

Offset policy inertia curbs Thales-Samtel JV

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India's defence offsets policy mandates that foreign arms suppliers must buy goods from, or invest in, Indian defence manufacturers to the tune of 30 per cent of the value of each contract that they sign with New Delhi. But grey areas in the policy are stymying the development of successful offset partnerships.

An example of this is the joint venture between French multinational Thales and NCR-based Samtel Display Systems to manufacture Helmet Mounted Sight Displays (HMDs) for the MiG-29K fighters that will operate from India's future aircraft carriers, such as the INS Vikramaditya, which is being built in Russia.

Called TopSight-I, this HMD projects before the pilot's eyes the information needed for flying his aircraft; it also allows the pilot to aim a weapon merely by looking towards the target, saving valuable seconds that are the difference between life and death in an aerial duel. As the pilot moves his head, a magnetic sensor following his helmet, and sophisticated software calculates where he is looking and aims a missile in that direction.

HMDs like TopSight-I could now be manufactured for India's range of fighter aircraft at Samtel Thales Avionics, the high-end facility near Ghaziabad that houses the joint venture (JV) between Thales and Samtel Display Systems (Thales 26 per cent; Samtel 74 per cent). Building in India would gain

offset credits for Thales; while the Indian Air Force (IAF) would be happy that product support is close at hand.

In fact, according to sources in the Ministry of Defence (MoD), Thales is looking beyond the Indian fighter market, at manufacturing its entire global requirement of HMDs in Samtel Thales Avionics. It is even

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willing to transfer proprietary HMD technologies worth hundreds of millions of dollars to Samtel Thales Avionics, a JV in which it holds a mere 26 per cent. But Thales wants South Block to clearly state that it will get offset credits for the entire volume of production of the JV.

Gaining offsets credits would be sufficient incentive for Thales to supply HMDs worldwide from Ghaziabad, rather than from the Thales production unit in France. But, while the MoD has permitted the "banking" of offsets, it is unwilling to clearly state that the entire production of Samtel Thales Avionics is eligible for offset credits.

"All displays produced in Samtel Thales Avionics are fully eligible for offsets under the Defence Procurement Policy of 2008

(DPP-2008)", argues Puneet Kaura, executive director, Samtel Display Systems. "It is an Indian company and it value-adds more than 70 per cent to whatever is supplied from Thales, France. But if offset credit is given only for products that are fitted onto Indian weapons platforms, Thales would hesitate to transfer sensitive technologies to a JV in which it holds only 26 per cent."

Samtel Thales Avionics will start with "Build to Print", building HMDs according to blueprints provided by Thales. But Samtel intends to absorb Thales' HMD technology quickly, by setting up a Centre of Excellence for this purpose.

"We will absorb end-to-end knowledge of the system, and develop design capabilities within two years," explains Puneet Kaura. "Thales has agreed to this."

Interestingly, all six aerospace giants competing in New Delhi's tender for 126 medium multi-role fighters have signed MoUs with Samtel Display Systems for manufacturing cockpit displays in case their fighter is selected. While these are pure "Build to Print" arrangements, purely to meet offset obligations, those foreign vendors, too, would consider designing in India and sourcing globally from here, provided offset benefits were clearly attractive.

For now, *Business Standard* has learned, the MoD is hesitating to take any decisions relating to defence procurement. Even the Defence Procurement Policy of 2009, which the defence minister stated would be released on November 1, remains under wraps. *(Concluded)*