

Uttar Pradesh Defence and Aerospace Units and Employment Promotion Policy 2018

1. Introduction

Indian economy continues to be a bright spot in the world with an average GDP growth rate of 7% for last three years (2014-15 to 2016-17). The economy is looked upon as one of the world's fastest growing large economies reaping high demographic dividend. Manufacturing sector forms the base of this economic growth and India poises to be a manufacturing hub of global recognition.

The global market size of Defence & Aerospace (D&A) sector is estimated to be around INR 64 Lac Crores (2016) in terms of revenue, and employs over 2 million people. India has the 3rd largest armed forces, 4th largest Air force and 7th largest Naval force in the world. Nonetheless, India is world's 5th biggest military spender (SIPRI 2017), making it a significant market for Defence & Aerospace manufacturing in the world.

Table 1- India's Defence Expenditure	
Year	Expenditure (INR Crores*)
2012-13	181805
2013-14	203515
2014-15	222365
2015-16	246740
2016-17	249080
2017-18(BE)	347750

*Source: MoD, Gol and IDSA (*1USD=INR 65)*

India's Defence Budget has been continuously rising, and in Union Budget 2017-18, Govt. of India allocated around INR 3.6 Lac Crores to Ministry of Defence, recording a 5% growth in defence budget between 2016-17 and 2017-18. The 2017-18 defence budget had a capital expenditure share of around 33%. As most requirements for defence related equipment are met by imports in India, huge opportunity exists for import substitution in the sector. On the basis of current capital purchase requirements, it is expected that the defence offset market in India is expected to rise many fold in just next few years.

In order to grab this opportunity, Govt of India has issued Defence Procurement Procedure (DPP) 2016 that emphasises on two fundamentals of self-reliance in security, namely, 'Indigenisation' and 'Promotion of MSMEs'. In order to promote indigenisation, a new category 'Buy Indian IDDM' has been incorporated as the most preferred route for procurement. Another provision of Make-II has also been introduced to enable industry funding for development of defence projects.

Make-I and Make-II projects with a capital outlay of INR 10 Cr and INR 3 Cr respectively are reserved for MSMEs. In another move, the new Defence Offsets Policy under DPP-16 has increased the threshold qualifying limits offsets from INR 300 Cr to INR 2000 Cr thus removing hurdles for the Foreign OEMs and encouraging FDI in defence sector bringing in hi-technology through the Offset Route.

With Defence sector open to 100% Foreign Direct Investment (FDI) through government route, and 49% FDI through automatic route, the sector has gained global attention. In recent years, defence exports in India have risen. Value of Defence exports by DPSUs, Ordnance Factories and Private Sector Companies (based on NOC issued) increased to INR 1105 Cr (provisional) in 2016-17 from INR 461 Cr in 2012-13.

India's focus on indigenous manufacturing in the defence space is paying off as the Ministry of Defence over the last 2 years unveiled several products manufactured in India. Defence licensing mechanism has been liberalised and made more transparent in India. Therefore, number of industrial licenses granted in the defence sector in recent years has been rising. Between 2014 and 2016, total 119 licenses have been issued, as against 214 licenses issued in 13 years between 2001 and 2014.

Recently, Govt of India has announced two defence industrial production corridors for defence manufacturing, in Uttar Pradesh and Tamil Nadu. Taking forward the Make in India vision of Government of India, State Government of Uttar Pradesh has launched its Civil Aviation Policy 2017 and Industrial Investment and Employment Promotion Policy (IIEPP) 2017, which is expected to create huge demand for the sector and boost investments in the state.

The State is committed towards strengthening its foothold in Aerospace & Defence (D&A) sector so as to create a promising ecosystem to boost indigenised manufacturing of aerospace & defence systems, equipment and accessories.

2. Advantage Uttar Pradesh

Uttar Pradesh is country's 4th largest state, and 3rd largest economy. Home to 16.5% of India's population, Uttar Pradesh is amongst the top 5 manufacturing states and has 2nd highest number of MSME units. 13.26% growth in exports (CAGR) has been recorded in the state in last 5 years (2012-17).

