."

Source: <https://timesofindia.indiatimes.com/india/indigenisation-in-defence-sector-has-to-be-on-top-of-agenda-sitharaman/articleshow/64163152.cms>



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Foreign defence companies may soon get to invest in equities

Foreign defence manufacturers may soon be allowed to invest in Indian companies to help them set up manufacturing facilities. They may also be able to invest in a SEBI-regulated fund that will promote start-ups to meet their offset obligations worth billions of dollars. The Defence Ministry is proposing changes in its offset policy, which mandates foreign companies to invest at least 30% of any military contract they win. This will drastically change how companies such as Boeing, and Dassault are likely to spend an estimated 14 billion US\$ in India by 2028.

Source: <https://economictimes.indiatimes.com/news/defence/foreign-defence-companies-may-soon-get-to-invest-in-equities/articleshow/64009218.cms>



India among top five defence spenders in the world

According to a report from the Stockholm International Peace Research Institute (SIPRI), an influential think tank, India entered the club of the world's five biggest military spenders in 2017, since the Government enhanced the operational capability of its Armed Forces in the face of tensions with China and Pakistan. India was in the fifth spot, after the US, China, Saudi Arabia and Russia and together they accounted for 60% of global military spending. Total global military expenditure rose to 1,739 billion US\$ in 2017, a marginal increase of 1.1% in real terms from 2016. India's defence spending has grown in the past decade for several reasons, including a mounting salary bill of around 1.4 million serving personnel and pensions for more than 2 million veterans, projects worth billions of dollars to induct new combat jets, helicopters, warships, artillery guns and infantry weapons and to enhance capabilities.

Source: <https://www.hindustantimes.com/business-news/india-one-of-world-s-top-five-defense-spenders-amid-china-tensions/story-shu46BU9Ys65fKLC4vvxel.html>





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Indian Army plans to replace INSAS rifles with the Kalashnikov AK-103S

The deal foresees the first batch of 150 thousand rifles manufactured by Kalashnikov in Russia. The company will later grant a production license to India's Ordnance Factory Board (OFB), which will take over the remaining production, by assembling the rest of the total order of 768,496 at its factories in Tiruchirapalli and Ishapur. In addition to this gigantic order from the Indian Army, another 50 thousand rifles will be required for the Air Force and the Navy. The proposal to acquire a license for AK-103 rifles is part of the Government's 'Make in India' initiative.

Source: <http://www.indiandefensenews.in/2018/04/army-is-planning-to-replace-insas.html>

Gagan Shakti-2018: IAF pushes for faster production of Tejas

The Indian Air Force's pan-India exercise Gagan Shakti-2018, for practising war-time drills witnessed the IAF pushing the limits of its every fighter aircraft, including the Tejas, which entailed conducting six sorties per day on all of them, totalling around 9,000 sorties. For the Tejas, this is a good development as the IAF usually sticks to around three sorties per day on every Tejas. The IAF has expressed happiness with the performance of the Tejas Light Combat Aircraft (LCA) and is looking towards rapid production of the aircraft.

Source: <https://economictimes.indiatimes.com/news/defence/iaf-pushes-for-faster-production-of-tejas-after-gagan-shakti-2018/articleshow/63905916.cms>





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Facility for indigenous production of Kalashnikov

In a new boost to India's Defence industry, Russia's state-owned Rosoboronexport has offered to set up a facility in India to produce modern weapons and upcoming Kalashnikov designs. However, the question remains whether the Kalashnikov assault rifle compete with the Israeli Tavor assault rifle, already manufactured in India. The offer was made during an Indian delegation's industrial visit to the Kalashnikov Group facility in Izhevsk. Apurva Chandra, Director General Acquisition of the Ministry of Defence of India led the delegation. The company's Director General, Alexander Mikheev, said that they were ready to help India construct a facility "similar to what the Mr. Apurva Chandra-led delegation saw today to produce modern weapons and future Kalashnikovs designs. Rosoboronexport has substantial expertise to accommodate needs of our partner."

Source: <http://www.indiandefensenews.in/2018/04/duel-in-india-kalashnikov-vs-israeli.html>



India to re-tender Naval Replenishment ship project

The Indian Navy's five-unit fleet support ship (FSS) project is set to be re-tendered globally after an expected collaboration agreement between India's Hindustan Shipyard Limited (HSL) and South Korea's Hyundai Heavy Industries (HHI) fell through. Industry sources told that work share and local content issues seems to be major stumbling blocks that led to the failure. Under the national 'Make in India' push, the Indian MoD wants all five ships to be built in the country.

Source: <http://www.indiandefensenews.in/2018/04/india-to-re-tender-naval-replenishment.html>

India to create super-committee for defence planning

The Narendra Modi government has decided to create an overarching Defence Planning Committee (DPC) under the National Security Advisor Ajit Doval that will drive the country's military and security strategy, draft capability development plans and guide (and accelerate) defence equipment acquisitions. The DPC will be a permanent body chaired by the National Security Advisor and comprises the chairman of the chiefs of staff committee, three service chiefs, the defence, expenditure and foreign secretaries.

Source: <https://www.hindustantimes.com/india-news/india-to-create-super-committee-for-defence-planning/story-PQSPeTpZ8Xm2QKjINXznK.html>



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IAF to propose 6,500 crore INR defence system to thwart 9/11 style attacks in New Delhi

As part of an IAF-proposed plan, five to six units of the missile network will be deployed at various locations across the capital, in a bid to provide 360-degree protection to New Delhi. During the 9/11 attacks, Islamic terrorists hijacked multiple passenger jets in the US and used them as weapons to hit several important American symbols of power such as the World Trade Center twin towers in New York, Department of Defense headquarters in Pentagon and the Capitol Hill in Washington, DC.

Source: <https://www.indiatoday.in/mail-today/story/iaf-to-propose-rs-6500-crore-defence-system-to-thwart-9-11-style-attacks-in-new-delhi-1212973-2018-04-16>

Boeing to partner with Indian Defence firms in bid for 110 Fighter Jets contract

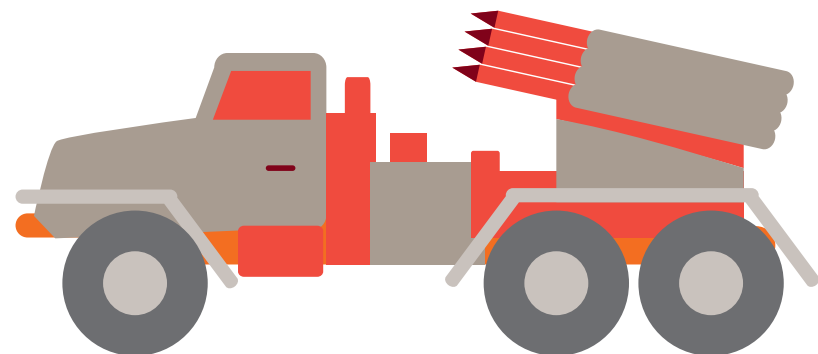
According to a press release, the US aircraft maker Boeing will partner with India's state-run Hindustan Aeronautics (HAL) and Mahindra Defence Systems for its bid to sell 110 fighter aircraft to the Indian Air Force (IAF). Boeing and its local partners are ready to set up an "entirely new and state-of-the-art production facility," which will provide the "infrastructure, personnel training, operational tools and techniques" necessary to support the local production of its F/A-18E/F Super Hornet fighter aircraft.

Source: <https://thediplomat.com/2018/04/boeing-to-partner-with-indian-defense-firms-in-bid-for-110-fighter-jets-contract/>

India moves to reduce its reliance on defence imports from Russia

India is reducing its dependence on Russia for critical defence programs, with the BrahMos missile set to be guided by a locally developed target tracking device in the next year. India's defence scientists have developed a new indigenous system that identifies missile targets to replace the Russian-developed seeker on all future BrahMos, Sudhir K. Mishra, the Chief Executive Officer of BrahMos Aerospace said. Russia accounted for 68% percent of India's arms import from 2012 to 2016, according to Stockholm International Peace Research Institute. It's been the largest defence supplier to India since the 1960s when the MiG-21 supersonic fighter jets were bought to equip the Indian Air Force.

