



SHIFT FROM NON-GAAP NORMS COULD BE GOOD FOR STOCKS



MUMBAI: This file photo shows the Scorpene-class submarine INS Kalvari (S50) at the naval dockyard in Mumbai.

DEFENSE FIRMS EYE BILLION-DOLLAR CHANCE IN INDIA

INDIA TO ROPE IN FOREIGN PLAYERS TO JOIN 'MAKE-IN-INDIA' DRIVE

NEW DELHI: India has drawn up a shopping list for tens of billions of dollars of foreign fighter jets, armored vehicles, submarines and helicopters but it will only sign the cheques if they are made in India.

The world's largest defense importer has announced a new policy inviting foreign defense manufacturers to set up shop as minority partners in India. It initiated the bidding process for submarines in July. Such deals would boost job creation and bring key defense technologies into India.

Foreign companies say the opportunity is too good to miss. Europe's Airbus Group, angling to sell its Panther helicopters, has said that if it wins a contract worth several billion dollars and expected to span at least a decade, it would make India its global hub for the multi-purpose choppers.

The company currently builds them at Marignane in France. Lockheed Martin says if its F-16 fighter jets are selected-it will likely compete with Saab for that order of close to

\$15 billion-it will "support the advancement of Indian manufacturing expertise."

Germany's ThyssenKrupp Marine Systems and France's Naval Group are eager to compete for a contract of up to \$10 billion to build submarines in the South Asian country.

Luring foreign defense companies to build in India would be a major and much-needed boost to the economy. Prime Minister Narendra Modi, with less than two years to national elections, is under intense pressure to create more jobs for the hundreds of thousands of people joining the workforce every month. Growth in the first three months of 2017 slowed to 6.1 percent. Experts expect further disruption as businesses adjust to a new nationwide goods and services tax launched in July.

Make in India

India is seeking to follow other countries which created defense sectors by backing a few big players with long-term defense

orders and allowing smaller businesses to develop around them.

"Countries that have a robust defense industry have a few large companies that are supported by their government with large, long-term defense orders," Amber Dubey of the KPMG consultancy in India told AFP.

"They in turn create an eco-system of large and small suppliers to stay competitive." India currently imports at least 90 percent of its defense equipment including parts for assembly. It is banking on foreign companies to bring in new technology. The lowest bid is one key selection criteria that worries some of the competitors. "We'd like to see the Indian government work with the US government to ensure that these acquisition policies don't disadvantage US companies just because we can't get the lowest price," Cara Abercrombie, former US deputy assistant secretary of defense for southeast Asia, told a recent panel in New York.

Under the strategic partnership policy, India will line up domestic companies that foreign players have to choose from to set up local plants. For the Indian companies, which would hold the majority stake, it is a big win, says Dhiraj Mathur, an aerospace and defense specialist for the PwC consultancy. "You know nothing about defense manufacturing and you're going to partner with a global leader to make highly sophisticated equipment and the only reason they're talking to you is because the government has told them to," he said.

The Indian government wants to bring the local companies up to global standards to compete for the next round of orders. China also built up local defense equipment manufacturing by forcing international firms to link up with Chinese companies and to hand over technology.

In India's case, the foreign players are still pushing for ownership. "Let us take a lead, let us be the majority," said Ashish Saraf, vice

president for industrial development at Airbus.

"Or let the Indian guys assume full liability (as per the policy). Assuming liabilities on an aircraft is not easy.... If a product fails, we are talking about hundreds of millions."

His suggestion is a middle road where foreign companies can hold the majority stake, which can be pared back over time as the Indian partner gains in knowledge and experience. "It takes years to transfer (technology) and to get proven products. These are complex products that need to perform in battles," said Saraf. The other hurdle in the policy is that transferring defense technology requires government approval. In a strategy similar to one followed by the United States, India puts the onus on the foreign partners to get the green light from their respective governments, a challenging task for them. "But if you want indigenization, this is the only way you'll get it," said PwC's Mathur. —AFP

BRITAIN WILL NOT EXCLUDE EU OVERSIGHT OF UK BORDERS

LONDON: Britain will not rule out the possibility that the European Union may retain oversight of customs controls at UK borders after it leaves the bloc, as the country seeks ways to keep unhindered access to EU markets following Brexit. Last week, the UK published a policy document proposing two possible models for British-EU customs arrangements after withdrawal from the EU in 2019.