2.1. Enabling Infrastructure

Strategically located along the Golden quadrilateral, the State is well connected to major national and international airports. Uttar Pradesh has largest railway network in India spanning over 8,949kms. The upcoming Western Dedicated Freight Corridor (WDFC) that stretches from Dadri in Ghaziabad to Jawaharlal Nehru Port at Mumbai, is set to boost the economic activities in the state by reducing the transportation time to ports.

Similarly, 57% of the Eastern Dedicated Freight Corridor (EDFC) connects western region to the eastern part of the of the country passes through Uttar Pradesh. Both these freight corridors intersect at Dadri in Ghaziabad rendering the state a huge advantage in the logistics and warehousing sector. Considerable amount of the catchment areas of the Delhi Mumbai Industrial Corridor and Amritsar Kolkata Industrial Corridor running parallel to WDFC and EDFC catchment area falls in Uttar Pradesh. In order to derive maximum value out of the WDFC and EDFC projects, the state is coming up with integrated manufacturing clusters, logistics and industrial integrated townships in cities like Greater Noida, Allahabad, Kanpur etc. along the corridors.

The existing logistics infrastructure in Uttar Pradesh includes Moradabad rail linked combined domestic and EXIM terminal, Rail linked Pvt Freight Terminal and Inland Container Depot in Kanpur, ICD at Dadri Terminal, ICD at Kanpur etc. Besides these, multi modal logistics/ transport hubs are also proposed at Noida, Boraki and Varanasi. In addition to the existing investment hotspots like Kanpur, Noida, Varanasi, Ghaziabad etc., new industrial regions such as Dadri Noida Ghaziabad Investment region, Meerut Muzaffarnagar Investment region, DeenDayal Upadhaya Nagar (Mughalsarai)-Varanasi-Mirzapur Investment Region are also evolving.

The connectivity web of the state including existing and upcoming expressways like Poorvanchal Expressway, Bundelkhand Expressway, Lucknow- Agra Expressway etc.; 4 lane and 6 lane state highways; national and international airports; NW 1 waterways connecting Allahabad, Varanasi and Haldia sea port etc., is expected to create a web of air, water, road and rail network that will help the state's industries and manufacturing units switch seamlessly between different modes of transport as they send their goods to markets in India and abroad. The Multi-city metro rail projects, coming up at Lucknow, Kanpur, Meerut and Varanasi, and upcoming international airport at Jewar and Kushinagar are also expected strength to State's connectivity advantage.

2.2. Defence Industrial Corridor

A Defence Corridor worth INR 20,000 crore was announced by Govt of India in February 2018 at UP Investors Summit. The corridor will be developed in the Bundelkhand region of Uttar Pradesh, and is estimated to create over a lakh opportunities. The proposed corridor will have 6 nodes, viz. Aligarh, Agra, Jhansi, Chitrakut, Kanpur, Lucknow. Nearly 3000 hectares of land will be notified by the State Govt in the Bundelkhand region for the proposed corridor.

These districts have strong ancillary base to support the needs of defence manufacturing and ensure supply of raw materials, labour, etc. Falling alongside DMIC and AKIC, the corridor enjoys unique location advantage. Further, the Agra Lucknow Expressway, and the proposed Bundelkhand and Poorvanchal Expressway render the corridor strong connectivity advantage.

2.3. Existing Manufacturing Base

Uttar Pradesh has a number of public and private sector units manufacturing a range of products in the D&A sector. Procuring various components and materials from local players, the Public Sector Units (PSUs) forms the base of a strong local market base in the state. Prominent PSUs includes nine Indian Ordnance factories, three Hindustan Aeronautics Limited (HAL) manufacturing units, etc.

Ordnance Factory, Muradnagar, Ghaziabad	Plain Carbon and alloy steel castings for tanks, ammunitions, steel forgings
Ordnance Factory, Kanpur	Medium & high calibre guns, shell empties
Small Arms Factory, Kanpur	Small arms.
Field Gun Factory, Kanpur	High calibre ordnance & spare barrels, .32” Revolver
Ordnance Equipment Factory, Kanpur	Leather items, textile items, engineering equipment including mountaineering items
Ordnance Parachute Factory, Kanpur	Parachutes of different types.
Ordnance Clothing Factory, Shahjahanpur	All combat clothing, textile and tent age items
Ordnance Equipment Factory, Hazratpur, Tundla	Tents & other clothing items
Ordnance Factory, Korwa	For production of carbines (At Project Stage).