Source: <https://www.bloomberqint.com/business/2018/04/13/india-moves-to-reduce-its-reliance-on-russia-s-defense-imports>





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Defence Ministry inks 639 crore INR bullet-proof jacket contract

A major contract, to acquire 186,138 bullet-proof jackets (BPJs), has been signed through the capital procurement route. The contract, worth 639 crore INR, has been bagged by indigenous defence manufacturer SMPP Pvt. Ltd. According to a statement by the MoD, the new BPJs will boost the confidence of soldiers. It also mentioned that indigenously developed BPJs will give new impetus to the 'Make in India' initiative of the Government and provide confidence that the Indian industry is capable of fulfilling requirements of the Armed Forces.

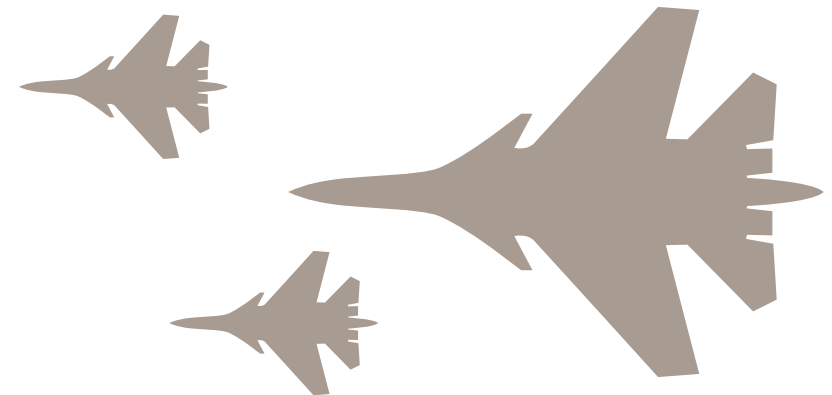
Source: <http://www.indiandefensenews.in/2018/04/defence-ministry-inks-rs-639-crore.html>



Russia, India prepare contract for four project 11356 frigates

The Framework Intergovernmental agreement to build a new series of project 11356 frigates for India was signed in October 2016 between Russia and India. It stipulated that two warships will be built in Russia and two in India with partial localisation of production. India has been ordering project 11356 warships for nearly 20 years and is currently operating six of them. The Baltic shipyard began to build the first troika of Talwar-class frigates in 1999 and commissioned them in 2003-04. The order for the second troika was handed over to Yantar shipyard in Kaliningrad. The frigates were laid in 2007-08 and built in 2012-13. Project 11356 frigate was designed on the basis of border guard cruiser of project 11351, which in its turn, developed from project 1135.

Source: <http://www.navyrecognition.com/index.php/news/defence-news/2018/april-2018-navy-naval-defense-news/6154-russia-india-prepare-contract-for-four-project-11356-frigates.html>





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Cabinet approves MoU between India and Germany on cooperation in the field of civil aviation

The Union Cabinet chaired by the Prime Minister Shri Narendra Modi has approved signing of the Memorandum of Understanding (MoU) titled Joint Declaration of Intent between India and Germany on cooperation in the field of civil aviation. The Joint Declaration will lead to promotion of safe, effective and efficient development of air transport between India and Germany. The MoU, in the form of Joint Declaration of Intent signifies an important landmark in the civil aviation relations between India and Germany, and has the potential to spur improved trade, investment, tourism, and cultural exchanges between the two countries.

Source: https://www.business-standard.com/article/news-cm/cabinet-approves-mou-between-india-and-germany-on-cooperation-in-the-field-of-civil-aviation-118062700754_1.html



A multi-airport plan that can boost Indian aviation

The Government is aware that its aim to achieve 1 billion passenger trips in the next 10-15 years, cannot be accomplished with existing airport capacities. Therefore, it has launched an initiative called Next-Gen Airports for Bharat (NABH) Nirman to expand capacities five folds. It will invest 1 lakh crore INR towards this aim within the next five years. This will usher in a new era of multi-airport system (MAS) in our country. MAS is defined as two or more significant airports serving commercial air traffic in a metropolitan area. That means development of greenfield airports (new airports on fresh land) in Delhi/Jewar, Mumbai, Pune etc., will result in these areas accommodating flights from multiple airports.

Source: <https://timesofindia.indiatimes.com/city/pune/a-multi-airport-plan-that-can-boost-indian-aviation/articleshow/64760090.cms>

Haryana Cabinet meeting: nod to VAT cut on aviation turbine fuel

The Haryana Cabinet, which met under the chairmanship of the Chief Minister Manohar Lal Khattar, gave its approval for reducing the VAT rate from 20% to 1% on the sale of aviation turbine fuel (ATF) under the Regional Connectivity Scheme (RCS). The reduced VAT will be applicable at RCS airports and for RCS flights from other airports located within the state.

Source: <http://www.tribuneindia.com/news/haryana/cabinet-meeting-nod-to-vat-cut-on-aviation-turbine-fuel/611044.html>



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UDAN scheme: foreign airlines will get subsidy

Foreign carriers such as Singapore International Airlines (SIA), Thai Airways and Malaysian Airlines will be entitled to subsidy from India if they are selected to operate cheap flights between India and Asean countries under the international UDAN scheme. The Centre has launched a regional connectivity scheme (RCS) named UDAN to help the common man in small towns to fly. It provides a viability gap support to airlines for making these flights cheaper. Buoyed by its success, it now plans a similar scheme for connecting Indian cities with those in the Asean block. Both domestic and international carriers, designated by India and Asean countries, can participate in the scheme subject to provisions under the bilateral air service agreements (ASAs). On ASEAN routes, the Government has proposed to provide financial support for one year and for limited number of seats.

Source: <http://www.mydigitalfc.com/plan-and-policy/udan-scheme-foreign-airlines-will-get-subsidy>



Three factors bring down profitability of airlines around the globe

It is not just India's state carrier Air India that is debt-laden but airlines around the world are taking a hit at their profitability because of three important factors. The Minister of State for Civil Aviation, Jayant Sinha, said that high oil prices, currency fluctuations and high interest rates have sharply brought down the profitability of airlines around the globe. The International Air Transport Association (IATA) last month further warned that surging oil prices were denting airlines' profits and could significantly hurt their bottom lines next year.

Source: <https://www.financialexpress.com/industry/not-just-air-india-these-3-factors-bringing-down-profitability-of-airlines-around-the-globe/1220658/>

Small airports, 1 lakh crore INR investment: Govt mulls ways to boost air travel

To meet rising demand, the Government is looking at several ways to boost infrastructure in the Indian aviation sector. It is looking to build new airports, which include significant investment of around 1 lakh crore INR, and develop airports in small parcels of land. However, the Government is facing issues with availability of land for infrastructure projects such as airports. To counter this problem, the Aviation Ministry is consulting experts within and outside India to find out ways to create new airports with low requirements of land.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/small-airports-rs-1-lakh-crore-investment-govt-mulls-ways-to-boost-air-travel/articleshow/64677658.cms>



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Pawan Hans stake sale draws bids

The Civil Aviation Secretary R.N. Choubey confirmed that bids have been received for the strategic stake sale in helicopter services provider, Pawan Hans. A profit-making entity, Pawan Hans, is a joint venture between the Central Government and ONGC. Under the disinvestment proposal, the government offered to offload its entire 51% stake in the company.

Source: <http://www.thehindu.com/business/Industry/pawan-hans-stake-sale-draws-bids/article24213054.ece>

GMR group to set up Aerospace & Defence manufacturing hub in TN

According to a statement by infrastructure major GMR group, it will set up an aerospace and defence manufacturing hub in Hosur, around 60 kms from Bangalore, to promote production of defence equipment in the region. The project is a joint venture between GMR Group and the Tamil Nadu Industrial Development Corporation (TIDCO). Under the project, about 600 acres of prime industrial land has been made available for immediate occupation, a company statement said.

Source: <https://economictimes.indiatimes.com/industry/defence/gmr-group-to-set-up-aerospace-defence-manufacturing-hub-in-tn/articleshow/63713734.cms>

Adani, Punj Lloyd and Rave tie up for producing defence and aerospace gears

The collaboration is for manufacturing gears and gear assemblies primarily for rotary platforms, currently under production in India for HAL (Hindustan Aeronautics Ltd), and for future programmes such as naval utility and multi-role helicopters. The company said that the tie-up will use the manufacturing base in India for exports to global original equipment manufacturers (OEMs), both in the military and civil aerospace domain.

