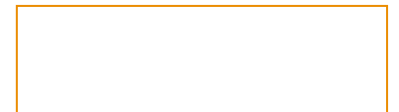


October 2018

Cutting Edge: Aerospace and Defence





Editorial



Dear readers,

Greetings for the third quarter of 2018–19!

I am delighted to present the 38th 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 landmark events and market developments, both in the defence and aviation sector—signing of the Communications Compatibility and Security Agreement (COMCASA) between India and the United States (US), an inter-governmental agreement between India and Russia for procurement of five S-400 air defence missile systems and four frigates, release of request for information (RFI) for procurement of 6,50,000 assault rifles by the Indian Ministry of Defence (MoD), and release of the much-awaited National Drone Policy. The MoD has also announced that the next Aero India will be held between 20–24 February 2019 in Bengaluru, putting to rest much uncertainty and speculation! The rising cost of aviation turbine fuel (ATF) and the depreciating rupee have badly hit the bottom lines of commercial airlines.

India and the US signed the COMCASA during the first ever '2+2' meeting. The agreement was pending for more than 10 years and will have far-reaching strategic and tactical consequences. It will not only enable India to import high-tech military hardware, but will also give Indian military access to the high-end, secured and encrypted communication equipment installed on American platforms it has procured. In addition, prioritising co-production of defence equipment under the Defense Technology & Trade Initiative (DTTI) and conducting tri-series military exercises and an Industrial Security Annex (ISA), as agreed on during the '2+2' submit, would further deepen trust and defence ties between the two nations. The DTTI is progressing through Joint Working Groups (JWGs) in niche areas, which are meant to transform

defence relations and strengthen India's defence industrial base. There is a need to include the private industry in JWGs going forward. Moreover, I believe that to make the DTTI succeed, it must be embedded in the Defence Procurement Procedure (DPP) so there is a transparent procedure to commercialise it.

Further strengthening its defence relationship with Russia, the Indian government signed a 5.2 billion USD deal for five S-400 Triumf advanced air defence systems. However, there is a risk of the US imposing sanctions under the Countering America's Adversaries Through Sanctions Act (CAATSA). This will be a test of the strength of the US-India strategic relationship. The Cabinet Committee on Security (CCS) has also approved the procurement of four frigates for the Navy at a cost of around 2 billion USD. Two of the ships will be built at the Goa Shipyard, while the rest will be bought directly from Russia's Yantar Shipyard.

The Defence Acquisition Council has approved the Strategic Partnership (SP) guidelines for naval utility helicopters (NUHs). According to the guidelines, all procurements under the SP model would be executed by specially constituted Empowered Project Committees to provide focused attention and ensure timely execution. Similar guidelines are expected to be approved for other segments—fighters, submarines and armoured fighting vehicles/main battle tanks (AFVs/MBTs). This is a welcome move! It should be recalled that the SP model, which aims to progressively build indigenous capabilities in the private sector to design, develop and manufacture complex weapon systems for the future needs of the armed forces, was announced in 2016 but is yet to take off.



There have been a growing number of offset-related disputes and penalties are now being imposed on original equipment manufacturers (OEMs). The DPP provides for a Disputes Resolution System, which, inter alia, allows for resolution of disputes by way of arbitration. While the decision of the Acquisition wing of the MoD is considered to be final, there are provisions in the main contract for dispute resolution through bilateral discussions and arbitration. Given the monopsony defence market, normally, OEMs tend to be reluctant to litigate. However, given the magnitude of fines and the unlikelihood of any functionary overruling or even amending them, we believe exercising the dispute resolution mechanism will be inevitable. We have set up a special team to assist our clients in this area.

Transformation of the defence establishment was one of the key recommendations of the Shekatkar Committee. The government is taking initiatives to implement some of these, which will have a far-reaching impact on improving the combat capability of Indian forces. These include restructuring of systems created during the British era, for example, deploying an enterprise resource planning solution for its Corps of Electronics & Mechanical Engineers. Further, the Indian Army is implementing a Government-owned, Contractor-operated model for its eight Army Base Workshops (ABWs). These ABWs were set up before World War II to provide engineering support to ensure combat readiness of equipment. This would perhaps be the first step to privatise support organs in the MoD. The MoD is also focusing on digitisation and privatisation to improve efficiencies and the teeth-to-tail ratio to enhance combat effectiveness with reduced supporting costs.

Moving from the defence to the commercial sector, Indian aviation is going through one of its toughest phases. Almost 40% of the operating cost of an airline is on account of fuel, and crude oil prices have increased by more than 50% over the last year. In addition, ATF is subject to excise duty and state taxes of up to 30%. Recently, the government has also imposed 5% basic customs duty on ATF, though it will not have any significant effect given that we are actually net exporters of ATF, provided oil marketing companies do not apply import price parity to the price of domestically produced ATF. Furthermore, the three largest airlines in India have an average fleet age of over 6, 8 and 7 years. This results in a double whammy of operating through lower fuel economy and higher maintenance cost. Moreover, the Indian rupee has depreciated by about 10% over the last year, leading to higher aircraft leasing costs. All these factors have collectively led to rising operating costs for airlines. However, due to the price sensitivity of the Indian passenger, airlines find it difficult to increase fares. I believe airlines will have to pass on some of the increased costs to passengers.

With the drone policy in place, the Indian drone market is expected to develop and encourage investments for local production. This could be a big boon for the Make in India initiative, facilitating the development of drone technology in India.

We trust this edition of Cutting Edge will provide insights into all aspects of the A&D sector. 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.

My best wishes to you and your family for Diwali, the festival of lights!

Sincerely,

Dhiraj Mathur
Partner and Leader
Aerospace and Defence
PwC India



A&D	Aerospace and Defence	ISRO	Indian Space Research Organisation
AAI	Airports Authority of India	ITBP	Indo-Tibetan Border Police
AERA	Airports Economic Regulatory Authority	JV	Joint venture
AIESL	Air India Engineering Services Limited	MHA	Ministry of Home Affairs
ALH	Advanced light helicopter	MoCA	Ministry of Civil Aviation
ATC	Air Traffic Control	MoD	Ministry of Defence
BEL	Bharat Electronics Limited	MoEF	Ministry of Environment and Forest
CAGR	Compound annual growth rate	MoU	Memorandum of understanding
CSS	Coastal surveillance systems	MSME	Micro, small and medium enterprises
DGCA	Director General of Civil Aviation	NATO	North Atlantic Treaty Organization
DoD	Department of Defence	NSDC	National Skill Development Corporation
DoT	Department of Telecom	OECD	Organisation for Economic Cooperation and Development
DPC	Defence Planning Committee	OEMs	Original equipment manufacturers
DPSU	Defence public sector undertaking	OFB	Ordnance Factory Board
DRDO	Defence Research and Development Organization	ONGC	Oil and Natural Gas Corporation
EoI	Expression of interest	PHL	Pawan Hans Limited
FDI	Foreign direct investment	PIM	Preliminary Information Memorandum
FSS	Fleet support ship	PSU	Public sector unit
GCF	Gun Carriage Factory	PTI	Press Trust of India
GoI	Government of India	RCS	Regional Connectivity Scheme
HAL	Hindustan Aeronautics Limited	RFP	Request for proposal
HC	High Court	SEBI	Securities and Exchange Board of India
IAF	Indian Air Force	SIPRI	Stockholm International Peace Research Institute
IATA	International Air Transport Association	UDAN	Ude Desh ka Aam Nagrik
IDDM	Indigenous design, development and manufacturing	WTO	World Trade Organization
IPO	Initial public offering		



India, Uganda agree to boost economic, defence cooperation

India and Uganda on Tuesday agreed to boost bilateral cooperation in the areas of economy and defence following delegation-level talks co-chaired by Prime Minister Narendra Modi and Ugandan President Yoweri Museveni.

“India will always support Uganda’s economic development and nation-building efforts,” Modi said in a joint address to the media with Museveni following the talks.

Source: <https://economictimes.indiatimes.com/news/politics-and-nation/india-uganda-agree-to-boost-economic-defence-cooperation/articleshow/65122056.cms>

India’s supersonic cruise missile BrahMos test fired under extreme conditions

India’s supersonic cruise missile BrahMos was test fired at 10.18 AM from the Integrated Test Range (ITR) at Chandipur, Odisha, today (July 16) under extreme conditions.

The missile was launched from the launch complex three of the ITR and successfully flew in its pre-set trajectory meeting its mission objectives, Defence Research and Development (DRDO) sources said.

Today’s test launch comes close on the heels of two trials of BrahMos missile conducted on May 21 and 22 this year in which the major sub-systems manufactured indigenously under the ‘Make in India’ campaign were tested, they said.

Source: <https://economictimes.indiatimes.com/news/defence/indias-supersonic-cruise-missile-brahmos-test-fired-under-extreme-conditions-/articleshow/65005622.cms>

India to make airspace over its major cities ‘virtually impregnable’

India is working on a mega defence project to make the airspace over almost all its major cities, including Delhi and Mumbai, virtually impregnable, sources in the military establishment said.

The government is procuring a variety of air defence systems, including missiles, launchers and command-and-control units from the US, Russia and Israel, besides deploying indigenously developed missiles as part of the project, they said.

In the last few years, China has significantly ramped up its air power and sources said that the government was determined to equip the Indian Air Force with capabilities on par with its adversaries. “Missile shield over the national capital and many other cities are being strengthened considering the evolving security scenario. Procurement of missile systems, radars and weaponry is part of the initiative,” a senior military official said.

Source: <https://www.ndtv.com/india-news/india-to-make-airspace-over-its-major-cities-including-delhi-mumbai-virtually-impregnable-1891649>





Guidelines for implementation of strategic partnership model in defence manufacturing approved

The Defence Ministry today approved key guidelines for implementation of an ambitious policy under which select private firms will be roped in to build military platforms like submarines and fighter jets in India in partnership with foreign entities. The guidelines for carrying out various procurement projects under the Strategic Partnership (SP) model were approved by the Defence Acquisition Council (DAC), the ministry's highest decision making body, officials said.