HAL Transport Aircraft Division, Kanpur	Core competence in manufacture, maintenance, modification and upgrade of light transport aircraft and trainer aircraft for both domestic and international markets. The division also carries out maintenance, repair and overhaul of aircraft, its rotables and undertakes servicing of engines and hydraulic systems of UAVs.
HAL Accessories Division Lucknow	Manufacturing of Hydraulics, Engine Fuel, Air-conditioning and Pressurization, Flight Control, Wheel and Brake, Gyro & Barometric Instruments, Electrical Power Generation & Control System, Undercarriages, Oxygen and Electronic System, Fuel Content Gauges etc.
HAL Avionics Division Korwa	Manufacturing & repair facilities for various avionics systems fitted on MiG-27M upgrade, mirage-2000, LCA, jaguar upgrade, AJT-HAWK aircraft.

In addition to these PSUs, there are various other private sector manufacturing units involved in the production of technical textiles, engineering goods, components, etc. in the D&A sector in the state.

2.4. R&D Ecosystem

The State hosts multiple educational and training institutions engaged in research & development. There are some 53 Universities, 4345 Colleges, 168 Polytechnics with several research institutes, Centers of Excellence and other vocational institutes. State is home to premier institutes including IIT- Kanpur, BHU IIT, etc. With key Government sector R&D institutes like DRDO's Defence Materials & Store R&D establishment (DMSRDE), HAL, etc. in the state, UP offers an excellent R&D ecosystem for D&A sector.

The Aerospace Systems & Equipment R&D Centre (ASERDC), Lucknow under HAL, which is engaged in applied research, design & development of all major systems & equipment for aircraft, helicopter and engine using state of the art technology, and the Aerospace System and Equipment R&D Centre (ASERDC), Korwa under HAL, which is engaged in development of Flight Data Recorders and other Avionic LRUs, are some of prominent R&D institutions in the State. In addition, prominent Forensics Science Laboratories in Uttar Pradesh at Lucknow and Agra with 7-divisions are aiding UP Police with modern technologies and equipment.

2.5. Opportunities in Uttar Pradesh

Offering an excellent infrastructure and ecosystem support, this policy intends to attract investments in the following areas of D&A sector, -

- **Defence Park** at Kanpur & other districts such as Jhansi, Agra, Lucknow, etc.
- **Expansion or partnerships with Defence PSUs**
- **Aerospace Park** at Lucknow & other districts such as Kanpur, Agra, Meerut, Gautam Buddha Nagar, etc.
- **Testing facilities** - Development testing range for artillery and other military equipment
- **Drones Manufacturing and Testing facilities**
- **Aircraft/ Helicopter Manufacturing/ Assembling Units**
- **Auto related components and Automobile manufacturing** for military.
- **Police modernization**
- **Forensics Centres**
- **Electronics, IT/ITeS hub** at Agra, Gautambuddh Nagar, Ghaziabad, Noida, etc.
- **Engineering hub** including metal precision works at Aligarh, foundry at Agra, etc.
- **Leather, Textile manufacturing hub** at Kanpur and Agra for development of technical textile for defence sector

3. About The Policy

Shaping the Defence Industrial Corridor announced by Hon'ble Prime Minister, Shri Narendra Modi in Uttar Pradesh, this policy aims at attracting private investments in defence manufacturing sector in the state. In this context, the policy takes ahead the vision and objectives of State's Industrial Investment and Employment Promotion Policy 2017 (UP IIEPP 2017) with sectoral focus and supplements the Civil Aviation Policy 2017, and UP MSME Policy 2017. Providing attractive incentives, this policy provides strategic direction for development of the D&A sector in the state for the next five years.