Source: https://www.business-standard.com/article/companies/adani-punj-lloyd-and-rave-tie-up-for-producing-defence-and-aerospace-gears-118041100913_1.html

Boeing expands aerospace engineering footprint in Bengaluru; to hire 2,500 over the next few years

Boeing inaugurated the newest phase of the Boeing India Engineering and Technology Center (BIETC) in Bengaluru. As the Center develops over the next few years, Boeing will employ more than 2,500 people in specialised fields of IT, engineering and R&D. Spread across 150,000 sq. ft. and eight floors, the new facility will double Boeing's existing footprint of 160,000 sq. ft., the facility is likely to accommodate 1,000 new employees, who will work to drive aerospace innovation from India, for India and the world.

Source: <https://economictimes.indiatimes.com/industry/indl-goods/svs/engineering/boeing-expands-aerospace-engineering-footprint-in-bengaluru-to-hire-2500-over-next-few-years/articleshow/64601272.cms>



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Prabhu to meet Airbus officials in Paris, to discuss aircraft manufacturing in India

Civil Aviation Minister Suresh Prabhu met top officials of Airbus in Paris to discuss possibilities for the aerospace giant to manufacture aircraft in India. “I will be meeting top bosses of Airbus and try to request them to start manufacturing aircrafts in India,” Prabhu told PTI. The minister is in Paris for the meeting of the Organisation for Economic Cooperation and Development (OECD). He will also participate in the meeting of key World Trade Organisation (WTO) members on the sidelines of OECD meet.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/prabhu-to-meet-airbus-officials-in-paris-to-discuss-aircraft-manufacturing-in-india/articleshow/64401391.cms>

India flouting global laws by taxing international air tickets: IATA

The International Air Transport Association (IATA) today criticised India for taxing international tickets, as it asked governments to facilitate the growth of worldwide connectivity by avoiding creeping re-regulation, maintaining the integrity of global standards and addressing a capacity crisis. IATA’s Director General and CEO Alexandre de Juniac said, “We must take governments to task. It is unacceptable that global standards are being ignored by the very governments that created them”. Asserting that India was taxing international tickets in contravention of the resolutions of the UN body International Civil Aviation Organisation (ICAO), de Juniac said, “India helped develop ICAO resolutions prohibiting tax on international tickets.”

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/india-flouting-global-laws-by-taxing-international-air-tickets-iata/articleshow/64445301.cms>





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With Air India remaining unsold, government drops plan to transfer two B-747s to IAF

Air India's failed divestment bid has led the Government to now drop the plan to transfer two of the airline's Boeing 747s to Indian Air Force for VVIP use after privatisation. AI has four jumbo jets which are used for long haul flights by top dignitaries such as the President and Prime Minister. "Since it was felt AI was going to be sold off, the plan was to transfer two of the five B-747s to IAF which already maintain Boeing Business Jets (BBJ) for short haul flights of top VVIPs. However, that need did not arise with AI remaining unsold for now. The dignitaries' B-747 flights will continue to be operated by the government-owned AI till a decision on the Maharaja's future is taken," said sources.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/with-air-india-remaining-unsold-govt-drops-plan-to-transfer-two-b-747s-to-iaf/articleshow/64553672.cms>

Government open to the idea of listing Air India

The Government is open to listing ailing state carrier Air India, a government source said on Wednesday, after failing to attract buyers for a 76% stake sale in the company. It was considering several proposals related to reviving the divestment process, including selling its entire 100% stake in the debt-laden carrier since a residual holding was being seen as a likely deterrent toward drawing bidders to the unprofitable airline. "A certain kind of strategy was offered that didn't find many takers and, therefore, something different will have to be done," the Economic Affairs Secretary Subhash Chandra Garg told Bloomberg in New Delhi. "There's no fixed objective that the Government should hold 24%. It can be re-examined."

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/government-open-to-the-idea-of-listing-air-india/articleshow/64572140.cms>





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NSDC to invest 4.5 crore INR for aviation skilling, ties up with Czech Aviation

National Skill Development Corporation (NSDC), under the aegis of Ministry of Skill Development & Entrepreneurship, Government of India, collaborated with Czech Aviation Training Centre (CATC) to establish skill academies in private universities and offer aviation-related courses for aspiring students. The training will help aspiring candidates in securing a career in the aviation sector across various job roles, i.e., Cabin Crew, ATC pre-training and Aviation Security. The agreement will facilitate short-term courses and diploma and degree programs in the Aviation sector for both Service and Maintenance segment in a phased manner at Universities recommended by NSDC. The required training will be provided based on industry defined standards under National Skills Qualification Framework, which will be further aligned to the EASA standards. Placements will be facilitated for all students who complete the training program, across both national and international airlines. To run the Cabin Crew Training, CATC will invest approximately 12,000 EUR to set-up a Lab in each of these universities and will further provide all the required equipment for safety and service within the skill academy at the university.

Source: <http://www.indianaviationnews.net/careers/2018/06/nsdc-to-invest-rs-4-5-cr-for-aviation-skilling-ties-up-with-czech-aviation.html>





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Green nod to Chennai airport expansion, AAI to spend 2,476 crore INR

An Expert Appraisal Committee (EAC) under the Ministry of Environment, has accorded environmental clearance for 2,476 crore INR for the Chennai Airport expansion programme by Airports Authority of India (AAI). According to the minutes of meeting held on 30 May, the Committee while clearing the project said that the modernisation will be carried out within the existing airport premises over an area of 1301.28 acres. As the entire land is already under possession of AAI, no additional land acquisition is involved. Once the expansion is done, the passenger capacity after modernisation of the proposed Chennai airport will be 30 million passenger per annum (MPPA) from the existing 14 million, the EAC said.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/green-nod-to-chennai-airport-expansion-aa-i-to-spend-rs-2476-crore/articleshow/64587152.cms>

Airports agency proposes 74% cut in Kempegowda International Airport user fee

Passengers using the Kempegowda International Airport (KIA) are likely to get a major relief as the Airports Economic Regulatory Authority (AERA) has proposed a 74% cut in user development fee (UDF) on both international and domestic flights. Currently, passengers pay a UDF of 1,226 INR for international, and 306 INR for domestic flights. The AERA has proposed that this be reduced to 316.8 INR and 79.2 INR, for international and domestic flights, respectively. If all the stakeholders—Bangalore International Airport Limited (BIAL), various airlines and government agencies—agree with the proposal, the new rates will be in place up to 31 March 2020.

Source: <http://www.aviationindia.net/2018/06/airports-agency-proposes-74-cut-in.html>

Delhi Metro-like connectivity for airports across India?

Minister of State for Civil Aviation, Jayant Sinha, met Housing and Urban Affairs Minister Hardeep Sing Puri and discussed the possibility of dedicated metro rail connectivity to key airports across the country similar to the Airport Express in Delhi, an official said. During the meeting, the two ministers also discussed the feasibility of such seamless metro connectivity to airports in various cities, including Bengaluru, Pune, Lucknow, Nagpur and Hyderabad, the official added. Currently, the metro service to airport is available in Delhi and Chennai.

Source: <http://www.aviationindia.net/2018/06/delhi-metro-like-connectivity-for.html>





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ISRO to launch more satellites to boost rural internet connectivity under Digital India project

The Indian Space Research Organisation (ISRO) will launch four more satellites to boost rural internet connectivity under the Digital India project, the space agency's chairman K. Sivan said. He also mentioned that the moon mission 'Chandrayaan-2' is also on track and will be launched by the end of this year. At present, two communication satellites GSAT 20 and GSAT 11 are getting ready for their launch. Commenting on the recent 10,400 crore INR budget allocation by the Centre, Sivan said that the funds will help ISRO boost the local economy and create jobs for more than 10,000 people. He added that the agency plans to manufacture 30 indigenous and 10 high-end GSLV rockets over the next four years.

Source: <https://www.hindustantimes.com/india-news/isro-to-launch-more-satellites-to-boost-rural-internet-connectivity-under-digital-india-project/story-kPYg0pDxGwtc50OgtDo25L.html>

Government approves 10,000 crore INR continuation programmes for PSLV, GSLV

The Government has committed 10,469 crore INR to India's space agency to build 40 rockets over the next five years, which includes ten heavy rockets or the Geo Synchronous Satellite Launch vehicle (GSLVMk-III) that can hurl 4-tonne communication satellites into space. The Union Cabinet, chaired by Prime Minister Narendra Modi, approved 30 operational flights of Polar Satellite Launch Vehicle (PSLV), the workhorse rocket of the Indian Space Research Organisation (ISRO) between 2019 and 2024. The 6,131 crore INR committed for PSLV rockets mandates ISRO to increase to eight launches a year and increase participation of the Indian industry in the rocket programme.

