



Centre for Air Power Studies

AVRO TRANSPORT AIRCRAFT REPLACEMENT TO GO TO PRIVATE SECTOR: BOOST FOR INDIAN MILITARY INDUSTRY

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Photo: IAF Avro HS-748 transport aircraft. Source: <http://defence.pk/threads/hal-proposing-upgradation-of-iafs-avro-hs-748-transport-aircrafts.273449/>

Introduction

In a major departure from India's long held policy of allowing only state owned HAL (Hindustan Aeronautics Limited) to manufacture military aircraft the new BJP government has decided to permit Indian private sector to tie up with a foreign manufacturer to supply 56 transport aircraft to the IAF. These aircraft are required to replace the ageing **Avro HS-**

748 aircraft being manufactured by HAL under license from British Aerospace (BAE)¹. Several Indian private companies like Tatas, Reliance, Mahindra and L&T have shown interest to enter the Indian aircraft manufacturing sector. This decision of the government will open up the door for them and end the monopoly of HAL. The contract for the 56 aircraft requires 16 aircraft to be purchased outright from the original equipment manufacturer (OEM) and 40 aircraft to be built in India under a joint venture between an established Indian private sector company and a foreign vendor. The project is valued at Rs 13,000/- crore (\$ 2 billion roughly) and the tender requires the first 16 of the 40 aircraft to be manufactured, in India, to have 30% indigenous content which is to go up to 60% for the remaining 24 aircraft². HAL will continue to be involved in the other multirole transport aircraft (MTA) joint venture project with Russia's United Aircraft Corporation to produce replacements for AN-32s of the IAF.

Opening Up the Defence Sector

The Defence Minister, Arun Jaitley, said that this decision has been taken to strengthen India's private sector to become a "player" in the domestic industry and enhance indigenous "capacity building"³. The previous UPA (United Progressive Alliance) government had deferred a decision on this project in 2013, due to objections by the then heavy industries and public enterprises minister Praful Patel and other vested interests in HAL. This clearly brings out the stranglehold of vested interests in promoting their own agenda rather than the interests of the nation. The present government has done the right thing by overcoming all these objections and taking a firm decision in the national interest.

While this decision is certainly a step in the right direction, India needs to follow it up with other steps to bolster indigenous military industries. In a budget speech in July 2014, the new finance minister announced the government's decision to raise FDI (foreign direct investment) cap in defence sector from 26% to 49% thus acknowledging the benefits of FDI to enhance indigenous capabilities. This is just a small step in generating foreign company's interest in investing in India. Increasing the FDI cap to 49% only raises the financial interest of the foreign partner but does not give them any "additional operational freedom"⁴. Foreign companies would like to have operational control over their operations

in India so that they can control intellectual property rights over advanced defence technology which they have taken years to develop. It is for this reason that BAE has recommended to the Indian government that the FDI limit be increased to “at least 74%.⁵” In fact there is no reason why we should not permit 100% FDI in defence sector. After all, if we have to pay 100% of money to foreign vendors for import of weapons why can’t we ask them to manufacture in India with 100% ownership. An argument against 100% FDI is that it will compromise national security in times of crisis. This is a specious argument which defies logic. India holds the dubious distinction of being the largest arms importer in the world with 70% of our weapons requirements being imported. If paying foreign vendors for our arms imports does not compromise national security then how can allowing 100% FDI in manufacturing arms here compromise our security? National interests can off course be safe guarded by having practical checks and balances in the contract.

India needs cutting edge technology for advanced weapons but Indian defence public sector units (DPSUs) do not have the technology to provide this to the Indian armed forces. Therefore, the only way to get advanced technology is to open up the defence sector for FDI. The new government has taken the first steps in this direction.

Opening up a second line of aircraft production in the private sector will reduce IAF dependence on HAL which has a generally poor track record of quality control and meeting delivery schedules. Production of transport aircraft in India also needs to be looked into

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from the long term point of view and the requirement of such platforms in India. The IAF has a requirement for transport aircraft platforms for cargo, AWACS, tankers, ISR and ELINT roles. In addition there is the requirement from our growing civil aviation sector. India is the ninth largest aviation market in the world and by 2020 it is expected to be the third largest aviation market. To meet this growing civil aviation sector there is a big demand for civil transport aircraft in India. According to report in the Times of India, Indigo airlines have ordered for 250 new Airbus A-320neos to be delivered from 2018 to 2026⁶. This is over and above the 280 Airbus aircraft ordered by Indigo in 2005/2011. Thus the total order is for 530 aircraft worth \$ 48 billion. With such large requirements for transport aircraft there is a strong case for facilitating foreign manufacturers to open up shop in India.

Conclusion

India certainly has the capacity to develop its aviation industry. The country's achievements in the field of space like the successful "Mangalyaan" Mars Orbiter Mission and in other technology driven areas are testimony to its inherent capabilities. But it needs to be understood that we cannot boost our aviation sector alone, we have to have foreign collaboration. We have to actively promote private industry by removing bottle necks in FDI limits and the plethora of red tape, regulations and approvals. Removal of these bureaucratic hurdles will encourage foreign investment to step in and form successful ventures to plan, design and develop state of the art equipment for Indian aviation sector and consequently strengthen our military industries.

(Disclaimer: The views and opinions expressed in this article are those of the author and do not necessarily reflect the position of the Centre for Air Power Studies [CAPS])

End Notes

¹ Rajat Pandit, "Private sector set to enter Indian aerospace market", in *The Times of India*, July 17, 2014, <http://timesofindia.indiatimes.com/business/india-business/Private-sector-set-to-enter-Indian-aerospace-market/articleshow/38517142.cm>, accessed on October 13, 2014.

² Rahul Bedi "India excludes HAL from medium transport aircraft programme," in *Jane's Defence Industry*, July 20, 2014, <http://www.janes.com/article/41035/india-excludes-hal-from-medium-transport-aircraft-programme>, accessed on on October 13, 2014.

³ Business Standard, July 22, 2014, accessed on October 13, 2014.

⁴ Jane's Defence Weekly, July 23, 2014, p. 25, accessed on October 13, 2014.

⁵ Ibid.

⁶ *The Times of India* , October 16, 2014, p.1

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