

Aerospace & Defence Policy 2016

Government of Haryana

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1 Preamble

Globally Aerospace & Defence sector has market size of US\$ 706 billion, having employed 2 million people. However, Indian aerospace & defence manufacturing could not ensure its fair share in catering to the global demand. India as an emerging manufacturing hub presents an attractive and significant opportunities for domestic & foreign companies across the value chain. India is the ninth largest civil aviation market having market size of US\$ 16 billion. Aviation is the key growth driver for aerospace sector, it carried 163 million passengers in 2013 & growing at the rate of 13% year on year basis. 85 international airlines are operating which connects 40 countries. In defence, India has the third largest armed forces and the eighth highest defence expenditure in the world and has been spending approximately 2% of its GDP in recent years. India spends about 40% of its defence budget on capital acquisitions with 70% of its spending on imports, India is the largest importer of defence equipment in the world. To indigenize the aerospace and defence production GOI has come up with new Defence Procurement Policy wherein, the offset policy mandates offset requirement of a minimum 30% for capital purchase agreements made with foreign defence players. It will help in building domestic eco-system for aerospace and defence industry and for that Government of India has taken slew of others initiatives as well to attract new investments in this sector

“Make in India” program has been launched which focus on all the dimensions prerequisite for investors. Specifically to promote A&D sector, GOI has increased the Foreign Direct Investment (FDI) limits for the Defence sector to 100% through government approval route in cases where it is likely to result in access to modern technology. The licensing regime for defence products has been relaxed which makes it easier for private sector manufacturers to enter into the aerospace and defence supply chain. Very recently, reform in aviation sector has also been announced to give boost to MRO/FBO/Cargo industries

Possessing a strong industrial base, Haryana ranks among the front-runners of industrial development in India. Gurgaon and Faridabad have a strong base in engineering and secondary metal processing, Industries manufacturing various metal alloys, automobile and auto components parts and other related ancillary products. It's well renowned for expertise in engineering including welded, forged and cast product as well. State also hold leading position in the production of a number of consumer goods such as cars, two wheelers, escalators, cranes etc. The State enjoys its proximity to national capital along with access to international airport and network of national highways passing through the State. Moreover, the entire State is covered by at least one major industrial corridor (DMIC & KMP). So, Haryana is well poised to take advantage of the surge in investments in Aerospace & Defence in India and attract not only the world's largest A&D companies, but also proactively promote the SME sector. The Haryana Government has assured to go extra mile to support the entrepreneurship in the State. The State has also been at the forefront of providing excellent infrastructure support to domestic as well as international investors.

Haryana Government's "Aerospace & Defence Manufacturing Policy 2016" read with in conjunction with the "Haryana Enterprise Promotion Policy 2015" will provide investors with the vision, mission, policies and incentives of the State's supporting steps to create a globally competitive and thriving Aerospace & Defence manufacturing industry in Haryana. This policy provides the strategic direction for development of the A&D sector in Haryana in the next 5 years.

2 Vision

To establish Haryana as the country's prominent aerospace & defence manufacturing hub and preferred MRO, FBO destination of the Asian region.

3 Mission

- a) Modernization of allied industries to develop them in world class suppliers
- b) To build India's largest aerospace & defence park in Haryana
- c) Foster a culture of excellence in pioneering research, innovation and entrepreneurship
- d) To create the world class training infrastructure to produce globally competitive talent in Aerospace & Defence sector

4 Objectives of the Policy

Haryana is committed to position itself as the country's leading Aerospace & Defence Manufacturing hub. The State's well-recognized manufacturing proficiency and state-of-the art infrastructure can help in meeting India's critical need to be self-reliant in the sector. The proposed policy objectives are as follows:

- a) Attract orders for at least 15% of all offset obligations discharged by companies in India by leveraging the existing ancillary base and promoting new MSMEs dedicatedly for A&D sector
- b) To attract 10% by value of the orders in defence industry in India by attracting investors to set-up Mega and Ultra-Mega Anchor units
- c) To attract investment of over INR 25,000 crores throughout the value-chain including research, design, development, manufacturing, maintenance, quality control and training
- d) To create direct employment for 32,000 people by 2020
- e) To increase the share of industry in GSDP from 27% to 32% by leveraging the A&D sector
- f) To attract 50% by value of MRO activities of which market size in India is estimated to be around US\$ 700 million

5 Definitions

Defence Units:

Companies which are supplying at least 50% of value of their finished goods or should have secure defence order worth at least INR 50 Crore from Ministry of Defence, Government of India or their equivalent in foreign countries.