3.1. Objectives of the Policy

1. Make Uttar Pradesh one of the most preferred destinations for Defence & Aerospace manufacturing.
2. Promote private industrial parks catering to Defence & Aerospace manufacturing sectors.
3. Bridge the market gaps and connecting the ancillary units in the state to meet the requirements of Defence PSUs
4. Promote development of Defence & Aerospace manufacturing clusters along the Defence Corridor
5. Develop an export oriented manufacturing base for defence sector
6. Attract Anchor Defence & Aerospace manufacturing projects & Defence Public sector Units (DPSUs)/ OFBs in the State
7. Promote Ancillarisation and mobilise the MSMEs in the D&A sector
8. Promote Research and Development in D&A sector and ensure continuous technology up gradation.
9. To set up atleast 2 world class testing and R&D facilities along the Defence Corridor in next five years
10. Encourage skill development in Defence & Aerospace domain

3.2. Targets

1. To attract investments worth INR 50000 crores in next 5 years
2. To create 2.5 lakh employment opportunities in D&A sector

3.3. Definitions

1. **Defence & Aerospace (D&A) Products:** For determining whether a product / technology is in the category of defence and/or aerospace, the provision/definition contained in any policy, scheme or any other related document of Government of India or authorised equivalent in foreign countries shall be referred.

2. **Defence & Aerospace (D&A) units:** All suppliers in D&A value chain manufacturing the D&A products as defined above are considered D&A units in this policy. Mega Anchor D&A units, Anchor D&A units, Vendor D&A units and MSME units as defined in this policy are eligible for incentives under this policy as D&A units.

3. **Mega Anchor D&A units:** Global or Indian Original Equipment Manufacturer (OEM) companies which designs and manufactures D&A platforms and invests more than INR 1000 crores.

The Company should supplying atleast 25% of value of their finished goods or has secured defence order worth at least INR 50 Crore from Ministry of Defence, Government of India or Ministry of Home Affairs, Government of India or their authorised equivalent in foreign countries or civilian aerospace manufacturer/ supplier or an MRO facility.

NOTE- All incentives applicable to Anchor D&A units defined in this policy will also be applicable to Mega Anchor D&A units.

4. **Anchor D&A units:** Global or Indian Original Equipment Manufacturer (OEM) companies which designs and manufactures D&A platforms and makes investments in following categories -

Investment Region	Eligibility Criteria
Bundelkhand & Poorvanchal	Investing more than INR 200 crores or creating atleast 1000 direct employment
Madhyanchal & Paschimanchal (except GB Nagar, Ghaziabad)	Investing more than INR 300 crores or creating atleast 1500 direct employment
GB Nagar & Ghaziabad	Investing more than INR 400 crores or creating atleast 2000 direct employment

The Company should be supplying atleast 25% of value of their finished goods or has secured defence order worth at least INR 30 Crore from Ministry of Defence, Government of India or Ministry of Home Affairs, Government of India or their authorised equivalent in foreign countries or civilian aerospace manufacturer/ supplier or an MRO facility; OR

A supplier will qualify as Anchor D&A unit if at least 50% of its turnover from manufacturing is by being a supplier to Mega Anchor D&A unit or other Anchor D&A unit in the D&A value chain.

5. **Vendor D&A units:** Units which are located in the same cluster as Anchor D&A unit and supply at-least 40% of its end product to the Anchor D&A unit.

6. **MSME Units:** Govt of UP will follow the MSME definition laid out by Government of India for MSME as per MSME Act 2006. The definition for MSMEs will be revised automatically as per the guidelines of Government of India from time to time.

The MSME unit will qualify as an D&A supplier if at least 50% of its turnover from manufacturing is by supplying to a Mega Anchor or Anchor D&A unit or Vendor D&A units or to Defence PSUs/OFBs in the D&A value chain.

7. **Defence Public Sector Units / OFBs** that are Central PSUs under the administrative control of Ministry of Defence.