Source: <https://economictimes.indiatimes.com/news/science/government-approves-rs-10000-crore-continuation-programmes-for-pslv-gslv/articleshow/64483323.cms>





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Government to curb airport land buy costs

The Government does not want to face any cost escalation due to problems in land acquisition as it plans to increase the number of airports to around 200 from around 100 currently over the next two decades, at a cost of approximately 60 billion US\$. Delays in land acquisition has increased the cost for Navi Mumbai International Airport (NMIA) to approximately 17,000 crore INR from an earlier projection of 4,766 crore INR in 2006-07—a whopping 250% increase. Airports Economic Regulatory Authority of India (AERA), which is a tariff regulator for aeronautical services charged by airports, has now asked all stakeholders to offer their comments on a study, which was done in order to ascertain a Fair Rate of Returns (FRoR) for upcoming airport projects. AERA had commissioned consultancy firm EY to conduct a comparative study of infrastructure projects in the country and abroad to come out with a suitable formula.

Source: <http://www.aviationindia.net/2018/06/govt-to-curb-airport-land-buy-costs.html>

Government mulls selling 100% stake in debt-laden Air India after flop attempt

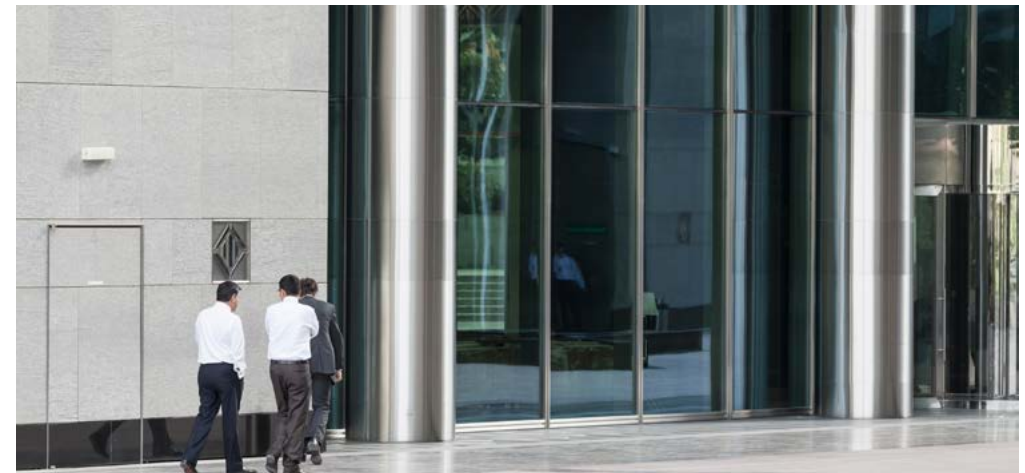
The Government is considering revising the terms of sale for Air India, including offering a 100% stake, after its latest attempt to sell 76% of the debt-ridden airline failed to draw even a single bid. Transaction advisor EY has cited the clause of the government holding a minority stake in the state carrier as the biggest reason for the failed disinvestment bid.

Source: <http://www.aviationindia.net/2018/06/govt-mulls-selling-100-stake-in-debt.html>

Bhubaneswar to have second airport: Civil Aviation Ministry

Odisha's capital Bhubaneswar is set to get a second airport to reduce congestion at the existing one, the Civil Aviation Ministry today said. The airport registered a growth of 39.4% in fiscal year 2017-18, making it one of the fastest growing airports in the country. The Civil Aviation Ministry stated, "Identification of a suitable land to build a second airport near Khurda on the outskirts of Bhubaneswar has been initiated. The set-up process will be fast tracked. The new airport will reduce air traffic congestion while improving passenger convenience."

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/bhubaneswar-to-have-second-airport-civil-aviation-ministry/articleshow/64388417.cms>





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Unique ID to enable paperless boarding for domestic flyers

A unique identity number will soon let you whisk past airport processes while boarding domestic flights. A technical team representing Airports Authority of India (AAI) and the four private metro airports has finalised the format for biometric-based 'Digi Yatra' (DY) for all airports to enable a completely paperless boarding process for domestic flyers. Under this process, each traveller will need to get the unique ID from an Aviation Ministry portal, which will be linked to their biometrics. People will give this unique DY ID at the time of booking domestic tickets.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/unique-id-to-enable-paperless-boarding-for-domestic-flyers/articleshow/64267795.cms>

GST on jet fuel: Airlines can earn 5,220 crore INR input tax credit

Airlines can annually earn combined input tax credits of 5,220 crore INR—more than five times of what they are getting now—if jet fuel is bought under the ambit of goods and services tax (GST). Moreover, contrary to fears of the Government that it will lose out on tax revenue, it will actually earn 10,353 crore INR, 7% more than what it gets now if the fuel is covered under GST. These assessments were given to the Ministry of Civil Aviation last week in a presentation by top executives at Indian carriers. The meeting was chaired by the Minister of State for Civil Aviation, Jayant Sinha.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/gst-on-jet-fuel-airlines-can-earn-rs-5220-crore-input-tax-credit/articleshow/64250882.cms>





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Civil Aviation Ministry to urge Finance Ministry to bring ATF under GST

To contain the rise in jet fuel prices and its cascading impact on air ticket prices, the Civil Aviation Ministry will urge the Finance Ministry to bring airline turbine fuel (ATF) under the ambit of GST. The Civil Aviation Secretary Rajiv Nayan Choubey on Tuesday said, a proposal will be made to the Ministry of Finance to bring ATF under the ambit of GST to contain the rise in jet fuel cost due to high global crude oil prices. Since January 2017-May 2018, the rise in global crude oil prices have pushed ATF cost by 40%. Currently, state levies add anywhere from 2% to 30% extra on the sale of jet fuel. Under the GST regime the cost is expected to come down substantially. However, the decision to bring the particular fuel type under the GST ambit will depend upon the Finance Ministry as the same will be required to be mooted by it in the GST Council.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/civil-aviation-ministry-to-urge-finance-ministry-to-bring-atf-under-gst/articleshow/64276796.cms>



CCI lens on algorithms used for air ticket prices

Competition Commission of India (CCI) plans to assess algorithms used by domestic airlines for ticket pricing to check for possible cartelisation, a top official said today amid instances of sharp fluctuations in airfares during peak demand. The watchdog, which keeps a tab on unfair business practices across sectors, has been looking into the issue after the Jat agitation in early 2016 when ticket prices on Chandigarh to Delhi flights shot up sharply. The CCI Chairperson, D.K. Sikri, told that the regulator is looking at how algorithms function when it comes to pricing of air tickets in order to check for possible cartelisation.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/cci-lens-on-algorithms-used-for-air-ticket-prices/articleshow/64122490.cms>





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Government looks to invite US firms for airport development

The Government is looking for participation from American companies in the development of airports as it seeks to make the segment more competitive, according to a top Civil Aviation Ministry official. The US companies have a significant presence in the area of aviation technology in the country, particularly in safety and security. "One area of cooperation with the US is airport development. We are also looking at inviting the US companies and to provide competition in development of airports," Civil Aviation Secretary R.N. Choubey said. The Government had recently said it plans to invest close to 1 lakh crore INR in the next five years for capacity augmentation and development of greenfield airports.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/government-looks-to-invite-us-firms-for-airport-development/articleshow/64114654.cms>

Aviation ministry rejects Jet's proposal to merge JetLite

Jet Airways said that the Aviation Ministry has not approved its plan to merge Jet Airways and JetLite, effectively meaning that the two airline entities would operate under separate air operator permits. "The Ministry of Civil Aviation has not approved the Scheme of Merger of Jet Lite (India) Ltd. with the company, and the same stands revoked, cancelled and shall have no effect as provided in para 18 of the Scheme. In view of the above, Jet Lite (India) Ltd. and Jet Airways (India) Ltd. shall continue their respective operations as two separate legal entities with their respective air operator certificates," the airline company stated in a filing to the Bombay Stock Exchange.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/government-denies-approval-for-jet-airways-jet-lite-merger/articleshow/64098531.cms>





