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By Michael Mecham



Foreign suppliers are turning to joint ventures with Indian manufacturers as one way to satisfy the country's technology offset requirements, but they want caps on ownership levels loosened.

India has about \$50 billion in procurement contracts identified for the near term, although so far negotiations are under way covering some \$2 billion. Thus far, offset levels for them are just \$43 million, but more are expected.

Foreign suppliers can hardly ignore the requirements of India's 2008 Defense Procurement Procedure act, which mandates a 30 percent offset for all procurement valued at more than \$65 million.

Not surprisingly, half of the 650 exhibitors at last month's DefExpo conference in New Delhi were domestic suppliers eager to get a piece of India's increasingly large defense pie by finding foreign partners to team with. Joint ventures is one strategy. But India's reluctance to expand its caps on the amount of direct investment that foreign firms can make in these partnerships is regarded as a roadblock. Foreigners worry about the amount of return on investment they will have with the current cap of 26 percent and the amount of control they can exercise when they hold just a quarter of the venture's stock. That is why Rafael and other foreign suppliers want to be able to invest 49 percent.

However, Rafael Chairman Ilan Biran acknowledges that the lure of India's defense jobs is enough to overcome his basic objections to the government's foreign investment restrictions. "The ultimate solution is forming joint ventures," he says.

Offsets

Biran is keeping in mind the potential for IR seekers to play a big role as an offset measure for whoever wins the Indian air force's \$10 billion competition to select 126 Medium Multi-Role Combat Aircraft (MMRCA). Flight evaluations have begun for the six competitors – Boeing's F/A-18, Lockheed Martin's F-16, the EADS Eurofighter Typhoon, Saab's Gripen, the Mikoyan MiG-35 and Dassault Rafale.

Saab understands the logic of making its bid more attractive with an offset strategy. It signed an initial agreement with India's Samtel Display Systems (SDS), an avionics supplier, during DefExpo to jointly develop, manufacture and market Saab's RIGS head-up displays in India for the air force's competition.

While he acknowledges India's long-term goal for building up its technology base, SDS Executive Director Puneet Kaura says there are practical aspects to getting a project started. "We feel that for the first few prototypes [in the] transfer of technology, OEMs should be responsible," he says. SDS has signed memorandums with all of the OEMs bidding on the fighter project.

Tata, India's largest conglomerate, is pursuing a series of joint ventures. It will produce components for the S-92 heavy lift helicopter with Sikorsky Aircraft that fits in with the U.S. manufacturer's strategic plan. "We made our vision clear at DefExpo that India will be our hub as part of our [10-year] plan," says Sikorsky Managing Director-India AJS Walia. Under another agreement, Tata Industrial Services and Diehl BGT Defense will jointly provide industrial support services.

Boeing has signed a \$4.7 million contract with India's largest government-owned aviation manufacturer, Hindustan Aeronautics Ltd. (HAL), to provide eight shipsets of weapons bay doors for the P-8I long-range maritime reconnaissance and anti-submarine warfare aircraft that the Indian navy is acquiring. This is the first offset package that Boeing has directly agreed to with HAL, Boeing Vice President-India Vivek Lall says.

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