Source: <https://economictimes.indiatimes.com/news/defence/guidelines-for-implementation-of-strategic-partnership-model-in-defence-manufacturing-approved/articleshow/65202868.cms>

BEML, L&T sign MoU to explore opportunities in defence products

State-owned BEML Ltd and Larsen & Toubro entered into a pact to jointly capitalise on emerging opportunities in domestic and export markets for defence products and systems.

The cooperation between the two organisations is aimed to leverage on 'Make in India' initiative for increased value addition within the country in manufacturing and long-term support for defence and export business in identified areas, thus synergising their combined strengths, the companies said in a statement.

Source: <https://www.moneycontrol.com/news/business/beml-lt-sign-mou-to-explore-opportunities-in-defence-products-2720341.html>

Speeding up defence deals: Government to ease offset clause for procurement contracts

The government will allow defence procurement contracts to go through even if negotiations for offset agreements linked to them are not sealed, in a landmark change in rules aimed at cutting down the time taken in closing purchases.

The defence ministry has, however, mandated that winners of contracts must seal offset arrangements, under which they are required to set up local manufacturing units or enter into sourcing deals locally, within a year of signing the main deal.

Source: <https://economictimes.indiatimes.com/news/defence/speeding-up-defence-deals-government-to-ease-offset-clause-for-procurement-contracts/articleshow/47436397.cms>





GoAir plans to add 13 A320neo jets by the end of the year

Wadia Group-controlled Go Airlines India Ltd plans to take delivery of 13 additional Airbus A320neo jetliners by the end of December as it gears up to expand domestic services and launch international flights starting with Thailand. The company, which runs the GoAir brand of budget airline, expects the newest A320neo planes to augment its efforts to cut operating costs, its new chief executive Cornelis Vrieswijk said on Thursday.

GoAir will finance the purchase of the 13 new A320neo planes through the sale and leaseback method, Vrieswijk said. Under sale and leaseback, a leasing company buys a new aircraft from an airline and then leases it back. This allows the carrier to take the plane and associated debt off its balance sheet.

GoAir has a fleet of 36 aircraft, which includes 19 Airbus A320neo and 17 A320ceo planes. The A320neo consumes between 15% and 20% less fuel than its predecessor, the A320ceo. All the planes are currently on operating lease as the carrier follows an asset-light model like most budget airlines.

Source: <https://www.livemint.com/Companies/MWsfwwYR0u0MVjdXlp5jbJ/GoAir-plans-to-add-13-A320neo-jets-by-the-end-of-the-year.html>

India not guaranteed U.S. sanctions waiver for Russian missiles: official

The United States cannot guarantee that it will provide India a waiver from sanctions if it purchases major weapon and defense systems from Russia, a top Pentagon official said on Wednesday, ahead of a high-level dialogue between Washington and New Delhi.

The United States has imposed sweeping sanctions on Russia, under which any country engaged with its defense and intelligence sectors could face secondary U.S. sanctions. However, a new defense bill gives the president the authority to grant waivers in case of national security interests.

Source: <https://www.reuters.com/article/us-usa-india-defense/india-not-guaranteed-us-sanctions-waiver-for-russian-missiles-official-idUSKCN1LE2AU>





Air India disinvestment won't happen in near future: Civil aviation secy

The proposed strategic stake sale of debt-laden Air India failed to take off in May and the government is now working on ways to revive the fortunes of the airline.

A Turnaround Plan (TAP) as well as a Financial Restructuring Plan (FRP) were approved for Air India by the previous UPA regime in 2012. Under these plans, the airline is to get budgetary support amounting to Rs 30,231 crore over a ten-year period and also equity support for the payment of principal/ interest of the non-convertible debentures. So far, the airline has received more than Rs 270 billion worth equity infusion. The carrier's debt burden was more than Rs 480 billion at the end of March 2017.

As per the disinvestment plan, which did not elicit any preliminary bids, the government had proposed to offload 76 per cent equity share capital of the national carrier as well as transfer the management control to private players. The transaction would have involve Air India, its low cost arm Air India Express and Air India SATS Airport Services Pvt Ltd. The latter is an equal joint venture between the national carrier and Singapore-based SATS Ltd, according to the preliminary information memorandum.

Source: https://www.business-standard.com/article/economy-policy/air-india-disinvestment-won-t-happen-in-near-future-civil-aviation-secy-118082901008_1.html

\$2.2-billion Boeing deal: UPA ignored complaints

Well before the Comptroller & Auditor General discovered irregularities in a \$2.2-billion deal in 2009 to procure P-8I maritime reconnaissance aircraft, the UPA government in trying to close a landmark deal with the US chose to overlook representations by the main competitor on alleged deviations.

Four Issues Were Raised by Competitor EADS - Two aircraft had been shortlisted for the contract to procure longrange maritime reconnaissance and anti-submarine warfare aircraft — Boeing's P-8I and EADS's A-319. The American offer was accepted after the defence ministry determined that it was the cheaper option. However, the CAG report has disputed this, alleging that defence ministry "enhanced" a financial bid by EADS to include a 20-year support package that was not included in the Boeing offer.

Source: <https://economictimes.indiatimes.com/news/defence/2-2-billion-boeing-deal-upa-ignored-complaints/articleshow/65616196.cms>





Amid Rafale row, Centre set to okay purchase of 114 new fighter jets

The Centre is all set to allow initial approval for the much-awaited acquisition of 114 new fighter jets for over \$20 billion as a seventh contender for the bid has also entered the competition. This comes amid the ongoing political tussle between the Bharatiya Janata Party (BJP) and the Congress over the contract for 36 French Rafale jets, worth Rs 59,000 crores.

The six contenders who sent their bids for the project in early July are F/A-18 and F-16 (US), Gripen-E (Sweden), MiG-35 (Russia), Eurofighter Typhoon and Rafale. Meanwhile, the Russian Sukhoi-35 fighter has also sent its bid to the initial tender or request for information (RFI) published by the Indian Air Force in April for the defence deal. Each bare-bone fighter is estimated to cost around \$100 million, with an additional \$100 million required for the “add-ons”, such as the weapons, simulators and performance-based logistics

Source: <https://www.timesnownews.com/india/article/rafale-jets-mother-of-all-defence-deal-centre-nod-for-acquisition-114-fighter-jets-defence-minister-nirmala-sitharaman-india-us-russia-sweden/278987>

Defence Ministry begins process to acquire 6.5 lakh assault rifles under ‘Make in India’

In a big boost to the Indian Army, the Ministry of Defence (MoD) has initiated the process for buying at least 6.5 lakh assault rifles under the Narendra Modi government’s ‘Make In India’ initiative. According to reports, the MoD has floated the Request for Information (RFI) for 7.62x39 square mm calibre assault rifles, with an effective kill range of 300 metres. The new assault rifles will be manufactured by the Ordnance Factory Board.

The development holds significance since the Army is keen to replace around 8 lakh INSAS Rifles which are produced by the Ordnance Factory Board. The RFI being issued is for 6,50,000 new assault rifles which will become the front-line personal weapon system of the important infantry soldier of the Indian Army.

Source: <http://zeenews.india.com/india/defence-ministry-begins-process-to-acquire-6-5-lakh-assault-rifles-under-make-in-india-2137785.html>





PM asks civil aviation ministry to speed up development of second airport in major cities

Prime Minister Narendra Modi has asked the civil aviation ministry to fast-track the development of the second airport near major cities to tackle the growing passenger demand at the existing ones and also to prepare a roadmap for end-to-end privatisation of airports in lines with Delhi and Mumbai airports in the next five years.

According to government's think tank Niti Aayog, passenger traffic will outpace the available and augmented capacity in 2018-19. Estimates suggest in 2018-19, the total passenger demand would be around 360 million against the capacity to handle 350 million passengers. While the capacity growth has been at the rate of about 12%, traffic growth has been approximately 15%.

Source: <https://timesofindia.indiatimes.com/india/pm-asks-civil-aviation-ministry-to-speed-up-development-of-second-airport-in-major-cities/articleshow/65648245.cms>

GoAir expects spare engines will get all its A320neos flying

GoAir expects that increased availability of spare leased Pratt & Whitney PW1100G geared turbofan engines will soon allow it to fully utilise its Airbus A320neos. The Indian low-cost carrier has been forced to ground some of its 17 A320neos due to combustor and knife-edge seal issues with the engines, and Flight Fleets Analyzer shows that two are presently in temporary storage.

Despite the issues it has experienced with the PW1100Gs, chief executive - Cornelis Vrieswijk, said that overall the A320neos are showing an 18%-19% improvement in fuel burn compared with its baseline A320s. It selected the P&W engine to power 72 A320neos that were ordered in 2011. It then placed a follow-on order for 72 more of the type at the 2016 Farnborough air show, but left open a potential switch to CFM International Leap-1A engines by confirming that it would hold a new engine competition for those aircraft.

Source: <https://www.flightglobal.com/news/articles/goair-expects-spare-engines-will-get-all-its-a320neo-451562/>





Airlines to be fined Rs 50,000 for dumping human waste

In a recent development, in what looked like a hurried circular the Directorate General Of Civil Aviation (DGCA) directed the airlines in India that they will have to pay a Rs 50,000 fine if they empty the toilet mid-air. The order came on August 30 after the NGT warned the aviation regulatory body that it would stop funding the salaries of DGCA employees if they do not adhere to the rules.

The NGT had also asked the DGCA to carry out surprise inspection of aircraft landing at the airport to check that their toilet tanks are not empty while landing and prevent waste from being splashed over residential areas and any other place before landing.

According to the Independent, it is not only India that is plagued by waste falling from the sky, around 25 cases of human waste falling from planes in the UK are reported every year.