The definition shall cover those unit also which are supplying component of worth at least 50% of value of their finished goods to the Unit/Anchor unit who in turn is supplier (as per terms laid down in above para) to Ministry of Defence, Govt. of India or their equivalent in foreign countries

Mega A&D Units:

Global / Indian Original Equipment Manufacturers (OEM) – companies which design and manufacture the A&D platform. Involve fixed capital investment (excluding land) of over 100 crore and above, or generating direct employment for more than 200 people in non-Gurgaon district. Fixed investment of over INR 100 crore or generating employment for more than 500 people in Gurgaon district.

Large Project:

The unit having investment in plant & machinery of more than 10 crore rupees (or over and above of limit of Medium units defined under MSMED Act, 2006 time to time) but not exceeding 100 crore rupees.

Medium Enterprise:

The unit having investment in plant & machinery of more than 5 crore rupees but not exceeding 10 crore rupees or amended under MSMED Act, 2006 from time to time.

Small Enterprise:

The unit having investment in plant & machinery of more than 25 lakh rupees but not exceeding 5 crore rupees or amended under MSMED Act, 2006 from time to time.

Micro Enterprise:

The unit having investment in plant & machinery not exceeding 25 lakh rupees or amended under MSMED Act, 2006 from time to time.

Anchor units:

Units with investments of at least INR 100 Crores and bringing along at least 10 vendor units in the same clusters, shall be treated as anchor unit

Vendor units:

Units which are located in the same cluster as Anchor unit and supply at-least 75% of its end product to the Anchor units.

Local employee:

Any employee who holds a domicile of the state of Haryana shall be considered as a Local employee for the applicability of this policy.

The incentives, terms and conditions of the Haryana A&D Manufacturing Policy has to be read in tandem with the Haryana Enterprise Promotion Policy 2015. In case of overlapping of one on another, the Aerospace and Defence Manufacturing Policy shall supersede.

6 Eligibility

- a) This policy shall come into effect on the date of its notification in the Government of Haryana official gazette and will remain in force till it is amended or superseded by the Government
- b) Units for which any package of incentives has already been sanctioned under Haryana Industrial Policy 2011 or earlier policies, shall not be eligible to avail benefits under this policy
- c) Units which will commence commercial production / operations post the date of notification of this policy will be eligible for availing of incentives under this Policy.
- d) Units which invest 50% of existing investment in plant & machinery on expansion/technical up gradation of existing units shall be eligible for incentives at par with new units.

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7 Incentives

7.1 Fiscal Incentives

a. Land Concession:

Land would be made available by HSIIDC / HUDA / State Government on a concessional rate. Mega units would be given preference for government land allotment.

- i. 10% concession would be given for land within Gurgaon district
- ii. 25% concession would be given for land outside Gurgaon district
- iii. Land shall be made available by HSIIDC / HUDA / State Government on a long lease of 33 years with annual increase of 5% further extendible by 33 years. Base price will be determined using appropriate valuation models as per industry standards

b. Stamp Duty & Registration Charges:

A&D units shall be eligible for reimbursement of stamp duty and registration charge paid on sale / lease deeds paid on the first transaction:

- i. 100% reimbursement for units investing in districts outside Gurgaon
- ii. 30% reimbursement for units investing in district Gurgaon
- iii. 100% reimbursement of registration charges throughout Haryana

c. Power Subsidy:

All units shall be eligible for exemption of open access charges up to INR 1.77 per unit for 5 years. Open access charges to include Cross Subsidy Charges and Additional Subsidy Charges

d. Interest Subsidy:

Graded interest subsidy would be provided for project outside Gurgaon district at the rates specified in Table given below

S No	Type of Unit	Interest Subsidy	Duration
1	Mega A&D Unit	<ol style="list-style-type: none">1. External Commercial Borrowing (ECB) - 50% of rate of interest subject to a maximum of 2.5% interest per annum will be subsidized2. Domestic borrowings - 6% rate of interest per annum will be subsidized3. Total ECB & domestic interest subsidized not to exceed ₹5 crore p.a.	5 years

2	Large A&D Unit	1. ECB - 50% of rate of interest subject to a maximum of 2.5% interest per annum will be subsidized 2. Domestic borrowings - 6% rate of interest per annum will be subsidized 3. Total ECB & domestic interest subsidized not to exceed ₹1 crore p.a.	5 years
3	MSME	7% of rate of interest p.a. subsidized with a maximum cap of ₹25 lakh per annum or net VAT paid whichever is less	5 years

e. Electricity Duty Exemption:

100% exemption for a period of 10 years. For units producing captive power, the exemption will be limited to the power consumed for its own operation only, but not sold to other business entities/private companies/PSUs/DISCOMs/etc.

f. Value Added Tax and Central Sales Tax Reimbursement

All units would be allowed reimbursement to the extent of 100% of the net VAT/CST/SGST paid, for a period of 10 years or up to realization of fixed capital investment whichever is earlier.

g. Capital Subsidy:

An Anchor unit would be offered a subsidy of INR 15 crores for establishing unit outside Gurgaon district and INR 5 crores for within Gurgaon district, and this subsidy would be extended to only first five manufacturers each in Gurgaon & other than Gurgaon district

h. Mother-Vendor Linkage:

The vendor units of defence and aerospace manufacturing units, shall be provided financial incentive package similar to that of the mother unit

i. Research & Development assistance:

Investment in R&D above 20 crore would be given rebate of 50% subject to maximum quantum of INR 10 crores

j. Technology Transfer Assistance:

Anchor unit shall be reimbursed 100% of cost of technology transfer for first five vendors and 50% for subsequent vendors, up to 10 vendors with a ceiling of INR 50 lakh

k. External Development Charges Exemption:

- i. 50% exemption of External Development Charges to developers for developing notified A&D parks / clusters / zones.
- ii. 50% exemption of External Development Charges to A&D units setting up outside the notified IT parks by getting the new NoC for change of land use.

l. Transport Subsidy:

Subsidy of 50% of transportation cost, with a ceiling of INR 2 Crore, on transportation of imported equipment, plant and machinery from harbor / port to the place of commercial production. This subsidy shall be applicable on transportation up to date of production

m. Freight Subsidy:

- i. Freight Subsidy of 100% would be given for the export of components/products being manufactured in designated A&D park/cluster/zone
- ii. Freight Subsidy of 100% would be given for the transportation of component from component manufacturer defence unit to anchor unit within the State to balance the location disparity

n. Subsidy for setting-up ETP:

One time capital subsidy up to 60% of cost of ETP subject to ceiling of 50 lakh in Gurgaon district and 1 crore outside Gurgaon district

o. Awards:

Awards would be given to MSME units for new ventures, innovation for their outstanding contribution to the sector and for this a corpus of INR 1 crores would be created for policy period

7.2 Simplified Regulatory Regime

In its endeavor to create a conducive business climate for companies, the Government of Haryana shall be implementing some landmark reforms for regulatory simplification. These reforms are aimed at improving the Ease of Doing Business in the State and ensuring hassle-free experience for the investor

a) **Single Desk Clearance:**

Government of Haryana has constituted Haryana Enterprise Promotion Board (HEPB), which will provide one stop shop clearances to companies willing to invest in the State. The governing council of the board is headed directly by the Chief Minister to ensure clearances are given in a time bound manner.

b) **Industrial dispute act reforms:**

The industry will be declared to be a 'Public Utility' under the Industrial Disputes Act, 1947 in order to prevent flash strikes

c) **Enactment of ESMA:**

Aerospace & Defence manufacturing units would be declared as essential service under the Essential Service Maintenance Act

d) **Deemed Approval:**

The Government of Haryana has made a provision for deemed clearance for 122 services by notifying in Right to Service Act.

e) **No CLU/Auto CLU:**

- i. Government has identified 31 'No CLU' blocks and 75 'Auto CLU' blocks with an automatic dispensation of deemed clearance for setting up of Industrial Units.
- ii. 100% exemption of CLU charges to A&D units setting up in notified land /Parks/Clusters and further these units will be exempted from the procedure of change of Land.
- iii. 50% exemption of CLU charges to A&D units setting up outside notified A&D Parks/Cluster
- iv. Government notified land /A&D Parks/Clusters shall be pre-cleared with all the necessary approvals such as NOC from Pollution, Power, Land Use, Forest, Industries etc.

f) **Self-Certification:**

The Government of Haryana will allow Self-certification, 3rd party verification for Labour related clearances and approvals under 13 acts of Labour department in Haryana. Self-certification / 3rd Party verification shall be allowed for below mentioned acts of Labour:

- i. Factories Act, 1948, and Rules framed thereunder
- ii. Minimum Wages Act, 1948, and Rules framed thereunder