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Government holds discussions with telcos, airlines on in-flight Wi-Fi services

According to sources the Government held detailed discussions with telecom operators and airlines on framing guidelines for in-flight data and voice services. The meeting comes within a fortnight of the Telecom Commission, the highest policy making body of Department of Telecom (DoT), clearing a proposal to allow in-flight connectivity. Once the guidelines are in place, it would allow travellers to use internet and voice services on mobile phones during flights in the Indian airspace.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/government-holds-discussions-with-telcos-airlines-on-in-flight-wi-fi-services/articleshow/64162786.cms>

Pawan Hans' UDAN plans run into rough weather amid divestment

State-run Pawan Hans Helicopter's plans to launch flights under the regional connectivity scheme, UDAN, have run into rough weather amid the ongoing disinvestment process and non-availability of choppers, the company's union has alleged. Pawan Hans, in which the Government has proposed to sell its entire 51% stake to private players, has the mandate to fly on 11 routes across Assam, Himachal Pradesh, Manipur and Uttarakhand under phase two of the UDAN scheme.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/pawan-hans-udan-plans-run-into-rough-weather-amid-divestment/articleshow/64065490.cms>

Aviation min gives site clearance to new Pune int'l airport

The Civil Aviation Ministry said that it has given "site clearance" for the construction of a greenfield international airport near Pune. In 2016, Maharashtra Chief Minister, Devendra Fadnavis, had announced the setting up of a greenfield international airport at Purandar in Pune district. Passenger traffic at the existing airport at Lohegaon, which is controlled by the Indian Air Force and operated by the Airports Authority of India, increased 20.6% to 8.16 million in FY 2017-18, compared with 6.76 million in FY2016-17, as per the latest AAI data.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/aviation-min-gives-site-clearance-to-new-pune-intl-airport/articleshow/64079339.cms>





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Qatar Air to apply soon to start airline in India

Qatar Airways (QA) will soon apply for launching an airline in India, which will be a full service carrier operating within the country. While the proposed airline will be fully-owned by Qatar entities, it will have an Indian chairman and majority of board members will also be from India. QA has also clarified that it is not bidding for Air India. In his first interaction with the Indian media since last March when he announced the plan to set up an airline in India, QA Group Chief Executive Akbar said, “Our lawyers have started working on our application. We will soon get some clarification from government authorities in India to give us the exact direction on how we can start the process (and formally apply for the (license) sometime soon.”

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/qatar-air-to-apply-soon-to-start-airline-in-india/articleshow/64010660.cms>

Indian aviation sector will see 1 lakh crore INR investment in five years: Jayant Sinha

The aviation sector in India, currently growing at nearly 28%, will see an investment of close to 1 lakh crore INR in the next five years for capacity augmentation and development of new greenfield airports, Minister of State for Civil Aviation Jayant Sinha said. As his ministry firms up plans to achieve 1 billion passenger trips per annum within the next 15-20 years, Sinha said the capacity addition will come with other amenities such as use of digital technology for passenger verification and bringing about a paradigm shift in airport designs.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/indian-aviation-sector-will-see-rs-1-lakh-cr-investment-in-5-years-jayant-sinha/articleshow/64005810.cms>





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Government clears 1 billion US\$ Noida airport project in Jewar

The Aviation Ministry has given its go-ahead to build a 1 billion US\$ airport in Jewar, on the outskirts of Greater Noida. This will be the second civilian airport in the National Capital Region. After technical feasibility clearance, the project now has a site clearance as well as an in-principle approval, which was granted few months ago, the Civil Aviation Secretary Rajiv Nayan Choubey told ET Prime. "It should be up and running in three years," Choubey said. Bids for the new airport will be called in August and the winner is likely to be selected by the end of the year. The Uttar Pradesh Government will spend 4,000 crore INR on land acquisition for the Jewar project, officials said. The State Civil Aviation Department will spend 1,500 crores INR while the Noida Development Authority will invest a matching amount. The Greater Noida Authority and the Yamuna Expressway Industrial Development Authority (YEIDA) will be invest another 500 crore INR each, state government officials said after the state cabinet approved the expenditure.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/jewar-airport-rs-4000-crore-to-be-spent-on-land-acquisition/articleshow/64483350.cms>

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/govt-clears-1-bn-noida-airport-project-in-jewar/articleshow/63882859.cms>

Pawan Hans plans to start chopper services under RCS by August

Pawan Hans plans to expand its fleet by leasing eight more helicopters as it prepares to start services under the regional air connectivity scheme by August, a senior official said today. The company, a joint venture between the Government and state-owned ONGC has a fleet of 42 helicopters. It bagged 11 routes spread across five states in the second round of bidding under the Regional Connectivity Scheme (RCS). The five states where it would start UDAN services are Himachal Pradesh, Uttarakhand, Manipur, Assam and Arunachal Pradesh.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/pawan-hans-plans-to-start-chopper-services-under-rcs-by-august/articleshow/63732879.cms>





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AAI seeks green light from MoEF for airport expansion projects

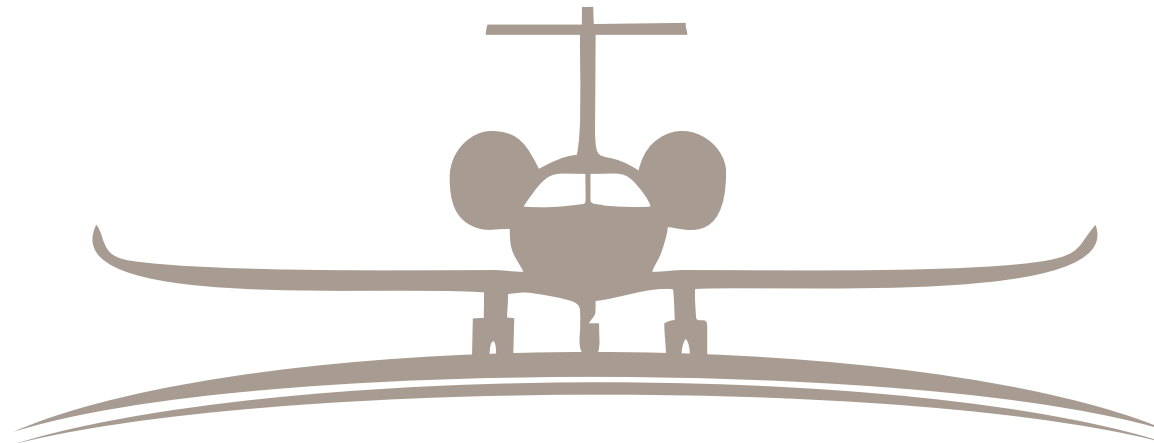
The Airports Authority of India (AAI) has approached the Ministry of Environment and Forest (MoEF) and Climate Change seeking permission for various expansion programmes of seven airports including Pune, Guwahati and Tirupati this year. The total investment outlay for all the seven airports was pegged at nearly 3000 crore INR, according to the minutes of meetings of Expert Appraisal Committee (EAC) under the Ministry held in January and March. A top official of the national airports' operator recently said that the PSU will be investing 15,000 crore INR during the current fiscal for terminal building projects across the country.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/aai-seeks-green-light-from-moef-for-airport-expansion-projects/articleshow/63666654.cms>

AAI receives interest from foreign players for remote ATC towers

State-owned AAI has received expression of interest from a few foreign companies to set up remote air traffic control towers amid efforts to connect more unserved airports, according to a senior official. Airports Authority of India (AAI), which manages more than 120 aerodromes, also provides Air Traffic Management Services (ATMS) over the entire Indian air space and adjoining oceanic areas. "Remote (ATC) tower is being experimented with in some North European countries. We also got interested because we have so many small airports coming into the RCS (Regional Connectivity Scheme) network," AAI Chairman Guruprasad Mohapatra told PTI recently.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/aai-receives-interest-from-foreign-players-for-remote-atc-towers/articleshow/63665575.cms>





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Airbus Arm, Indian start-up want to produce equipment for airports under UDAN

A subsidiary of European aerospace major Airbus and an Indian start-up it has incubated aim to work with the state-run Airports Authority of India (AAI) to produce equipment for airports under the Government's regional connectivity scheme (RCS). Airports covered under the RCS include the newly operational ones—Mundra in Gujarat, operated by the Adani Group, Bellary airport, Karnataka (now defunct with flights operating to the Jindal Group-run Vijayanagar airport), Hosur airport, Tamil Nadu, operated by Taneja Aerospace and the AAI-operated Salem airport in Tamil Nadu. The Airbus subsidiary, Navblue, produces aeronautical charts for worldwide airports and airlines. The start-up, Eflight, is an aggregator for domestic flight support primarily for business jets.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines-aviation/airbus-arm-startup-to-produce-equipment-for-airports-under-udan/articleshow/63635535.cms>

Tata Sons to form Tata Aerospace and Defence

Tata Sons is in the process of consolidating its various businesses across the A&D sector together under a single entity—Tata Aerospace & Defence (Tata A&D). This entity proposes to leverage its full range of expertise, experience, and capabilities from across the Group related to land mobility solutions, aerospace, weapon systems, sensors and command, control, communication, computers and intelligence (C4I), according to a statement by the Tata Group. The Group is in the process of getting the necessary statutory and regulatory approvals.