Source: <https://timesofindia.indiatimes.com/business/india-business/drop-excreta-from-lavs-of-flying-plane-to-attract-rs-50000-as-fine-dgca-to-airlines/articleshow/65638227.cms>

India being considered for 'aerial' taxi service

Uber intends to achieve this feat with 'Uber Elevate', one of its most ambitious projects yet. And the SoftBank-backed company is considering India along with countries like Japan and France to be a part of its futuristic dream. Uber had named Dallas and Los Angeles as its first two launch cities in the US for the launch of its aerial taxi service and has been on the prowl to select an international city as its third partner.

It has now shortlisted five countries – India, Japan, Australia, Brazil and France – and one of them will become the first Uber Air City outside of the US, Uber said in a statement. Uber hopes to start operating demonstrator flights starting in 2020 and beginning commercial operations in 2023 in the three cities.

Source: <https://www.thehindu.com/business/Industry/india-being-considered-for-aerial-taxi-service-uber/article24822325.ece>





Godrej Aerospace delivers the first airframe assembly for the air launched version of the Brahmos Missile

Godrej Aerospace, a unit of Godrej & Boyce Mfg. Co. Ltd., today handed over the first airframe assembly of the Air Launched version of the prestigious BrahMos missile to Defense Research Development Laboratories (DRDL) for qualification of the indigenously manufactured assembly.

The missile section manufactured by Godrej Aerospace will undergo stringent testing processes set by DRDL. Godrej is poised to deliver the next set of these airframe assemblies by December 2018. They also aim to produce the first indigenous missile booster which up till now was imported. In December 2017, Godrej Aerospace had won an order for 100 sets of airframe assemblies for the Air Launched version, production for which started soon after. Till date they have also supplied over 100 sets of the land version of the missile to BrahMos Aerospace Pvt. Ltd.

Source: <https://www.dailypioneer.com/business-and-finance/godrej-aerospace-delivers-the-first-airframe-assembly-for-the-air-launched-version-of-the-brahmos-missile.html>

India asks US to not forget 'strategic relations' amid sanctions threat

Ahead of the maiden 2+2 dialogue, India on Tuesday called upon the US to keep in mind the significance of Indo-US Strategic relations before nursing any thought of imposing sanctions on the Indian government for its decision to purchase S-400 anti-aircraft missile defence system from Russia.

On whether or not Communications, Compatibility and Security Agreement (COMCASA) will be signed after the talks on Thursday, sources said both sides will take stock of the "enabling instrument". In case the agreement, which will help India obtain encrypted and secure communication technology from the US, isn't signed during the visit, the 2 countries can still be expected to announce support for the agreement "in principle". COMCASA will also allow India access to advanced US military technology including armed predator drones.

Counter-terrorism will also be an important area of focus in the talks with India looking at US for an early designation of terror entities.

Source: <https://timesofindia.indiatimes.com/india/india-asks-us-to-not-forget-strategic-relations-amid-sanction-threat/articleshow/65672534.cms>





India rejects Russia's proposal to partner with Adani Group to make AK-103 rifles

Amid a series of allegations over the Rafale deal, the Narendra Modi government has rejected a proposal by Russia to make the Adani Group a partner for a joint venture to manufacture the modern AK-series assault rifles, which are meant for the Indian Army. The proposal to make Kalashnikov Concern's AK-103 rifle -- the third generation of the Kalashnikov assault rifles and a thorough upgrade of the world known AK47/AKM -- was floated after Defence Minister Nirmala Sitharaman visited Russia in April.

Though Russia has proposed to manufacture the assault rifles as part of a joint venture, India has turned down the proposal as both the countries failed to decide upon their eligible private partners. The proposal says that only a Russia company having an experience in manufacturing AK-47 series is eligible for the project. However, the country had proposed make the Adani Group as its Indian partner for the project.

Source: <https://www.businesstoday.in/current/policy/india-rejects-russia-proposal-partner-adani-group-ak103-rifles/story/281992.html>

Defence ministry begins process to acquire 6.5 lakh assault rifles under 'Make in India'

In a big boost to the Indian Army, the Ministry of Defence (MoD) has initiated the process for buying at least 6.5 lakh assault rifles under the Narendra Modi government's 'Make In India' initiative. According to reports, the MoD has floated the Request for Information (RFI) for 7.62x39 square mm calibre assault rifles, with an effective kill range of 300 metres. The new assault rifles will be manufactured by the Ordnance Factory Board.

The development holds significance since the Army is keen to replace around 8 lakh INSAS Rifles which are produced by the Ordnance Factory Board. The RFI being issued is for 6,50,000 new assault rifles which will become the front-line personal weapon system of the important infantry soldier of the Indian Army.

Just like AK-47, the AK-103 rifle also uses the same 7.62x39 round and polymer parts to reduce its weight. The AK103 has plastic folding buttstock that ensures convenience on a march, during transportation and landing operations. The weapon can even fire with buttstock folded. It can carry a 40-mm under-barrel grenade launcher or a knife-bayonet. Currently, AK-103 is used by the Indian Navy's Marine Commando Force in limited quantity.

Source: <http://zeenews.india.com/india/defence-ministry-begins-process-to-acquire-6-5-lakh-assault-rifles-under-make-in-india-2137785.html>





Central forces, special police units to get 36,000 modern AK assault rifles

A stockpile of over 36,000 modern AK-series assault rifles have been recently provided to central paramilitary forces and select state police units, a senior official said on Tuesday. The weapons have been procured from Bulgaria after a global tender was completed successfully sometime back.

These rifles are considered superior to the indigenously made INSAS rifles (Indian Small Arms System) as their fire is accurate, spews quick round of bullets and is better to operate in jungle warfare conditions where moisture and heat affect the performance of a rifle, he said.

Source: <https://timesofindia.indiatimes.com/india/central-forces-special-police-units-to-get-36000-modern-ak-assault-rifles/articleshow/65672246.cms>

Lockheed to build F-16 Wings in India with Tata

Lockheed Martin will build wings for its F-16 combat plane in India with its local partner, Tata Advanced Systems Limited, an executive at the U.S. company said on Tuesday.

Lockheed is bidding for a contract – estimated at more than \$15 billion – to supply the Indian air force with 114 combat planes, which must be all manufactured locally under Prime Minister Narendra Modi's flagship Make in India programme.

However, Vivek Lall, vice president of strategy and business development at Lockheed, said the proposed Indian production of the F-16 wings would not be contingent upon the company winning the order for the planes. Lall said the company planned to begin production of the F-16 wings in the southern Indian city of Hyderabad from 2020. He said these were being produced at a facility in Israel and would not impact any jobs in the United States.

Source: <https://economictimes.indiatimes.com/news/defence/lockheed-martin-to-produce-f-16-fighter-jet-wings-in-india/articleshow/65671234.cms?from=mdr>





Government working on relief package for Indian carriers: Civil aviation secretary

Civil aviation secretary RN Choubey Tuesday said that the ministry has held discussions with the finance ministry into the kind of support that can be provided to Indian carriers.

“We have had separate discussions with other ministries, including finance ministry, on what kind of support we can provide (to airlines) in view of the fact that there has been some deterioration on macro side relating to crude price and foreign exchange. A fall in rupee hits us badly as all our aircraft leases are on dollar term. And our operating costs are hit by rise in fuel price. I am unable to give exact details right now because it is work in progress. But, we are in discussions with ministry of finance regarding this,” Choubey said on the sidelines of the International Aviation Summit organised by the International Air Transport Association.

For the first quarter of the ongoing financial year 2018-19, Indian airlines have faced financial turbulence with country's largest airline IndiGo witnessing a drop of 97 per cent in its net profit to Rs 28 crore, the second largest airline Jet Airways reporting a loss of Rs 1,323 crore, while the second largest budget carrier SpiceJet posting a loss of Rs 38 crore. Most airlines have seen a drop in their yields due to no upward revision in fares despite the rising fuel costs.

Source: <https://indianexpress.com/article/business/aviation/government-working-on-relief-package-for-indian-carriers-civil-aviation-secretary-5340093/>

First flight from Navi Mumbai airport likely in three years: Civil aviation secretary

The first flight from the upcoming Navi Mumbai International Airport could start operating by September 2021, Civil Aviation Secretary R N Choubey said Tuesday. Choubey, who reviewed the progress of the greenfield project at a high-level meeting in Mumbai recently, said both the state government and the concessionaire are hopeful of starting flight operations in three years.

The project is being carried out under the public-private-partnership model and Cidco has been mandated to execute the project. GVK group is developing the project. The group through its subsidiary, Mumbai International Airport (MIAL), holds 74 per cent stake in Navi Mumbai International Airport (NMIAL), while Cidco holds 26 per cent.

Source: <https://economictimes.indiatimes.com/industry/transportation/airlines/-aviation/first-flight-from-navi-mumbai-airport-likely-in-three-years-civil-aviation-secretary/articleshow/65674577.cms>





CSS announces receiving supply order from Army for SpyLite mini UAV systems

Cyient Solutions & Systems Private Limited (CSS), a joint venture between Cyient Limited and BlueBird Aero Systems, Israel, on Tuesday announced that it has received its first supply order from a unit of the Indian Army for SpyLite mini UAV systems for high altitude aerial surveillance.

CSS offered and successfully demonstrated, its flagship mini UAV system, SpyLite, which was the only one that met end-user requirements to conduct real-time surveillance and target acquisition at very high altitude and in extreme weather conditions.

The SpyLite was also the only UAV system to complete and pass the trial, a company statement here said. SpyLite is an advanced, combat-proven, electric, mini unmanned aerial system and it is optimized to offer covert, extended range real-time visual intelligence.