- iii. Payment of Wages Act, 1936, and Rules framed thereunder
- iv. Contract Labour (Regulations & Abolition) Act, 1970 and Rules framed thereunder
- v. Payment of Bonus Act, 1965 and Rules framed thereunder
- vi. Payment of Gratuity Act, 1972 and Rules framed thereunder
- vii. Maternity Benefit Act, 1961, and Rules framed thereunder
- viii. Child Labour (Prohibition and Regulation) Act, and Rules framed thereunder
- ix. Shops & Commercial Establishments Act, 1958, and Rules framed thereunder
- x. Inter-State Migrant Workmen (RECS) Act, 1979 and Rules framed thereunder
- xi. Equal Remuneration Act, 1976
- xii. Motor Transport Workers Act, 1961 and Rules framed thereunder
- xiii. Industrial Establishments Act, 1965

g) [Online single return for various Acts pertaining to Department of Labour](#)

The Ministry of Labour, Govt. of India has combined forms of 12 central labor laws, under which returns are to be filed, into a single format. The Government of Haryana will expedite the process of implementing the system for filing of online returns for labour compliance using single application form

h) [Relaxation in inspection from various department](#)

- i. Department of Labour: There shall be no inspection by Labour Inspector and the Factory Inspector without the prior approval of Head of the Department.
- ii. Department of Boilers: There shall be no inspection from Boilers inspector. Self-Certification / 3rd party inspection to be allowed
- iii. Department of Excise & Taxation: No pre-registration inspection shall be carried out by the department. The department shall issue TIN within one working day of the receipt of complete application for registration.

i) [Sub-leasing of land:](#)

Anchor units may sub lease part of their land (subject to a maximum of 50% of the total allocated land) to its suppliers. In such cases, the suppliers must sell at least 75% of their output to the respective anchor unit, Subleasing can be done at same rate as leased to Anchor unit

7.3 Infrastructure Augmentation

The Government shall endeavor to create world class infrastructure to provide an enabling ecosystem for the upcoming units. It is proposed to set up a world class MRO as part of Hissar Aviation Hub, this will be a state-of-the-art facility which will provide full aircraft base maintenance services and will cater to the maintenance needs of regional and global airline customers. The State shall incentivize the units setting up operations in the earmarked A&D Cluster/Hub

a. Development of Aerospace and Defence Park/Cluster:

- i. The State shall develop defence manufacturing Cluster/Park in Pinjore Industrial Estate, proximity to TBRL's Firing range (spread over 5000 acres) would be leveraged for testing of defence equipment
- ii. For aerospace Hissar has been chosen where 4000 acres have been earmarked for Aerospace park, moreover presence of airstrips make it suitable for Aerospace Hub

b. Developing of MRO/FBO/Cargo Warehousing Facility:

- i. Build MRO, FBO in upcoming aerospace park in Hissar facility on PPP model where players with expertise in MRO, FBO & Ware-housing can be invited to participate
- ii. Zero VAT for MRO activities for 10 years
- iii. As per New Aviation Policy, Airport royalty and additional charges will not be levied on MRO service providers for a period of 5 years in addition to this Haryana Gov. would reimburse this charge for further 5 years
- iv. To enable economy of scale, GOI has provided the window of 3 years for the utilization of duty (custom) free parts, Haryana Gov. will widen this window to 5 years and will bear the additional cost on this account

c. Incentive for setting-up Aerospace Research, Testing & Innovation Centre:

Subsidy of up to 50% of the cost of land, building, plant and machinery subject to a maximum of INR 25 crore for testing center, INR 30 crore for technology innovation center and INR 50 crore for the common facility center

d. Setting-up of Aerospace University and Flying School:

Three aviation training centers at Hissar, Karnal & Pinjore would be leveraged and Aerospace University would be set up near to this premises

7.4 Human Capital Development

The progress of the A&D Manufacturing industry is highly dependent on the availability of high quality manpower. While Haryana is home to more than 160 Engineering Colleges and more than 190 polytechnic colleges, many of these technical institutes offer specialized courses in Aeronautics. Further, Haryana is privileged to have a reputed aviation institute like Haryana Institute of Civil Aviation. Further, it is essential to create a talent pool of individuals which lives up to the industry expectations. To facilitate the same, Skill development program would be introduced to fill the skill gap. State shall identify the university/institution in the State to forge a tripartite collaboration with International University such as Embry-Riddle Aeronautical University and Anchor units to uplift the training infrastructure in the State. Government of Haryana shall take other key steps also to support Human capital development in the State