Source: <https://timesofindia.indiatimes.com/business/india-business/tata-sons-to-form-tata-aerospace-and-defence/articleshow/63719444.cms>



Amendments in Defence Offset guidelines

Ministry of Defence has proposed modifications to offset guidelines to include additional avenues for offset discharge. Increase in the avenues of discharge will not only provide additional options to the industry for discharging offset obligations but also provide opportunities for the domestic A&D industry to benefit further from the offset policy. Amendments made to the defence offset guidelines are:

- **Investment in specified projects**

OEMs are allowed to discharge their offset obligations by investing in certain specified projects to foster development of internationally competitive defence, aerospace and internal security related enterprises in the country. Projects would include:

- Defence-related infrastructure projects such as testing labs, testing ranges and skill centres. Only the capital costs of these projects will be considered for discharge.
- Specified technology acquisition projects.
- Specified critical technology

These projects will be executed through an implementing agency identified by the Government that will be through a public sector entity including DRDO, DPSUs, OFB or through an SPV set up with or without industry participation for this purpose. The investment may be made by the vendor having discharge obligation, by any of its sister companies or affiliates. Offset discharge should be subject to physical completion of the project and verification of audited accounts of implementing agency

clearing indicating that the investment has been made. Procurement of products or services arising out of the investment by the vendor will not be eligible for offset discharge.

Multipliers:

Avenue	Defence industry corridors	Other areas
Defence related infrastructure projects	3	2
Specified technology acquisition projects	4	3
Specified critical technology	5	5





- **Investment in defence manufacturing**

Equity investment in a company for setting up a manufacturing unit in defence, aerospace and internal security. The investor will be eligible to returns on its investment as per law. The investment should be made by the vendor having offset obligation as per the contract or by such other vendors specified in the contract. Offset discharge should be subject to physical completion of the project and verification of audited accounts of the company setting up a manufacturing unit in defence, aerospace or internal security. Furthermore, procurement of products and services from the unit set up will not be eligible for offset discharge.

Multipliers:

Avenue	Defence industry corridors	Other areas
Investment in defence manufacturing	4	3

- **Investment in specified SEBI-regulated funds for Defence, Aerospace and Internal Security**

Investment in MoD registered, professionally managed and SEBI-regulated funds dedicated for development of start-ups and MSMEs of defence, aerospace and internal security-related enterprises in the country. Investment in any such fund will be subject to a ceiling of 30% of the fund

corpus. The vendor contributing to a fund will be entitled for usual returns on its investment as per law. Offset discharge should be based on verification of transfer of funds from the vendor to the fund.

Multiplier:

Investment under this option will be eligible for a multiplier of 3.

It is promising to see that the Government will allow multipliers ranging from two to five for the additional avenues. The proposed changes have permitted offset discharge by group and sister companies and affiliates only for investments in specified projects. However, the industry's demand to allow group companies to discharge the offset obligations for all avenues remains to be fulfilled. Not allowing offset credits for procurement from specified projects or projects with equity investments, is irrational. Besides in the case of specified technology acquisition projects, it contradicts the original policy where there is no such restriction for discharging obligations via FDI. In fact, the original policy gives offset credit for buyback. Moreover, OEMs must be incentivised for both investing in Indian companies as well as creating a market for them and buyback is the best way. So this restriction not only contradicts specific provisions of the existing policy, it goes contrary to its very spirit and objective of building an indigenous defence manufacturing base.

Unique ID for paperless boarding

The Airport Authority of India (AAI) came up with the 'Digi Yatra' (DY) initiative, where Aadhaar-based Unique ID will be made available to enable paperless boarding for passengers. Digitisation of the boarding process will alleviate the burden on airport authorities in major cities. This initiative will act as a support to the UDAN-Regional Connectivity scheme. The biometric-based project is formulated by the team representing AAI and the four private metro airports. People will give this unique DY ID at the time of booking domestic tickets. For this, passengers need to enrol with the programme through the Government's refurbished AirSewa-II portal to generate a DY ID for paperless service. Airports entry gates will be equipped with QR or bar code scanners to relieve out the boarding process. Airports in Bengaluru, Hyderabad, Kolkata, Varanasi and Vijayawada, will be beginning paperless boarding phase-by-phase, starting January 2019. This initiative has emerged after six months of comprehensive discourse with various ecosystem players.

- With increasing number of passengers every year, the Digi Yatra initiative will help airports by avoiding long queues and congestion at the airport.
- Digitising data is likely to help the aviation industry gather meaningful insights for continuous improvement and innovation.
- This will cut down crowding in the airport because eager passengers turn up at boarding gates much before they would actually be allowed inside aircraft.
- With increase in the number of domestic air passengers every year, this will help airport authorities handle more passengers in less time.



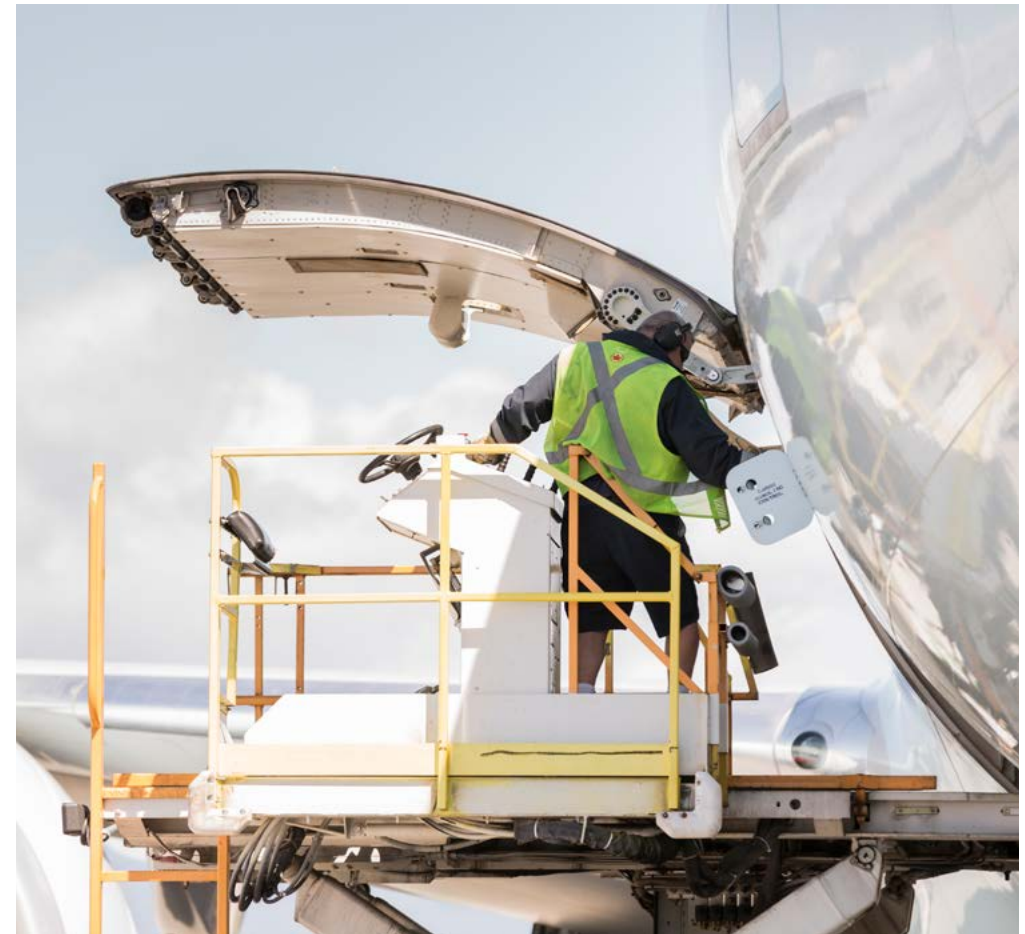
Air India disinvestment

Air India's Disinvestment is one of the major moves in the country's PSU industry. Despite the extension of the last date (from 14 May 2018 to 31 May 2018) to submit EoIs for stakes in Air India Ltd., there was no bid to seal the disinvestment move. Although the Tata Group, IndiGo, Jet Airways, Spice Jet and Singapore Airlines held regular discussions with the Government, neither of them placed the bid. Government officials put it as investor's tactical move to relax the conditions for bidding. Major reasons why Government failed to receive any bid were:

- It was felt that the 33,392 crore INR debt burden being passed onto the bidder was too high.
- The Government's decision to retain 24% in the airline and a seat on the board will curtail the buyer's autonomy.
- On account of increase in jet fuel prices by up to 50% in a year, growth of air passenger traffic slowed to 16.35% in May as compared to the growth of 26.05% in April.
- Terms and conditions on how many staff were to be retained were not clear.
- The liability of more than 27,000 highly unionised workforce was also not specified.
- Political risk—as elections are one year away, a new government may not support this move.

There were also reports that the Government was considering an IPO. However, it is unlikely that retail and institutional financial investors will be interested in a debt-laden company given no interest from strategic investors who would have full management control. It appears that the Government has realised this and has shelved plans about disinvestment for now.

It will be prudent for the Government to use this time to restructure the offering.





CBDT issues notification for implementation of POEM-based taxation for foreign companies

Central Board of Direct Taxes (CBDT) issued notification dated 22 June 2018 under section 115JH(1) of the Income-tax Act, 1961 (the Act) for taxing foreign companies treated as resident in India on account of their place of effective management (POEM), and where such foreign company has not been resident of India in any of the previous year. The notification has been made applicable with effect from 1 April 2017.

The salient features of the notification is as under:

- The notification provides for determination of written down value (WDV), the availability of brought forward loss and unabsorbed depreciation (UD) in the transitional year.
- The foreign company will be required to prepare a balance sheet and profit and loss account for the “interim period” until which the foreign company has become resident.
- The foreign company will be entitled to avail foreign tax credit as per the provisions of the Act.
- Where more than one provision of the Act relating to withholding tax obligation apply both to a ‘foreign company as a resident’ as well as to a ‘foreign company’, the provision as applicable to ‘foreign company’ alone shall apply.

- The provisions of the Indian Income Tax Rules, which provide for the rate of exchange for conversion into rupees of value expressed in foreign currency shall apply.
- Adoption of conversion rate for values expressed in foreign currency to be as per extant Indian Income Tax rules.

The notification will be applicable in case of tax years subsequent to the year in which the foreign company becomes resident for the first time due to the POEM rule. The notification will not apply to income that is otherwise taxable in India, even if the foreign company does not become a tax resident in India.

All the provisions of the Act as applicable to a foreign company will apply, and accordingly, the rate of income tax as applicable to a foreign company (corporate tax rate of 40% as increased by applicable surcharge and cess) will apply. In case of conflict between the provisions applicable to a foreign company as resident and the provisions applicable to a foreign company, then the provisions, which apply to foreign company should prevail.





Indian subsidiary also negotiating contracts—constitutes DAPE; additional attribution of profits, as such functions not considered in FAR analysis of subsidiary

Facts

- The assessee was a tax resident of Japan, engaged in the business of developing, manufacturing, assembling and supplying air conditioning and refrigeration equipment. It had a wholly owned subsidiary in India, to which the assessee sold air-conditioners.
- Apart from sales to its Indian subsidiary, the assessee also made direct sales to customers in India. With regard to direct sales to Indian customers, the assessee entered an agreement with its subsidiary for availing marketing services, i.e., to forward the customers' request to procure products to the assessee and to forward the assessee's quotations and contractual proposal to the customers and paid commission for the same.
- During the assessment proceedings, the tax officer (TO) held that the Indian subsidiary was the dependent agent permanent establishment (DAPE) of the assessee in India under Article 5(7) of the double taxation avoidance treaty (tax treaty) signed between India and Japan, alleging that the activities of the Indian subsidiary were not restricted to marketing services, but also involved identifying customers, negotiating and finalising prices, etc.

- Thereafter, the TO also attributed the profits to the said PE in a unique manner, by allowing the deduction of expenses at 5% of sales value from the additional profits earned by the assessee on account of PE activities in India.
- Aggrieved, the assessee filed an appeal before the Tribunal.

Assessee's contention

- As regards the constitution of DAPE, the assessee contended that it was independently undertaking all the important activities concerning sales transactions, such as negotiation and finalisation of prices, payment terms, delivery schedules and other contractual terms with customers in India and the Indian subsidiary was merely a communication channel.
- The assessee highlighted that its employees also visited India for discussions with customers. While the Indian subsidiary made sales to individual customers in India, the assessee was making sales only to institutional customers in India. Furthermore, the Indian subsidiary was economically independent and remunerated for providing marketing support. Therefore, its activities could not constitute a PE of the assessee in India.



Direct tax



- As regards the attribution of profits, the assessee contended that in case of the Indian subsidiary, the transfer pricing officer (TPO) had accepted that the international transaction of commission payment is at Arm's Length Price (ALP). Hence, relying on the ruling of Hon'ble Supreme Court in case of Morgan Stanley ([2007] 292 ITR 416), the assessee contended that no further profits need to be attributed to the alleged PE of the assessee in India. Moreover, the mechanism of computation of attributable profits was not as per law.

Revenue's contention

- The Revenue contended that the assessee provided no evidence (including emails or correspondences) to substantiate that it identified customers, approached them, made presentations and demonstrated and negotiated and finalised prices in respect of direct sales made by the assessee. The employees of the assessee who visited India rendered only consultancy services, which were charged separately to the Indian subsidiary.
- Furthermore, there were also direct sales to individual customers, and thus, sales were not restricted to institutional customers. The Indian subsidiary constituted DAPE of the assessee



ITAT's ruling

The Tribunal held as under: justified in withholding taxes, as provided under the tax treaty.

- **Constitution of DAPE**

- In the highly competitive air conditioning and refrigeration equipment industry, considerable efforts were necessary to achieve sales. For selling the same products, in the capacity of a distributor, the Indian subsidiary had incurred huge selling and distribution expenses. The contention of the assessee that customers in India were directly approaching it in Japan was not acceptable.
- Although the Indian subsidiary was not vested with the apparent authority to finalise the contracts of direct sales in India, the negotiating and finalising of contracts, etc., constituting the substance of any sale transaction in India were indeed performed in India. The mere fact that the assessee was formally signing contracts will not alter this position.
- It was not the case of the assessee that the Indian subsidiary was an independent agent, qua the assessee. The Indian subsidiary was habitually exercising authority in India to conclude contracts on behalf of the assessee, though such contracts were formally signed by the assessee in Japan. The same was evident from copies of email available on record. Furthermore, the Indian subsidiary was securing orders in India almost wholly for the assessee. Therefore, the Indian subsidiary constituted the DAPE of the Indian assessee in India.

- **Attribution of profits**

- The applicability of the principle laid down by the Supreme Court in the case cited by the assessee was not to be disputed; however, the same was not applicable in the instant case, as it fell within the exception, as laid by the Supreme Court, i.e., if the transfer pricing analysis did not adequately reflect functions performed and risks assumed by the enterprise.
- Profits were to be attributed to the DAPE, as the commission paid by the assessee to its Indian subsidiary had been found at ALP only with regard to marketing functions. Accordingly, it will be necessary to attribute profits to the PE for functions such as negotiating and finalising contracts, performed by such PE.
- The Tribunal held that the mechanism followed by the TO in computing the amount of profits attributable to the PE was unique in nature and suffered from several infirmities. For the purposes of attributing profits, the Tribunal suggested that the profits earned by the Indian subsidiary from the commission income (and not the entire commission payments) should be reduced from the profits arising from direct sales. Thereafter, the matter was restored to the TO to determine the amount attributable to the PE in India, as per directions provided by the Tribunal.