Source: <http://www.uniindia.com/~css-announces-receiving-supply-order-from-army-for-spylite-mini-uav-systems/Business%20Economy/news/1340238.html>

Govt policies imposing ‘excessive costs’ on airlines, GST on international air tickets violate ICAO norms: IATA Chief

Government policies are imposing “excessive costs” on airlines in India and infrastructure constraints are limiting growth, IATA chief Alexandre de Juniac said Tuesday even as he projected the country’s aviation sector to register 500 million passengers by 2037.

Flagging various concerns about the Indian aviation sector, which is one of the fastest growing in the world, he said levying the Goods and Services Tax (GST) on international air tickets violates ICAO principles.

At present, 5 per cent and 12 per cent Goods and Services Tax (GST) is levied on the economy and business class air tickets, respectively. While fuel accounts for about 24.2 per cent of an average airline’s cost structure, the IATA chief said that in India, it is 34 percent and pitched for regulating “transparency in pricing of jet fuel”. “All airlines are suffering from the rise in fuel prices. And India’s regulatory and tax framework around fuel hits airlines serving this market even harder,” he noted. There is no real competition for fuel suppliers at airports and hence there is little incentive to keep prices competitive, he said, adding that on domestic flights, “fuel is subject to excise duties and state taxes of up to 30 per cent”.

Source: <http://zeenews.india.com/news/govt-policies-imposing-excessive-costs-on-airlines-gst-on-international-air-tickets-violate-icao-norms-iata-chief-2138625.html>





U.S., India to discuss sale of drones, exchange of satellite data

The United States and India will seek to finalize a number of defense agreements during high-level talks this week that aim to draw their two militaries closer and counter-balance China's influence in the region.

Among the topics for discussion, the United States is hoping to finalize an agreement on a communications framework that would allow for securely sharing information. The Communications Compatibility and Security Agreement (COMCASA) has long been a demand of the United States and would open the door for Washington to sell sensitive defense equipment to India, like the armed version of Guardian drones.

India has historically been opposed to the agreement because it sees it as being too intrusive. Earlier this year however, an Indian defense source told Reuters that New Delhi had shed its opposition to the agreement.

Source: <https://www.reuters.com/article/us-india-usa/u-s-india-to-discuss-sale-of-drones-exchange-of-satellite-data-idUSKCN1LK0UH>

Bharat Chamber to hold seminar and exhibition on defence to involve larger number of MSMEs

To increase the involvement of MSMEs in defence manufacturing, Bharat Chamber of Commerce will be organizing a seminar and exhibition on 'Defence Production: Public-Private Partnership - Focus Eastern India'.

The seminar will be held from September 14-16 in Kolkata, said Sitar Sharma, Chairman of the Chamber. He said "India's USD 620 billion defence market is attracting many major global business houses." However, the mandatory offset requirement of a minimum 30 per cent for procurement of defence equipment has created an opportunity for the development of defence industry in India, which the MSMEs in West Bengal should take advantage, he added.

Further, he said that the 13th Consolidated Defence Five Year Plan from 2017-22 has been pegged at Rs 26.84 lakh crores, and the cumulative value of India's defence market for the next five years is also estimated at Rs 1, 80,000 crore, making it an opportune moment for defence PSUs and private industries to participate in defence production.

Also, he said that recently, government of India has de-notified 250 items and open them to private sector which was earlier exclusively reserved for the Ordnance Factory Boards. At least 6000 MSME's in the country are contributing to defence manufacturing with around 10,000 products which proved there is huge scope and opportunity for this sector, he pointed.

Source: <https://knnindia.co.in/news/newsdetails/sectors//bharat-chamber-to-hold-seminar-and-exhibition-on-defence-to-involve-larger-number-of-msmes>





ICRA downgrades Jet Airways to BB from BB+

Ratings agency ICRA has downgraded the long-term rating assigned to the Rs 698.9-crore non-convertible debenture programme, the Rs 4,970-crore long-term loans, the Rs 645 crore long-term, fund-based facilities and the Rs 700-crore long-term, non-fund based facilities of Jet Airways (India).

The agency has downgraded the ratings to ICRA BB from ICRA BB+. ICRA has also downgraded the short-term rating assigned to the Rs 3,950 crore short-term, non-fund based facilities of Jet Airways. The outlook on the long-term rating is 'Negative'.

Source: <https://timesofindia.indiatimes.com/business/india-business/icra-downgrades-jet-airways-to-bb-from-bb/articleshow/65688175.cms?from=mdr>

HSL eyes submarine repair contract from Indian Navy

Hindustan Shipyard Limited, which was the sole bidder for undertaking medium repair of Russian-made Sindhughosh-class submarine, has reiterated its claim to undertake the project at the earliest at a cost of ₹1,400 crore.

The normal refit of INS Sindhuvir, which commenced in August 2017, was right on track. HSL management hopes that as per the decision of Defence Acquisition Committee in 2014, the government would award the contract for medium refit of two Russian-made submarines to them.

The Ministry of Defence has already decided to repair two among four submarines in Russia leaving the remaining two to undergo medium refit in India with assistance from Russian experts.

“To encourage indigenisation, the third submarine INS Sindhuratna, which has been kept idle in Mumbai for over six months, should be handed over to us for medium refit,” HSL Chairman and Managing Director L.V. Sarat Babu said.

Source: <https://www.thehindu.com/news/national/andhra-pradesh/hsl-eyes-submarine-repair-contract-from-indian-navy/article24860782.ece>





Qatar Airways does well to call out hypocrisy in aviation FDI

While the aviation secretary was quick to say—in reply to a statement by Qatar Airways CEO—that India's FDI rules did not allow an airline that is entirely owned the Qataris, CEO Al Baker did well to call out the hypocrisy in the policy. Why say that India allows 100% FDI in the aviation sector when, in fact, the rules allow aviation companies to buy only 49%, with the balance to be bought by non-aviation firms? In the Qatar case, the proposal was that Qatar International Authority (QIA) buys 51% and Qatar Airways (QA) buys 49%; but since QIA owns QA, this is not allowed.

As the CEO put it at the aviation summit organised by the civil aviation ministry and IATA, "What we gathered first is that foreigners could own 100% of an Indian carrier And then we are told 'no'". The question the government needs to ask itself is why the rules are framed in this manner. After all, if the government has no problem with foreigners entirely owning an airline, why is there a problem if a foreign airline owns 100% since it will continue to pay taxes in the country and employ locals for its operations? How is an AirAsia India with the Tatas owning 51% better for the economy than an AirAsia India where AirAsia Berhad owns 100%? And if AirAsia Berhad can own only 49%, how is it going to find a non-Indian, non-airline partner to buy the remaining 51%? In other words, for all practical purposes, the effective FDI allowed is 49%, not 100%.

Source: <https://www.financialexpress.com/opinion/qatar-airway-does-well-to-call-out-hypocrisy-in-aviation-fdi/1303988/>

2+2 Dialogue - Landmark defence pact COMCASA inked; H1B discussed

Reflecting growing congruence in ties, India and the US Thursday signed a landmark security pact COMCASA, decided to set up hotlines between their defence and foreign ministers. The Communications, Compatibility, Security Agreement (COMCASA) was signed between the two sides.

In the first edition of the two-plus-two talks, the two sides also discussed cross-border terrorism, India's bid for membership of the Nuclear Suppliers Group, the contentious H1B visa issue, and ways to deepen cooperation in the Indo-Pacific region.

Source: <https://www.theweek.in/news/india/2018/09/06/22-dialogue-India-US-ink-critical-defence-pact-discuss-H1B.html>

2+2 Dialogue: India says US can increase aircraft, oil & gas exports

India has identified aircraft, oil and gas, and services related to aircraft as areas where the US can increase its exports to India while food, pharma and marine products are among the segments where the country can target a bigger pie of the US market.

India's exports to the US in 2017-18 amounted to \$47.9 billion, while imports were \$26.7 billion. US wants the trade to be more evenly balanced. These areas will help improve trade in the medium term and the government is in the process of identifying areas to expand trade. "We have been discussing a trade package of mutual concerns. There is no such trade agreement as a free or preferential trade pact," the official said.

Source: <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-says-us-can-increase-aircraft-oil-gas-exports/articleshow/65711734.cms>



Government working on new turnaround plan for Air India

The government may have failed at finding any buyer for its stake in flag-carrier Air India, which is under a debt of nearly Rs 55,000 crore, but plans are still being chalked out to make the airline saleable when macro conditions improve. A new turnaround plan is being worked out by the Ministry of Civil Aviation, along with the airline, and is expected to be announced later this month.

According to official sources, the new turnaround plan will be different from the old one given that the 2012 plan focused on financial restructuring of the airline, while the proposed one will focus on organisational reform of Air India.

As per estimates by aviation consultancy CAPA India, the national carrier is expected to lose more than \$2 billion in value during 2018-19 and 2019-20. "Air India's value will continue to erode, making future privatisation unlikely. In the absence of full recapitalisation and a clear direction, Air India is likely to see a continued decline in its domestic and international market share, and head towards strategic irrelevance. This will diminish its potential to be revived and to secure a strategic investor.

In the meantime, it will remain a structural distortion for the industry and a burden on the tax payer. The quantum of losses will become increasingly unacceptable," CAPA India said in its mid-year aviation outlook for 2018-19.

Source: <https://indianexpress.com/article/business/aviation/policy-watch-aviation-govt-working-on-new-turnaround-plan-for-air-india-5344073/>

Cash-strapped Jet Airways receives about 100 pilot resignations since August

Cash-strapped Jet Airways is understood to have received resignations from about 100 of its pilots since August till date on the ground that there's uncertainty regarding the future of the airline and lack of clarity on the turnaround plan.

Jet has till date not paid its pilots and engineering staff salaries for the month of August and the management has also not indicated the time frame when will the salaries be credited for this section of employees.

In August, Jet along with its promoter and chairman Naresh Goyal, had discussions with its pilots and engineers, that form around 16% of the workforce but are one of the highest paid resources, for a 15% pay cut which was rejected outright by the pilots and the engineers.