4. Private Defence & Aerospace Park

Government of Uttar Pradesh will promote Defence & Aerospace Parks in the state, especially in areas with strong ecosystem support. These parks will provide 'plug-and-play' industrial infrastructure allowing companies to focus on their core business. These parks will have:

- 1) Manufacturing area (components, sub-components, sub-assemblies, aerospace parts) and SEZ
- 2) Testing centre
- 3) Hardware/Embedded Technology Centre
- 4) Technology innovation centre
- 5) Housing & Common facility centre

Towards this, the Government of Uttar Pradesh will provide incentives at par to those provided to Private Industrial Parks in the state to Private D&A Parks. (Refer UP IIEPP 2017, Section 3.2.3)

5. Incentive for investing in Defence Corridor –

- 5.1. The incentive will be provided only on land purchased in the notified areas of the Defence Corridor in Uttar Pradesh. Such notification will be issued by Government of Uttar Pradesh from time to time.
- 5.2. **Reimbursement upto 25% of the cost of land** at prevalent circle rate or purchase price, whichever is less to Anchor D&A units as defined in this policy.

6. Incentives to D&A units –

6.1. Rebate on Transportation Charges –

6.1.1. On transporting plant & machinery: Anchor D&A units shall be eligible for transportation subsidy of 50% of cost, subject to overall ceiling of INR 2 crores, on transportation of imported equipment, plant and machinery from logistics parks/transport hubs and harbour/port to the place of production in the state.

This subsidy shall be applicable on transportation of equipment by D&A units for projects whose contract value is greater than or equal to INR 50 Cr and will be provided only up to the date of start of first year of production.

- 6.1.2. On transporting finished products:** Anchor D&A units shall be eligible for transportation subsidy of 30% of cost up, up to a maximum limit of INR 1 crore per annum on transportation of finished products from the unit to logistics parks/transportation hubs, harbour/port for a period of 5 years from the date of start of commercial production.
- 6.2. Subsidy for setting up Effluent Treatment Plant (ETP):** 20% reimbursement of project cost of setting up ETP by D&A units upto maximum INR 1 crore.
- 6.3. Tech Transfer Subsidy:** Anchor D&A units shall be reimbursed 75% of the cost of technology transfer towards first 5 vendor units and 50% towards next 5 vendor units, subject to maximum INR 50 lakh towards each vendor unit in the same cluster.

7. R&D and Testing Facility Support

- 7.1. For setting up R&D or testing facility** in the notified areas of the Defence Corridor – Interest subsidy to D&A units in form of reimbursement of interest of up to 50% of annual interest on loan taken to set up such a facility for 5years, subject to overall ceiling of INR 2 crores, provided –
- The D&A unit should either have a direct order of at least INR 5 crore from the Ministry of Defence/ Ministry of Home Affairs/ equivalent foreign governments/ civilian aerospace supplier or an MRO facility;
 - OR
 - The D&A unit should be providing services to a manufacturer who has a minimum of INR 50 crore order from the Ministry of Defence/ Ministry of Home Affairs/ equivalent foreign governments/ civilian aerospace supplier or an MRO facility.

NOTE: The criteria must be fulfilled within 2years of commencement of operations by the unit.

- 7.2. For using common testing and R&D facilities at Defence PSUs/ OFBs –** D&A Units will be reimbursed 50% of the charges/fees paid for using common testing and R&D facilities at Defence PSUs upto maximum INR 5 lakh per annum per D&A unit, subject to maximum ceiling of INR 2 crores per annum.
- 7.3. Promoting Innovations & R&D:** Government of Uttar Pradesh will mobilise the Start up Fund created under UP Start up Policy 2017 to boost innovations in D&A manufacturing. The State will also partner with lead R&D and innovation centres like IIT-Kanpur, BHU-IIT, etc. in this context. Government of UP will

align its R&D and innovation endeavours with Government of India's iDEX and other such initiatives.

8. Building Market

The MSME units eligible under this policy will be given reimbursement of 50% of cost of participation in international exhibitions/fairs, subject to maximum of INR 5 lakh per exhibition/fairs, towards maximum 10 MSME units. One unit will be provided this incentive only once in a year.

9. Capacity Building

- 9.1. **Strengthening existing Skill training base** – Wherever feasible, Government of Uttar Pradesh will introduce customised courses in D&A sector in consultation with the industry at Government ITIs/Polytechnics from time to time.
- 9.2. **Academic tie-up** – Government of Uttar Pradesh will encourage Universities (in India and abroad) with excellence in D&A training and research to tie up with universities in the State to enhance pedagogy and R&D culture.

10. Patent Cost/ Quality Certification

Govt of Uttar Pradesh will provide financial assistance towards expenses incurred for patent registration and for quality certifications.

