



## **OPENING ADDRESS CAPS/CII CONFERENCE 06 NOV 2013**

*Air Marshal Vinod Patney SYSM PVSM AVSM VrC (Retd),  
Director CAPS*

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May I extend a warm welcome to all here today. These conferences are now an annual feature. This conference is the 8th in the series. Your presence in numbers and the obvious keenness one perceives is indicative that these conferences are well received and do serve a purpose. Our effort will be to make each conference more meaningful than the one before.

I must admit that one aspect where we may have fallen short in the past is ensuring that our deliberations find greater traction with the decision makers. Nevertheless, we will keep trying. There is considerable talent assembled here and the recommendations that go from this conference are likely to be significant. These recommendations will be forwarded to the right quarters.

Much has been achieved by the Indian Aerospace Industry and the support, bilateral I may add, of foreign aerospace industry has been meaningful. Much still needs to be done. We are still far away from the distant goal of self reliance. The likely expenditure in procurement of assets itself in the next few years is a very high figure and should be an attractive figure for our industry. IAF alone is likely to spend more than Rs 2 lakh crore on acquisition of capital assets in the coming five years. In the current year, IAF Capital Budget is 37,048.06 Cr. Taking growth pattern of the recent past, this figure would be around 2,40,000 Cr for the next five years and more than 6,00,000 Cr for the next ten years.

Requirements will keep increasing in terms of numbers and capabilities. We must rise to meet the challenge.

Permit me to be bold and say that the relationship between our aerospace industry and the users has, at times, been less warm than what it should be given the fact that both have every reason to operate in unison and should bank upon each other. Conferences such as this are intended to facilitate greater interaction and understanding. May that happen?

Can we keep on traversing the same route in the same manner? We could. It is a well trodden path. But it will not be to our advantage. What is the real problem?

Industry often opines that Indian Industry must be favoured. In fact the new Defence Procurement Policy is intended to support Indian industry. There are several reasons for lack of indigenous capability in most areas, the important being over-reliance on the public sector. I think with sufficient egging on by private industry, the Government will relent. We must find a middle ground, an optimum answer when the perfect solution eludes us. Private industry should not be given short shrift. Hopefully, with a number of users and industry represented here, some networking to approach towards a workable solution will take place. We need to make use of every such opportunity.

Can we make use of the US-INDIA Defence Cooperation Agreement of Sep 13? The New Framework for US India Defence Relationship signed in June 2005 showed much promise but we could and should have done much better. Will we fare better now? Reduced restrictions and technology transfer have been promised and we must prepare the ground for absorption of such technologies. Can we do so in a hurry? What about our defence relations with Russia, Israel and others? Will they be impacted? Many questions come to mind but we need answers.

Space is now an important arena for users and the industry as well. Much has been achieved but much is uncharted territory. It may be outside the scope of this conference but weaponisation of space and space warfare are no longer distant possibilities. The users must seek answers from our industry. Possibly, besides the obvious role that Government agencies must play, the private sector can also contribute to a large extent.

The private sector can also allot funds for research on emerging technologies. The outlay may not be insignificant but is desirable. Participation in defence needs is expensive for the companies but rewards equally attractive. Good products would also attract an export market. More importantly, the slew of capabilities that would result could have many more applications in a far wider civilian sector. In this respect, private industry will be at an advantage.

In the military sphere, the launch of a dedicated satellite for our Navy is a big step. Other dedicated satellites will follow and with experience, the requirements will crystallize. We should not wait for that day but interaction between users and industry should start now so that plans are made on the feasible and not merely the desirable. All key stake holders should be together involved from the design and development stage itself.

MSMEs will be our mainstay for a while. Tier 3 and Tier 2 capabilities should expand rapidly and pave the way for Tier 1 also. Arguably, MSMEs could be the backbone to indigenization. They have niche capabilities that should be encouraged and nurtured. MSMEs have not been able to enjoy full benefits of offsets as foreign vendors prefer to engage with larger players. However, on the basis of their technical competence and initiative, many of them have been able to export their products at component level. With sound support, they could do more.

FDI of 26% has been permitted for a while. There is a clear stated intention to allow upto 49% on case to case basis. This will not be automatic. Our industry and users together must do the ground work to convince the Government and the foreign partner. Maybe some risks will have to be taken but they should be viewed as acceptable. We cannot have or hope to have a 100% success rate. I look forward to the views of the participants.

Our flagship Indian aerospace industry is undoubtedly HAL. Our expectations are high, with the result that there are some detractors who are disappointed with what HAL has achieved. By and large they are disappointed that HAL has not achieved what it could have. These detractors should also recognize the achievements of HAL. On its part, I believe that HAL should be its own worst critic. A good rapport between HAL and the users will benefit

both. I was delighted to read a purported comment by Chairman HAL that they were helping 2400 suppliers. Can HAL do more? Also, they plan to invest Rs 10000 crores in the next 5 years on modernization and capacity augmentation. I hope we will soon see results.

Similarly, a good understanding between the users and the other companies will be mutually beneficial. Hopefully, this conference will help to foster better understanding. One message that this conference should send forth is that user participation at all stages is not only beneficial but essential.

Let me list some take away points,

- Costs are high but our industry must grow as need for modernization increases. We should not shy away from competition.
- Out of the box thinking is needed. We should have better research directed to user needs, better plans, processes and products, and our business models must also undergo an overdue change.
- Transfer of technology and license manufacture systems must be viewed as a stopgap arrangement and not become an end unto itself. Private sector could show the way.
- The market for MRO and engineering support should be tapped.
- Government and industry must view each other as partners. The FDI limits and the tax regime could be relaxed.
- Users and the industry could get together to formulate a joint plan and work it as a business model. Possibly, the Government should accept ownership of such plans.

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