Source: <https://www.financialexpress.com/infrastructure/airlines-aviation/cash-strapped-jet-airways-receives-about-100-pilot-resignations-since-august/1305134/>





From 2019, Bengaluru International Airport to launch facial recognition facility for passengers

Bengaluru International Airport said it plans to roll out facial recognition facility for the passengers of some select airlines from early next year as it seeks to make the boarding process paperless.

The private airport operator has inked a pact with the Lisbon-based digital and biometric solutions services provider Vision-Box to implement the technology, Bangalore International Airport (BIAL) said in a release.

The introduction of biometric self-boarding technology is aimed at transforming passenger experience and creating future-ready airport, it said, adding the move will also bolster government's proposed DigiYatra project.

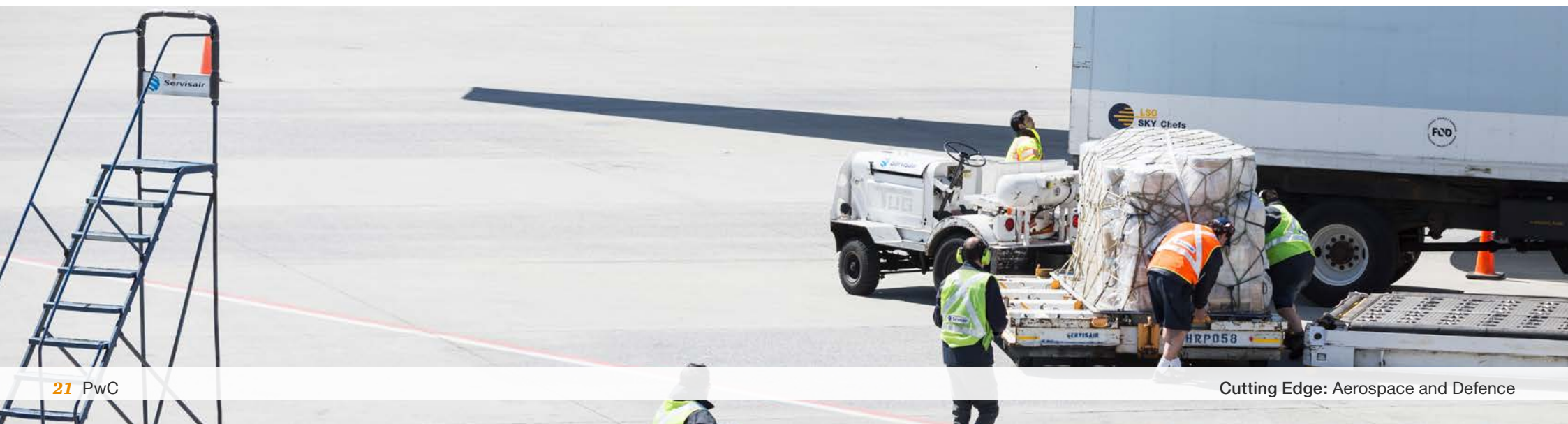
Source: <https://defenceaviationpost.com/from-2019-bengaluru-international-airport-to-launch-facial-recognition-facility-for-passengers/>

Mazgaon Dock to diversify into exports & vessel repairing

State-run warships and submarine builder Mazgaon Dock Shipbuilders (MDS) is aiming to diversify into exports and vessel repairing, and also creating a facility at nearby Nhava, a senior official said Thursday.

The company, which is reportedly aiming to raise up to Rs 850 crore in divestment for the government through an initial public offering (IPO) soon, is completely dependent on the defence ministry for its business at present. It has an order book of Rs 52,000 crore, including four P-15 bravo destroyers, seven P-17 frigates and five of the remaining Kalvari-class Scorpene submarines. Its director Capt Rajiv Lath said while the margins for the shipbuilding are capped at 7.5 per cent, the same for repairs and also exports are higher, which makes both the segments endearing from a profitability perspective.

Source: https://www.business-standard.com/article/pti-stories/mazgaon-dock-to-diversify-into-exports-vessel-repairing-118090600979_1.html





President Kovind invites Czech defence companies to manufacture in India

President Ram Nath Kovind on Friday invited Czech Republic's defence companies to invest and manufacture in India, noting that defence was a vital area of cooperation between the two countries. Addressing the Czech-Indian Business Forum at Prague during his ongoing State visit to Czech Republic, Kovind said that the requirements of India's defence sector, which was opened to private sector recently, were huge.

Stating that the Indian economy was dynamic and strong, Kovind urged Czech enterprises to explore, initiate and expand their footprint in India. Indian companies are also keen to establish new business tie-ups and locate themselves in Czech Republic, he added. "I invite you to partner us in India's exciting and transformative journey, which is going to usher in a new era to not only India and Czech Republic, but to the entire world," he said.

Source: <https://www.thehindubusinessline.com/economy/president-invites-czech-defence-cos-to-manufacture-in-india/article24900439.ece>

Indian Army plans to cut 1.5 lakh troops in five years

In a major move to restructure the Indian Army, General Bipin Rawat has asked for studies to prepare the force for 21st-century conflict. General Rawat wants a leaner, meaner and more technology driven army with fewer troops, envisaging a cut of 150,000-200,000 troops from the current 1.2 million plus force.

The restructuring efforts, to begin next month, could lead to cuts of 50,000 troops in the next two years and over another lakh over the next five years. This is the first time that the Army has considered a cut– the last time being in 1998, before the Kargil war when General VP Malik, then chief, had looked at a cut of 50,000 troops. Some of the cuts will be from infantry but with India rapidly modernizing and technology at disposal there are sections of the force that are less relevant today.

Source: <https://www.timesnownews.com/india/article/indian-army-plans-to-cut-1-5-lakh-troops-in-five-years/282080>





Pralay: Know about India's new conventional strike surface-to-surface missile

Except perhaps for some Prithvi short range ballistic missile (SRBM) units, India's pool of ballistic missiles (BMs) are essentially meant for strategic strike purposes. With China's People's Liberation Army Rocket Force (PLARF) fielding a sizeable inventory of conventionally armed BMs in Tibet, the Indian Army (IA) wants to deploy symmetric counters to the same.

At the moment, the only means for the IA to strike targets at distances of close to 500 km is the BrahMos supersonic cruise missile (CM), which though deadly accurate, can carry a payload of only about 200 kg or so, besides being somewhat expensive.

As such, the IA in recent times has felt the need for a SRBM with a range of around 500 km that can also carry a sizeable payload. It is to address this requirement that the Defence Research and Development Organisation (DRDO) is currently developing a new conventional strike surface to surface missile (SSM) called the Pralay.

The project for the design and development of Pralay was sanctioned in March 2015 for a sum of Rs 332.88 crores. The lead DRDO laboratory for this project is the Research Centre Imarat, Hyderabad which has now emerged as a 'full' systems laboratory.

Source: <http://www.indiandefensenews.in/2018/09/pralay-know-about-indias-new.html>

HAL to stick with Israeli EL/M-2052 over indigenous AESAR radar for LCA Tejas Mk 1A

HAL has decided to stick with imported Israeli EL/M-2052 Active Electronically Scanning Array (AESA) Radar over Indigenous Active Electronically Scanning Array Radar (AESAR). Radar developed by LRDE to be used on 83 LCA-Tejas Mk 1A even though DRDO is trying to fast track development of AESAR with the active participation of Private sector companies.

HAL is set to announce a winner to the global tender which was floated by the company under the three vendors had responded with their AESA Radar technology, the contract is likely to go with ELTA which makes EL/M-2052 AESA Radar with local assembly clause in the contract along with some level of transfer of technology.

Source: <http://idrw.org/hal-to-stick-with-israeli-el-m-2052-over-indigenous-aesar-radar-for-lca-tejas-mk-1a/>





50% of arriving flights to choked airports like IGI are not on time

The Airports Authority of India (AAI) has found that at least half the arriving flights to choked Indian airports like Delhi, Mumbai and Bangalore are not on time. A significant number of these not-on-time flights turning up before their arrival slot at these choked airports when some other flight is supposed to be touching down there then, thereby delaying the latter. Now, the authority has started a month-long trial where no flight, save exceptions, will be allowed to take off for choked airports more than five minutes before their schedule departure time.

“At capacity constrained airports (like) Delhi, Mumbai, Bengaluru, adherence to approved departure and arrival slots is critically important to reduce air traffic congestion. However, recent air traffic analysis shows that at least 50% or more arrivals are not adhering to the allotted arrival slots, thereby, causing cascading air traffic delay, congestion and occasionally diversions,” says an order issued by MC Dangi, AAI’s executive director (air traffic management), on Friday.

Source: <https://timesofindia.indiatimes.com/business/india-business/50-of-arriving-flights-to-choked-airports-like-igi-are-not-on-time/articleshow/65737593.cms>

Night parking facility for aircrafts at Nagpur Airport

Dr Babasaheb Ambedkar International Airport in Nagpur is likely to start night parking facility for aircrafts from November 2018. Two aircrafts belonging to IndiGo will be parked here in the night and they will fly to Bengaluru and Kolkata at 6 in the morning.

Nagpur airport has very conducive atmosphere for flights and less traffic compared to other airports. The companies availing night parking facility at the airport will be given free parking for the first month. Sources at IndiGo Airlines confirmed that two aircrafts of the company will be parked at Nagpur in the night and will be flown to Bengaluru and Kolkata next morning.

Airlines are preferring ‘low cost carriers’ to ensure better connectivity and timely services to fliers. IndiGo, which has maximum number of flights from Nagpur, is likely to park most of its aircrafts at this airport in the coming future

Source: <https://www.nagpurtoday.in/night-parking-facility-for-aircrafts-at-nagpur-airport/09101657>





Airbus: Giving wings to Indian startups

Neewee, a four-year-old startup based out of Bengaluru's IT hub of Whitefield, which develops industrial analytics software for the manufacturing industry. Co-founded by Harsimrat Bhasin, 47, it was selected to be a part of Airbus BizLab India, the business accelerator of the €60-billion aircraft manufacturer Airbus.