- 10.1. **Patent Fee Reimbursement** – 100% reimbursement of patent fees for domestic patent registration, and 50% reimbursement of patent fees for international patent registration subject to maximum of INR 25 lakh per D&A unit, subject to maximum INR 1 crore per annum, will be provided to D&A units established in the state. The reimbursement would be granted only after grant of patents.
- 10.2. **Quality certification** – Govt of Uttar Pradesh will provide financial assistance to MSME units defined under this policy for obtaining quality certification such as AS-9100 series, NADCP, etc. 100% reimbursement of certification fees up to maximum INR 1 lakh per D&A unit per annum, subject to overall ceiling of INR 20 lakh per annum.
- 10.3. **Trademark registration** – Trade Mark registration application fees would be fully reimbursed, upto maximum INR 1 lakh per unit per annum, subject to overall ceiling of INR 10 lakh per annum.

11. Ease of Doing Business

Taking forward the vision and mission of State's Industrial Investment and Employment Promotion (IIEP) Policy, 2017, this policy also ensures ease of business in the state.

- 11.1. **Single Window-** All required approvals and clearances to D&A manufacturing units shall be provided under one roof through single window system of the state directly monitored by the Chief Minister's office.
- 11.2. **Lump Sum Payment of incentives:** All incentive payments in the form of reimbursement, subsidies, etc. under the policy will be made with a single sanction order and from a single head of account by the nodal agency.
- 11.3. **Simplifying procedures-** This policy aims to rationalise existing regulatory regime and simplified procedures by supporting self-certification, deemed approval and third party certification.
- 11.4. **Labour Permits-** Govt of UP will permit D&A industry towards flexible employment conditions, working hours and employment of women in 3-shifts, and hiring of contractual workers, subject to the requisites of respective laws.
- 11.5. **Quality Power-** Govt of Uttar Pradesh is committed to supply 24X7 reliable, quality power to D&A industry as per provisions in Industrial Investment & Employment Promotion Policy 2017.
- 11.6. **Industrial Security-** Govt of Uttar Pradesh will provide safe and secure industrial environment in the state. Towards this dedicated police force headed by specialised officer will be deputed at industrial clusters/ areas in regions and integrated police cum fire station will also be established.

12. Implementation of the Policy

- 12.1. This policy will come into effect on the date of its notification and will remain in force for a period of 5 years.
- 12.2. If at any stage a situation arises which necessitates any amendment or supersession of the policy, only the cabinet will be authorised to approve such amendments/ supersession.
- 12.3. In case of any amendment in this policy, if any package of incentives is already committed by the state government to any unit, will not be withdrawn and the unit will continue to remain entitled to the benefits.

NOTE -

1. DPSUs/OFBs will be facilitated land on lease at subsidised rates to build their facilities (including testing facilities, laboratories, ancillary facilities and common use facilities like housing for employees, etc.)
2. In addition to the incentives given in this policy, Mega Anchor D&A units will be provided **case to case Incentives**.
3. All incentives in the form of reimbursement, subsidies, exemptions etc. to all eligible D&A units as defined in this policy will be subject to –
 - a. Maximum of 100% of fixed capital investment made in Poorvanchal and Bundelkhand,
 - b. Maximum of 90% of fixed capital investment made in Madhyanchal & Paschimanchal (except Gautambuddh Nagar & Ghaziabad districts)
 - c. Maximum of 80% of fixed capital investment made in Gautambuddh Nagar & Ghaziabad districts subject to annual ceiling of 15% of fixed capital investment, subject to maximum 10years.
4. The incentives will be applicable for new D&A units as well as projects under expansion/diversification, provided such units fulfil the investment criteria like new units.
5. Only D&A units which are found eligible under this policy by the Infrastructure and Industrial Development Department will be provided the incentives under this policy.
6. D&A Units availing incentives from any other policy or those sanctioned by the departments of the State or Central Government, will also be entitled to avail incentives/benefits mentioned in this policy provided the same kind of benefits/incentives are not being availed from any other policy.
7. Expansion/diversification projects will be where an existing D&A unit or MSME unit as defined in this policy increases its gross block by at least 25%.