The first model was a "highly streamlined customs arrangement" which involved the re-introduction of a customs border but which envisaged electronic tracking of shipments, rather than physical checks of goods and documents at the border.

An alternative proposal was the "new customs partnership" which would remove the need for a UK-EU customs border altogether. Under this model, the UK would operate as if it was still part of the bloc for customs purposes. British goods would be exported tariff-free and Britain would levy EU tariffs on goods coming into the UK for onward passage to the EU directly or as components in UK export goods. However, lawyers said there would be a need for a mechanism to oversee the "new customs partnership" to ensure that the UK was correctly monitoring goods coming into the UK and destined for Europe. The EU's system of movement of goods across EU borders without checks works on the basis that all members closely monitor shipments coming into the bloc from outside, to ensure the correct tariffs are paid and that goods meet EU standards.

Weakness

The EU anti-fraud agency OLAF polices customs agencies across Europe to ensure they are correctly monitoring imports. OLAF has the powers to conduct on-the-spot inspec-

tions and seek information from customs bodies. If OLAF finds weaknesses in a country's systems and that the member is not charging the appropriate duties on imports from outside the EU, it will recommend that the European Commission, the EU's executive arm, should recover money from the offending member.

For example, in March OLAF slammed lax UK border controls and recommended the European Commission reclaim 2 billion euros the agency said was lost because Britain had failed to apply the correct EU duties on imports of Chinese clothes and footwear in recent years.

A spokesman for the UK's tax authority said it questioned OLAF's estimate of lost revenue. Duties collected are paid to Brussels. Commission duty recovery claims can be appealed to the Court of Justice of the European Union (ECJ), the EU's highest court.

UK Prime Minister Theresa May has said the UK will no longer be subject to the jurisdiction of the ECJ after Britain's exit from the bloc. However, the British finance ministry declined to say if the country would bar OLAF from policing the UK's customs system under the "new customs partnership" model or whether it would allow the Commission to make demands for recovery of lost duties.

"The exact form of the arrangements will be agreed as part of the negotiations," a ministry spokeswoman said.

Money and effort

Lode Van Den Hende, a partner with Herbert Smith Freehills in Brussels, said it was hard to see how the customs partnership model could work without OLAF or a similar

body policing the UK's monitoring of imports destined for the EU. "In practical terms they (Britain and the EU) would have to operate in the same way or the whole thing would fall apart," he said.

Bernard Jenkin, a member of parliament for May's Conservative party, who backed Brexit in last year's referendum, said he opposed continued EU oversight of UK borders.

"There is no need for an EU institution to police our customs, and we should not accept this," he said in a statement. "Any dispute about each other's customs arrangements should be settled by an independent arbitrator, as with any other international agreement, not by an institution which belongs only to one party of the agreement," he added.

Van Den Hende said the ECJ may not accept the creation of an independent body to oversee EU customs. Customs are a matter of EU law and the court is supposed to be the highest authority on this.

Also, the breadth of areas in which the UK wishes to retain free trade with Europe means many such independent arbitrators would be required. They would be needed to monitor enforcement of health standards, standards in financial services and rules that apply to a host of other regulated markets.

"In theory you can design that, but in practice neither the UK nor the EU would want that because you would be replicating institutions which already exist. It would be a huge amount of money and effort," he said. "This is one of the fundamental problems about Brexit. The UK wants to retain deep integration but the UK doesn't like the institutions that administer all this stuff," Van Den Hende said. —Reuters

US DID NOT DETAIL REQUEST FOR AUTO RULES OF ORIGIN AT TALKS

WASHINGTON: In the opening NAFTA session of talks, the United States did not give precise details of how much it wanted to boost North American content for autos, a source directly familiar with the negotiations said on Saturday. Robert Lighthizer, President Donald Trump's top trade adviser, this week said Washington wanted tougher rules of origin for autos, which determine how much of a vehicle must be built in the three NAFTA nations.

He also said the United States was seeking new measures to ensure "substantial US content" for autos.

Companies wishing to take advantage of free trade in goods guaranteed by NAFTA must currently meet the 62.5 percent North American content requirement for autos and 60 percent for components.

But during the opening four-hour round of talks on rules of origin on Friday, the US delegation did not give details of how much it wanted the requirements to be lifted by. It also did not give a specific figure for what substantial US content for autos could mean, said the source, who asked not to be identified because of the sensitivity of the matter. US officials said they could not confirm the source's account. —Reuters