Based in Bengaluru, Airbus BizLab India was launched in January 2016. It offers a six-month accelerator programme through which startups get access to free office space, dedicated coaches to handhold them as well as access to a pool of mentors and experts from within Airbus, and outside the company, to help them with industry knowhow.

This was Airbus BizLab's third facility—the first two were in Toulouse, France (2015) and Hamburg, Germany (2015)—and the only one outside Europe, the home turf of Airbus. A fourth centre was recently inaugurated in Madrid, Spain. “Before coming to BizLab, we had done a few pilots (projects),” says Bhasin, who is also the chief operating officer of Neewee. Little did he know that the six-month stint with BizLab in 2017, would prove to be the turning point in the startup's journey.

Source: <http://www.forbesindia.com/article/startups/airbus-giving-wings-to-indian-startups/51259/1>





Civil aviation sector in India

Indian aviation is possibly entering one of its toughest phases ever, more intense than what we saw in 2008. The next six months are crucial for Indian aviation. Indian airlines are suffering from not only high oil prices but also a depreciating rupee and, at the same time, are unable to pass down the cost fully to passengers. Indian authorities will have to focus on taxation, infrastructure and regulation related to the aviation sector to boost the sector. The dramatic rise in operating costs from jet fuel and import of aircraft spare parts and consumables, since none of these continue to be made in India, will affect nearly all airlines and operations across the country. Some major challenges faced by airlines are as follows:

- a. Price of crude: Almost 40% of the operating costs of airlines are on account of fuel. Crude oil price has increased by close to 50% over the last year, leading to a significant increase in aviation turbine fuel (ATF) costs. Due to the price sensitivity of Indian passengers, most airlines operate as low-cost carriers (LCCs) and it is difficult for them to pass on the increasing cost to passengers; this has led to pressure on the margins of the airlines.
- b. Taxes: ATF is subject to 14% Basic Excise Duty and state taxes in the range of 4–30%,¹ which adds to the overall fuel costs. In addition, the government has recently imposed 5% basic customs duty on ATF.
- c. Falling INR: The Indian rupee has depreciated by more than 10% against the dollar in the last one year. A consequence of this is that airlines have to incur higher leasing costs as all leases are in dollar denominations.

- d. Airport capacity and infrastructure: Most of the major airports and many of the smaller airports are currently operating at excess of their capacity or near full capacity. Capacity constraints create several bottlenecks, including longer check-in time, clogging of gates, delayed flights and increased security risks. This also means that airlines have to incur higher costs due to longer hover time over airports, increased on-ground time and delays in taking off.

An airline may operate sustainably either as an LCC or a full service carrier (FSC). Managing both in one company poses multiple challenges. To survive and grow in the Indian civil aviation market, an airline must have a well-designed long-term cost control and revenue enhancement strategy in place.

Given the rising fuel costs, airlines should implement well-structured cost reduction programmes. Key areas include improving average fuel efficiency of the fleet by introducing new generation fuel-efficient aircraft, restructuring through buy-back and lease, and better fuel-hedging to reduce the exposure to price volatility. Further, debt-ridden airlines should consider financial restructuring to raise capital and replacing high-cost debt.

The government must reduce taxes on ATF and bring it under GST. This would partially ease up the pressure of rising fuel costs on airlines. The government should continue to focus on capacity expansion of existing airports and construction of new airports. This would facilitate increased air travel and connectivity to remote locations, in turn contributing to the enhancement of the local economy due to direct, indirect and induced effects. A synergetic approach by airlines, airports and policymakers would make India well positioned to achieve its vision to become the largest aviation market by 2030.

¹ <https://www.businesstoday.in/sectors/aviation/gst-jet-fuel-could-earn-airlines-rs-5220-crore-input-tax-credit-7-percent-more-tax-revenue-govt/story/277350.html>



Remotely piloted aircraft (RPA)/drone policy

On 27 August 2018, the Director General of Civil Aviation (DGCA) issued a policy for RPA or drones. It defined what will be classified as RPA, how they can be flown and the restrictions they will have to operate under. The new policy will be effective from 1 December 2018. For both the private and government sectors, the drone policy presents a huge opportunity in India. As of now, it is a very restricted field and use of drones is restricted to areas like agriculture, forestry, power supply, geographical mapping, defence, e-commerce and film shooting; however, over a period of time, more use cases are going to emerge.

As per the current regulations, the operation of drones falls under the purview of several regulators such as the DGCA, Directorate General of Foreign Trade, Ministry of Home Affairs (MHA), MoD, Indian Air Force, DoT (WPC), Bureau of Civil Aviation Security, Airport Authority of India (AAI) and the local police office. In our opinion, this could result in a cumbersome process and delays in decision making. Hence, successful implementation of Digital Sky infrastructure will be critical to the success of the drone policy. It will be a one-stop platform for granting approvals, and enforcement agencies can efficiently monitor and legalise the operation of drones in India.





Key highlights

1. Introduction of a Digital Sky Platform

For registering, operating and monitoring drones in India, the drone policy plans to introduce the Digital Sky Platform, a digital platform enabling a one-time digital registration process for drones, pilots and owners as well as monitoring drone traffic. The platform aims to enable efficient registration, regulation, monitoring and ensure public safety while preventing unauthorised flights and avoiding regulatory red tape.

2. Categorisation of RPA

Civil RPA is categorised in accordance with maximum all-up-weight (including payload) as indicated below:

- a. Nano: Less than or equal to 250 g
- b. Micro: Greater than 250 g and less than or equal to 2 kg
- c. Small: Greater than 2 kg and less than or equal to 25 kg
- d. Medium: Greater than 25 kg and less than or equal to 150 kg
- e. Large: Greater than 150 kg

3. Eligibility for ownership – requirements for issue of Unique Identification Number (UIN)

To be eligible to apply for a UIN, the drone must be wholly owned either:

- a. By a citizen of India; or
- b. By the Central Government or state government or any company or corporation owned or controlled by either of these governments; or
- c. By a company or a body corporate provided that:
 - i. It is registered and has its principal place of business within India;
 - ii. Its chairman and at least two-thirds of its directors are citizens of India;
 - iii. Its substantial ownership and effective control are vested in Indian nationals; or
- d. By a company or company registered elsewhere than in India provided that it has leased the drone to any organisation mentioned in b and c above. In the case of these entities, the Indian organisation that has taken the RPA on lease shall obtain the UIN.

Specifications required to be included in the UIN application include details of the owner, purpose and base of operations, specifications of the drone, maximum all-up-weight and equipment specifications. In addition, security clearance is required from the MHA.





4. Operation of drones:

Unmanned aircraft operator permit (UAOP)

Civil drone operators must acquire a UAOP from the DGCA by submitting an application through the Digital Sky Platform with the prescribed fee and in the prescribed form. Operators of drones in the nano and micro categories flying up to 50 feet and 200 feet respectively in uncontrolled airspace/enclosed premises are exempt from the requirement of obtaining a UAOP. Similarly, operators of drones owned by government agencies are also exempt from this requirement.

Civil RPA operators, except entities, shall submit a duly filled application through the Digital Sky Platform along with requisite fees for issue of a UAOP to the DGCA at least 7 working days prior to actual commencement of operations along with required documents:

5. Security/safety requirements

- a. The operator shall be responsible for the safe custody, security and access control of the RPA. In case of loss of RPA, the operator shall report the same immediately to the local police office, the Bureau of Civil Aviation Security (BCAS) and DGCA.
- b. The operator of all RPA, except nano RPA, shall be responsible for notifying any incident/accident involving RPA to the Director of Air Safety. The DGCA will further intimate all concerned agencies.
- c. In case the RPA is damaged and cannot be restored to its original condition, the owner/operator shall notify the DGCA to cancel the UIN.
- d. The RPAS operator shall ensure that all security measures, as enumerated in the security programme (approved by the BCAS), are in place before operation of each flight.
- e. The ground control station (while in use or in store) shall be secured from sabotage or unlawful interference. The RPA (issued with a UIN) shall not be sold or disposed of in any way to any person or firm without permission from the DGCA. Any changes in the contact details specified in the UIN shall be immediately notified to the DGCA and all other concerned agencies.

6. Remote pilot requirements

The remote pilot shall have attained 18 years of age, having passed the 10th standard exam in English, and undergone ground/practical training.

- a. The ground training shall be obtained at any DGCA-approved flying training organisation (FTO), and include the following theory subjects:
 - b. Basic radio telephony (RT) techniques including knowledge of radio frequencies
 - c. Flight planning and ATC procedures
 - d. Regulations specific to area of operations
 - e. Basic knowledge of principles of flight and aerodynamics for fixed wing, rotary wing and hybrid aircraft
 - f. Airspace structure and airspace restrictions with knowledge of no drone zones
 - g. Basic aviation meteorology

The practical training shall comprise RPA in flight with a live component, and/or simulated flight training to demonstrate control of RPA throughout its operating conditions, including safe recovery during emergencies and system malfunction.

The requirements of this Civil Aviation Requirement (CAR) are not applicable for nano and micro category RPA pilots intending to operate in uncontrolled airspace. However, the owner and user shall be fully aware of the responsibilities for all aspects of flight safety during such operations.



7. Operating requirements

The RPA operator shall prepare standard operating procedures (SOPs), which shall include the following procedures according to the provisions contained in the relevant sections of Aeronautical Information Publication (AIP)-India: takeoff/landing, collision avoidance, noise abatement, flight plan filing, local airspace restriction, right-of-way, communications, RPA emergency including loss of C2 link, safe recovery of RPA through controlled airspace in case RPA system failure precludes the ability to remain outside controlled airspace, etc.