a. **Employment generation Subsidy:**

- i. For investment in Gurgaon: Subsidy of 1 month salary per year per employment created for a continuous period of 2 years shall be given for a period of 5 years.
- ii. For investment outside Gurgaon :Subsidy @ Rs.36,000 per year per candidate for 5 years

b. **Curriculum development:**

Introduce Aerospace Specific Content in ITI & Polytechnic and preparing specialized curriculum with the consultation of industry expert & international university

c. **Research & Innovation Scholarship program:**

Government to reimburse 50% of expense of at-least 20 research scholars or to fund 50% of expenses of exchange program for 30 students every year from premier institutes and universities of Haryana to get exposure to best curriculum prevailing in top Foreign University in Aeronautics field

d. **Training Infrastructure/skilling:**

Land in Aerospace Park and 75% subsidy up to a limit of 10 crores for setting up training Institute to the first anchor unit to be coming in the designated park

7.5 MSME Development

As India gears up to retrace the high growth path, its MSME sector assumes a pivotal role in driving the growth engine. With 3.6 Crore units spread across the country, that employ 8.05 Crore people, Micro, Small and Medium Enterprises (MSME) have a contribution of 37.5 per cent to the country's GDP.

The significance of MSMEs is attributable to their caliber for employment generation, low capital and technology requirement, promotion of industrial development in rural areas, use of traditional or inherited skills, use of local resources, mobilization of resources and exportability of products.

The State has about 1670 Large and Medium Enterprises which have approx. investments of INR 49,000 Crore and generated employment for 3.36 Lac persons. Besides, there are around 90,000 MSMEs with total investment exceeding INR 15,000 Crore and employing more than 8.90 Lacs persons. . Today, almost all the districts of the State have witnessed industrial development in varying degrees. Local manufacturers produce various engineering goods including auto components, switch gears, refrigerators telecommunication equipment, electrical goods, rubber products, light engineering goods etc. With unemployment rate at 4.8%, it is imperative to focus on the MSMEs for creation of employment opportunities and to revitalize economic growth.

With a view to providing focused attention on the MSMEs, slew of steps would be taken which include formation of Incubation cell to encourage the R&D in this sector and MSMEs be the beneficiary of technological innovation conceived out of this program. Mentoring program for MSMEs shall be facilitated to help them to diversify/upgrade, getting certification as per the requirements of OEMs. The need of inclusion of a specialized package incentives on MSMEs has also become imperative.

The MSMEs which fits in the definition of defence unit or vendor unit as defined in Definition Section shall be eligible for the incentives being itemized below:

a. Patent Fee Reimbursement:

80% of the actual expenses with a max of Rs 25 lakh for domestic & international patent registration

b. Trademark Registration:

100% of the cost of the application for trade mark registration or ₹25,000, whichever is less

c. Quality certification Fee Reimbursement:

MSMEs shall be financially supported for obtaining certifications like AS-9100 series and NADCP etc.; reimbursement would be up to 100% of fee limited to INR 5 lakh for each certification

d. Business Development Support:

- i. For select exhibitions within the country - complete reimbursement of participation charges up to INR 5 lakh to maximum of 10 A&D units

- ii. For select international fairs - 50% of cost of participation up to 10 lakh for maximum 5 A&D units

e. **MSME Diversification/Modernization Program:**

A Corpus fund of INR 50 crores would be created with aim of modernization and diversification of ancillary units in Haryana in order to align/upgrade their capability to meet the components & quality requirements of aerospace & defence manufacturing anchor unit

- i. The unit would be given financial assistance of up to INR 25 lakh to upgrade/enhance capability to cater to the need of anchor units in A&D manufacturing sector. Only such unit would be covered under this scheme which would be supplying components, worth of double of financial assistance, to anchor units
- ii. A Handshaking Conference shall be organized by the State Government in order to facilitate a dialogue between foreign Defence Contractor to India and local MSME units with a potential to become vendor of these contractor to fulfill their offset obligation
- iii. Industrial visits shall be organized for select MSME units to give them exposure of leading manufacturing practices in Aerospace and Defence sector
- iv. Capacity Development Program would be conducted, under which local units would be attached with key anchor, to understand the modern technologies and accordingly enhance their capability

f. **Other Incentives :**

Apart from the incentives mentioned in this policy, all other incentives (the best one in each head) applicable for MSME in EPP 2015 would be also available for MSME in A&D Manufacturing sector throughout Haryana without any zonal restriction.