Daikin Industries Ltd. vs. ACIT, Circle 1(2)(2), International Taxation, New Delhi [2018] 94 taxmann.com 299 (Delhi - Trib.)



Tax treaty benefits cannot be denied merely because Tax Residency Certificate (TRC) required under the Income Tax Act, 1961 is not furnished

Facts

- The assessee made certain payments to a US Co. for installation and commissioning of an equipment in India.
- No taxes were withheld on such payments, on the premise that the payments were not chargeable to tax in India as per the beneficial provision of the India-US tax treaty (tax treaty).
- The Tax Officer (TO) held that the services rendered by the US Co. were taxable as per the provisions of section 9(1)(vii) of the Act and Article 12 of the tax treaty, and in the absence of taxes withheld by the assessee, payments made were disallowed.
- On further appeal by the assessee before the Commissioner of Income tax (Appeals) [CIT(A)]. The CIT(A) upheld the disallowance made by the AO and additionally observed that the US Co. had not furnished a valid TRC and therefore, was not entitled to the beneficial provisions of the tax treaty. Aggrieved by the order of CIT(A), the assessee preferred an appeal before the Income tax appellate tribunal (ITAT).

Revenue's contentions

- In a rather simple way, irrespective of whether requirement of TRC under Section 90(4) of the Act applies or not, there has to be reasonable evidence about entitlement of the US entity to the benefits of the tax treaty.





ITAT's ruling

- Tribunal held that:
 - As per section 90(2) of the Act, provisions of the Act should apply only to the extent they are more beneficial to that the assessee and the same was often referred to as “treaty override”.
 - The provisions of section 90(4) do not start with a non-obstante clause vis-à-vis section 90(2) of the Act. In the absence of such non-obstante clause, section 90(4) cannot be construed as limitation to the tax treaty superiority as stipulated in section 90(2) of the Act. Thereby, in the absence of a valid TRC, provisions of section 90(4) could not be invoked to deny tax treaty benefits.
- Although the requirement to furnish TRC was not mandatory, the Tribunal has, nevertheless, emphasised that the US Co. had to establish that it was a US tax resident. The onus was on the assessee to give sufficient and reasonable evidence to satisfy requirements of Article 4(1) of the tax treaty, particularly when the same was called into question.
- In the light of these discussions, ITAT viewed that the matter should be remitted to the file of the CIT(A) for fresh adjudication, inter alia, after giving the assessee a fresh opportunity of furnishing evidences not limited to, but including, the tax residency certificate under section 90(4), in support of US entity's entitlement to the benefits of Indo-US tax treaty benefits.

**(Skaps Industries India (P.) Ltd. v. Income Tax Officer) 253 ITR 50
(Gujarat High Court)**





Payment made to UK Company for ‘consultancy services’ which does not satisfy ‘make available’ test, could not be taxed under Article 13(4) of India-UK tax treaty; payment made to non-resident employees rendering services outside India not liable to tax in India

Facts

- The assessee is a company incorporated in India. During the year under consideration, the assessee made following payments to non-residents without deducting any tax:
 - Salary paid to two employees rendering services outside India
 - Made payment to a UK-based company for consultancy services

Assessee’s contention

- With respect to amounts paid to non-resident employees, the assessee contended that these payments were on account of salaries, and in terms of Article 16 (Dependent Personnel Services) of the related tax treaty, i.e., India-Egypt tax treaty and India-Philippines tax treaty, these payments did not have any tax liability in India.
- Furthermore, with regard to payment made to UK company, the assessee believed that in the absence of any permanent establishment in India of the company, there was no requirement to deduct any tax at source.

Revenue’s contention

- The payment made to the UK company was taxable as ‘fees for technical services’ under Article 13 of the India-UK tax treaty.
- The Assessing Officer (AO) further contended that there was no evidence on record to suggest that the non-residents were employees of the assessee.
- On the above grounds, the AO disallowed payments made to non-residents under section 40(a)(i) of the Act.

CIT(A)’s view

- CIT(A) agreed with the assessee’s view that the services rendered by O&O MDC Ltd. are simply in the nature of ‘consultancy services’, which do not make available any technical knowledge, skill or knowhow—as is the condition precedent for invoking taxability under Article 13 of the India-UK tax treaty and deleted the disallowance made by the AO.
- As regards payments for salaries to non-resident employees, CIT(A) again accepted the contentions of assessee, and holding that these amounts were not taxable in India anyway, related disallowances under section 40(a)(i) were deleted.

On cross appeals before Income Tax Appellate Tribunal (ITAT)



Direct tax

ITAT's ruling

- Consultancy services
 - ITAT noted that there is no dispute that the payments are in the nature of payments for consultancy services. As the consultancy agreement stipulates, the O&O's obligation is 'to provide technical advices on phone or fax or email as and when required' and to provide for 'consultancy services' in specified areas.
 - ITAT referred to the case of CESC Ltd v. Dy. CIT [(2003) 87 ITD 653 (Kol)] wherein the members of the Tribunal had deliberated on the definition of 'fees for technical services' as provided under the India-UK tax treaty and the expression 'make available'. It was held that: ".....in order to be covered by the provisions of Article 13(4)(c) of India UK DTAA, not only the services should be of technical in nature but such as to result in making the technology available to the person receiving the technical services. We also agree that merely because the provision of the service may require technical input by the person providing the service, it cannot be said that technical knowledge, skills, etc., are made available to the person purchasing the service....."
 - ITAT also referred to the decisions of non-jurisdictional High Courts in the case of, namely DIT v Guy Carpenter & Co Ltd. [(2012) 20 taxmann.com 807 (Delhi High Court)] and De Beers India Minerals (P.) Ltd. v. CIT [(2012) 21 taxmann.com 214 (Karnataka High Court)].
- ITAT further noted that merely because consultancy services has technical inputs, these services do not become technical services and simply because the recipient of a technical consultancy services learns something with each consultancy, there is no transfer of technology in the sense that recipient of service is enabled to provide the same service without recourse to the service provider.
- Accordingly, ITAT upheld the relief granted by the CIT(A) with respect to payments made to the UK company.
- Payment made to employees
 - ITAT noted that there was no dispute that the services are rendered in the related jurisdictions, and that, in terms of the then applicable India-Egypt tax treaty (Article 16) and India-Philippines tax treaty (Article 16), the services so rendered by them did not lead to any tax implications in India. While upholding the relief granted by the CIT(A) on this point, ITAT observed that when the income embedded in the payments did not have any tax implications in India, there was no question of any tax withholdings, and, accordingly, disallowance under section 40(a) (i) could not have come into play.

Bio Tech Vision Care (P.) Ltd. vs. DCIT [(2018) 93 taxmann.com Ahmedabad - Tribunal]

GST updates

Facts

- The assessee is a company incorporated in India. During the year under consideration, the assessee made following payments to non-residents without deducting any tax:
 - Salary paid to two employees rendering services outside India
 - Made payment to a UK-based company for consultancy services

Circular no. Circular No. 40/14/2018-GST dated 06th April 2018

- No documents are required to be deposited physically to the concerned jurisdictional authority after submitting the LUT on the GSTN online portal. Furthermore, the circular also provides that the LUT will be deemed to be accepted once the Application Reference Number (ARN) is generated for the same.

Notification no. 12/2018- Central Tax (Rate) dated 29 June 2018

- The Government, basis the notification, has extended the exemption from payment of tax under section 9(4) of the CGST Act, (i.e., no GST will be applicable in case of procurements made from an unregistered vendor under GST) from 30 June 2018 till 30 September 2018.

Other updates

- The GST Council has released a 'Draft Proposals for amending GST law' on 9 July 2018 on its official website, inviting comments from the stakeholders till 15 July 2018. A total of 46 amendments are proposed, which might be laid out during the upcoming Monsoon session.
- GST Implementation Committee decides to keep in abeyance GST provisions relating to tax deducted at source (TDS) and tax collected at source (TCS) for another 3 months till September 2018. Notification in this regard is yet to be issued.
- E-Way Bill operations are now compulsory for inter-state and intra-state movement of goods for all states subject to state-specific exemption limits issued.





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