Irrespective of weight category, all RPA operations shall be restricted to day only, within visual line of sight (VLOS). RPA operations, except those in enclosed premises, shall be conducted only when the following meteorological conditions exist:

- a. During daylight (between sunrise and sunset)
- b. In visual meteorological conditions (VMC) with a minimum ground visibility of 5 km and cloud ceiling not less than 1500 feet (450 m)
- c. Surface winds of not more than 10 knots or as specified by the manufacturer
- d. No precipitation (rain, hail or snow) or thunderstorm activities, or exceeding those specified by the manufacturer

The operator (except that of nano RPA intending to operate up to 50 feet (15 m above ground level [AGL] in uncontrolled airspace/enclosed premises) shall obtain permission before undertaking flight through the Digital Sky Platform. All RPA operators (except those of nano and micro category RPA intending to operate up to 50 feet [15 m] AGL and 200 feet [60 m] AGL respectively in uncontrolled airspace/enclosed premises) are required to file a flight plan at least 24 hours before actual operations.

8. Restrictions on operations

No RPA shall be flown:

- a. Within a distance of 5 km from the perimeter of airports in Mumbai, Delhi, Chennai, Kolkata, Bengaluru and Hyderabad;
- b. Within a distance of 3 km from the perimeter of any civil, private or defence airports;
- c. Above the obstacle limitation surface (OLS) or Procedures for Air Navigation Services – Aircraft Operations (PANS-OPS) surface, whichever is lower, of an operational aerodrome, specified in the Ministry of Civil Aviation (Height Restrictions for Safeguarding of Aircraft Operations) Rules, 2015, notified through Gazette of India notification GSR751(E) as amended from time to time;
- d. Within permanent or temporary prohibited, restricted and danger areas, including Temporary Reserved Airspace (TRA) and Temporary Segregated Area (TSA), as notified in AIP;
- e. Within 25 km from an international border which includes Line of Control (LoC), Line of Actual Control (LAC) and Actual Ground Position Line (AGPL);
- f. Beyond 500 m (horizontal) into the sea from the coastline, provided the location of the ground station is on a fixed platform over land;
- g. Within 3 km from the perimeter of military installations/facilities where military activities/exercises are being carried out unless clearance is obtained from the local military installation/facility;
- h. Within a 5 km radius from Vijay Chowk in Delhi; however, this is subject to any additional conditions/restrictions imposed by local law enforcement agencies/authorities in view of security;
- i. Within 2 km from the perimeter of strategic locations/vital installations notified by the MHA unless clearance is obtained from the MHA;
- j. Within a 3-km radius of the State Secretariat Complex in state capitals;
- k. From a mobile platform such as a moving vehicle, ship or aircraft;
- l. Over eco-sensitive zones around national parks and wildlife sanctuaries notified by the Ministry of Environment, Forests and Climate Change without prior permission.



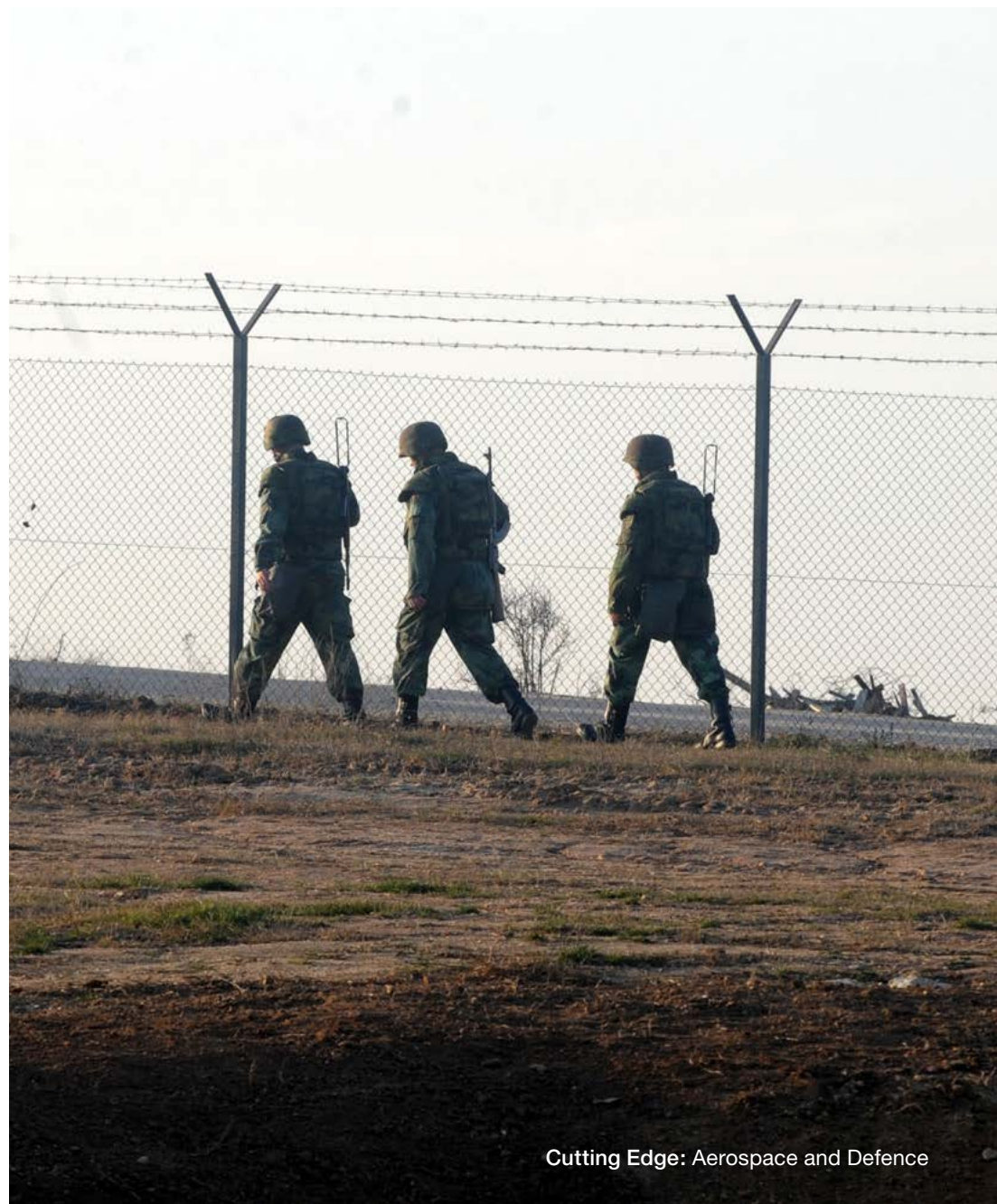
9. Enforcement plan

- a. In case of violation of provisions of this CAR/approved operating conditions, the UIN/ UAOP issued by the DGCA shall be suspended/cancelled.
- b. Non-compliance with any of the requirements and falsification of records/ documents shall attract penal action, including imposition of penalties as per applicable IPCs (such as 287, 336, 337, 338 or any relevant section of IPC).
- c. Necessary actions shall be taken as per relevant sections of the Aircraft Act, 1934/the Aircraft Rules, 1937, or any statutory provisions.

Offset-related disputes

Recently, there have been a number of cases of offset-related disputes and penalties have been imposed on several OEMs. The DPP provides for a Disputes Resolution System, which, inter alia, allows for resolution of disputes by way of arbitration. While the decision of the Acquisition wing of the MoD is considered to be final, there are provisions in the main contract for dispute resolution through bilateral discussions and arbitration.

The defence ministry has imposed a penalty close to 5,00,000 USD on an OEM for not fulfilling the quantum of offset obligations in India and thus violating the terms of the contract. The company was mandated to undertake offset obligations of 32 million USD annually but failed to meet these during execution. Another OEM was penalized 3,00,000 USD for not meeting offset obligations in India for a deal that was signed in 2011, and it is planning to wind its operations. Failure to comply with offset regulations has hit international OEMs hard and industry experts believe that there is a case for easing offset guidelines.





Mere rendition of supervisory and consultancy services, which may require technical inputs, does not by itself result in transfer of technical knowledge, skills or experience.

Facts

- The assessee is an Indian pharmaceutical company and had availed active pharmaceutical ingredient (API) and formulation services from a company in Israel.
- The services majorly comprised review, guidance, direction and facilitation of API manufacturing; monitoring procurement of raw material; environment compliance; business development; procurement management, etc.
- Before making payments to the Israeli company, the assessee obtained a confirmation from a firm of chartered accountants that the assessee is not required to withhold any taxes. Yet, as a measure of abundant caution, the assessee withheld the taxes and deposited the same with the revenue authorities.
- Thereafter, an appeal was filed before the Commissioner (Appeals) [CIT(A)] under section 248 of the Income-tax Act, 1961 (the Act), seeking a declaration that no taxes were required to be deducted as the services were not made available to the assessee as per the provisions of the India–Israel tax treaty read with the Most Favoured Nation (MFN) clause contained therein in light of the provisions of the tax treaty between India and Portugal. Accordingly, the payments made by the assessee are not in the nature of Fees for Technical Services (FTS) under the provisions of the tax treaty read with the protocol contained therein.
- The CIT(A) allowed the appeal of the assessee, directing that there is no liability to withhold tax under section 195 of the Act. Pursuant to this, the Revenue filed an appeal before the Income Tax Appellate Tribunal (the Tribunal).



- On appeal before the Tribunal:

Revenue's contention

- The MFN clause in the India–Israel tax treaty contains only an enabling provision and cannot automatically alter the FTS clause in India–Israel tax treaty.
- Services rendered by the Israel entity to the assessee also make available technical knowledge, experience, skill and know-how and hence are in the nature of FTS.

Assessee's contention

- The FTS clause in the India–Israel tax treaty is to be read along with the protocol to the said tax treaty which contains an MFN clause providing that if under any subsequent tax treaty between India and a third state, which comes into force after 1 January 1995, India limits its taxation at source on, inter alia, FTS to a rate lower or to a scope more restricted than provided in the India–Israel tax treaty, the lower rate or the restricted scope as provided for in that tax treaty shall apply under the India–Israel tax treaty as well.
- The make available provisions under the India–Portugal tax treaty must be read into the India–Israel tax treaty as well in the light of the above.
- Given the nature of services that the assessee has received under the agreement, nothing is 'made available' to the assessee in the sense that these services are consultancy services in nature and the assessee is not enabled to perform these services without recourse to the service provider.

Tribunal's ruling

- Protocol in a tax treaty is an indispensable part of the tax treaty with the same binding force as the main clauses therein and accordingly is required to be read along with the provisions of the tax treaty. The MFN clause, in the present case, does not require anything more than the fact that a more favourable treaty has come into force. Accordingly, the favourable clause in relation to FTS under the India–Portugal tax treaty shall also apply to the India–Israel tax treaty. The Tribunal relied on the decision of the Hon'ble Delhi High Court in the case of Steria India ltd. V. Dy. CIT [2016] 386 ITR 390.
- The Tribunal referred to the decisions of the Hon'ble Delhi High Court in the case of DIT v. Guy Carpenter & Co. Ltd. [2012] 346 ITR 504 and the decision of the Hon'ble Karnataka High Court in the case of CIT v. De Beers India Minerals (P.) Ltd. [2012] 346 ITR 467 for the meaning of the term 'make available'.
- The Tribunal held as under:
 - The thrust of the service agreement was mainly for rendition of supervisory and consultancy services, which cannot, by any stretch of logic, be considered to have transferred the technology to the service recipient.
 - Supervisory and consultancy services are inherently of such nature that these cannot be said to be covered by the 'make available' clause in the tax treaties for the simple reason that while these services, on the facts of a particular case, may require technical inputs, mere rendition of these services does not by itself result in transfer of such technical knowledge, skills or experience.
 - An incidental benefit by way of enrichment of experience obtained by the service recipient does not amount to making available technical knowledge, skills or experience.

DCIT (International Taxation), Vadodara v. Sun Pharmaceutical Laboratories Ltd. [2018] 96 taxmann.com 105 (Ahmedabad Trib.)



Independent professional services rendered by German and Swiss nationals to an Indian company were taxable as independent professional services as per the tax treaties in the respective countries.

Facts

- The assessee, an Indian company, paid fees to a German and a Swiss individual resident who provided professional services, which were in the nature of scientific services.
- No taxes were withheld on such payments made by the assessee on the premise that the payments were not chargeable to tax in India as per the beneficial provision of Article 14 Independent Personal Services of the India-Germany and India-Swiss Confederation tax treaty ('respective tax treaties').
- The Tax Officer (TO) observed that the payments were made for production process training for a technical research agreement for the development and production of new products and for supervision of erection and commissioning of the machine. Consequently, the TO held that such payment fell under the category of (FTS) under section 9(1)(vii) of the Act as well as under Article 12 of the respective tax treaties, and in the absence of taxes withheld by the assessee, disallowance shall be made under section 40(a)(i) read with section 195 of the Act on said payments.

Assessee's contention

- The assessee contended that the payments made were in the nature of professional services. Further, the non-residents do not have any fixed base in India nor have they stayed in India for a period longer than the threshold specified under Article 14 of the respective tax treaties, i.e. 120 days as per the India-Germany tax treaty and 183 days as per India-Swiss Confederation tax treaty.
- Hence, in the absence of any fixed base of the individuals in India, the said payments were chargeable to tax only in their respective countries.



Revenue's contention

- The payments made to non-resident individuals fall under the category of FTS u/s 9(1) (vii) of the Act as well as Article 12 of the respective tax treaties.

Tribunal's ruling

- The Tribunal observed that income may be chargeable to tax under Article 14 as well as under Article 12 of the tax treaty. It is an established rule of the Interpretation of Treaties that specific provisions in a treaty shall prevail over the general ones. In the present case, the provision of Article 14 is more specific as it applies specifically to 'professional services' provided by an 'individual resident'; however, Article 12 provides for 'residents of foreign countries'. Therefore, Article 12 is broader in scope and general in nature compared to Article 14.
- In view of the above, the Tribunal held that the non-resident individuals provided independent professional services to the assessee. Such services were not provided by them from any fixed base in India nor did the stay in India exceed the threshold specified under Article 14 of the respective tax treaties in India. Therefore, the assessee was not required to withhold any tax under section 195 of the Act.

DCIT v. Sun Pharmaceutical Laboratories Ltd. [2018]
96 taxmann.com 105 (Ahmed - Trib.)



Payment received by the assessee towards reimbursement of salary could not be considered as FTS under the provisions of the Income-tax Act and under the India–Singapore tax treaty.

Facts

- The assessee, a tax resident of Singapore, deputed one of its employees to India to set up the business of its Indian associated enterprise (AE) ‘Morgan Stanley Advantage Services Pvt Ltd’ (MSAS). MSAS is engaged in providing information technology enabled services and software development services to its overseas group entities.
- As per the contractual agreement between the assessee and MSAS, the assessee continued to pay the salary of its seconded employee on behalf of MSAS. Subsequently, the amount of salary paid by the assessee was cross-charged/recharged from MSAS by the assessee. The applicable taxes on salary were duly withheld and deposited by MSAS with the tax authorities.
- During the assessment proceedings, the TO treated the amount received by the assessee from MSAS as FTS as the employee deputed in India was highly qualified and had vast technical experience. Consequently, remittance on account of reimbursement of salary was considered as FTS. The TO also noted that unlike salary which is paid on a monthly basis, the remittances have been received by the assessee on a single day.
- On appeal by the assessee, the CIT(A) also confirmed the addition made by the TO.



- On further appeal before the Tribunal:

Assessee's contention

- The contractual arrangement between MSAS and the assessee clearly provides that the salary paid by the assessee to the employee is on behalf of MSAS and the same shall be cross-charged by the assessee from MSAS. Therefore, the amount received by the assessee is in the nature of salary reimbursement.
- Further, this payment cannot be construed as FTS as the same is covered by the exception provided in explanation 2 to section 9(1)(vii) of the Act. It was argued that once it is established that the payment is in the nature of salary, then the same is covered by the aforesaid exception.
- Further, it was also submitted that applicable taxes on salary were duly deducted and deposited by MSAS.
- The TO has failed to appreciate the provisions of section 90(2) of the Act and has accordingly disregarded the provisions of the India–Singapore tax treaty. Paragraph 4 of Article 12 of the said DTAA was relied upon, wherein it is provided that a payment will be qualified as FTS when the services are ‘made available’ to the recipient of the services.

Revenue's contention

- The Revenue relied on the judgment of the coordinate bench in the case of Morgan Stanley International Incorporated v. Dy. DIT [2015] 53 taxmann.com 457/153 ITD 403 (Mumbai - Trib), and stated that the reimbursement of salary by MSAS to the assessee is FTS under section 9(1)(vii) of the Act.

Tribunal's ruling

- The Tribunal held that the amount received/receivable by the assessee is in the nature of reimbursement of cost incurred by the assessee on behalf of MSAS and the same cannot be covered by the definition of FTS provided u/s 9(1)(vii) of the Act.
- The Tribunal further held that the exception provided to the aforesaid section clearly provides that income chargeable under the head ‘salary’ shall not be considered as FTS.
- The Tribunal appreciated the contractual agreement between the assessee and MSAS and held that the payment received by the assessee from MSAS is pure reimbursement of the cost incurred by the assessee on behalf of MSAS.
- The Tribunal, while allowing the appeal in favour of the assessee, relied on the judgment of ADIT v Mark & Spencer Reliance India (P) Ltd. [2013] 38 taxmann.com 190 [2014] 147 ITD 83 (Mumbai – Trib.) and the judgment in the case of United Hotels Ltd. v. ITO [2005] 2 SOT 0267 (Delhi), wherein it was held that payment in the nature of reimbursement does not constitute any element of profit; hence, the same is not chargeable to tax and the reimbursement in the nature of salary will not constitute FTS as the same is covered by explanation 2 of section 9(1)(vii) of the Act.
- Further, after considering the judgement of the co-ordinate bench in the case of Mark & Spencer Reliance India (P.) Ltd. (supra), wherein it was held that expatriation of employee under seconded agreement without transfer of technology would not fall under the term make available under article 13(4)(c) of the India-UK tax treaty, the Tribunal, in the instant case, held that reimbursement of salary would not constitute FTS.

Morgan Stanley Asia (Singapore) Pte. Ltd. v. DDIT (Int. Tax.) [2018] in ITA No. 8596 of 2010 and 4365 of 2012 (Mum. Trib.)



GST updates

Notification no. 50/2018 & 51/2018 – Central Tax dated 13 September 2018

The TDS and TCS provisions as prescribed under sections 51 and 52 of the Central Goods and Service Tax Act, 2017, have been made effective from 1 October 2018.

Notification no. 39/2018 – Central Tax dated 4 September 2018

The CBIC has notified the format of the annual return form GSTR-9. Due date of the same for FY 2017–18 is 31 December 2018.

Notification no. 49/2018 – Central Tax dated 13 September 2018

The CBIC has notified the format for filing of audit report (Form GSTR -9C) which needs to be certified by a charter accountant.

Other updates

- The CBIC vide notification No. 65/2018-Cus dated 26 September 2018 has extended the exemption from integrated tax and compensation cess up to 31 March 2019 on goods imported by an export-oriented unit (EOU).
- The CBIC vide notification no. 66/2018-Cus dated 26 September 2018 has extended the exemption from integrated tax and compensation cess up to 31 March 2019 on goods imported against Advance Authorisation (AA) and Export Promotion Capital Goods (EPCG).
- In the wake of the rising current account deficit, the government vide notification no. 70 /2018-Customs dated 26 September 2018 has increased the basic customs duty on aviation turbine fuel (ATF) from nil to 5%.



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