

Rafale Deal: Modi in the Dock

The Rafale deal has ripped open the veil that covered the corruption and crony capitalism within the Modi government. Not only that, the unfolding of the events which led to the scrapping of the earlier contract for 126 Rafale fighter planes and the replacement of that with an order for 36 planes in a fly-away condition has revealed the direct role of the Prime Minister in this latest defence scandal.

AFP Report quotes Hollande:

“The name of Reliance group had appeared as part of a ‘new formula’ in negotiations over the Rafale deal, decided by the Modi government”

The recent statements made to the media by the former French President, Francois Hollande, have exposed the lies and the cover-up attempt of the Modi government. Hollande, who was the President when the Rafale agreement was

signed, told a French website that the Indian partner in the Rafale deal was proposed by the Indian government and that the French government or Dassault, the maker of the aircraft, had no say in the matter. He categorically stated: “We did not have a choice in the matter”.

The very next day, on September 22, Hollande further clarified the matter to the French news agency, AFP. The AFP report said: “Mr. Hollande said that the name of Reliance group had appeared as part of a ‘new formula’ in negotiations over the Rafale deal, decided by the Modi government after he came to power”

This exploded the stance adopted by the Defence Minister, Nirmala Sitharaman, who only a few days earlier had claimed that the government had no knowledge of the Indian partner chosen by Dassault, nor had the government any role in the decision.

It will be worthwhile to recall why the Indian offset partner is a crucial link of evidence in the scam. In 2012, the Rafale fighter jets, produced by Dassault, were chosen through an open tender evaluation process for buying 126 fighter jets for the Indian air force. The memorandum of agreement provided for the public sector Hindustan Aeronautics Limited (HAL) to partner Dassault to

manufacture 108 Rafale fighters in India. (18 fighters were to be bought in a fly-away condition).

However, when Prime Minister Modi went to Paris in April 2015, the initial contract for 126 aircraft was abandoned and a new contract signed with Dassault for delivery of 36 Rafale aircraft in a fly-away condition. Along with that, to meet the 50 per cent offset clause, Anil Ambani’s Reliance Defence was chosen as the main partner for contracts worth nearly Rs. 20,000 crore.

The reason for scrapping the original contract, which had gone through a lengthy process of bidding and evaluation by the Indian Air Force, has never been satisfactorily explained. That India required 126 fighter planes was not in dispute as the Indian air force was seriously short of the required number of 42 squadrons.

The Modi government, particularly the Defence Minister Nirmala Sitharaman and Finance Minister Arun Jaitley, have been trying to obfuscate the issue by stating that negotiations for the price and the co-production agreement with the HAL had not progressed. Nirmala Sitharaman, in an interview, stated that the lack of infrastructural facilities in the HAL was the reason why Dassault could not come to an agreement with them.

This lie has been fully exposed. Recently the former Chairman of the HAL, T. Suvarna Raju, who retired on September 1, 2018, has refuted the lack of capability of the HAL. He stated: “When HAL can build a 25-tonne Sukhoi-30, a fourth generation fighter jet that forms the mainstay of the air force, from raw material stage, then what are we talking about? We could have definitely done it (license produced the Rafale jets)”.

He also nailed the lie that no agreement has been reached with Dassault. He stated: “Dassault and HAL had signed the mutual work-share contract and given it to the government. Why don’t you ask the government to put the file out in public? The files will tell you everything”.

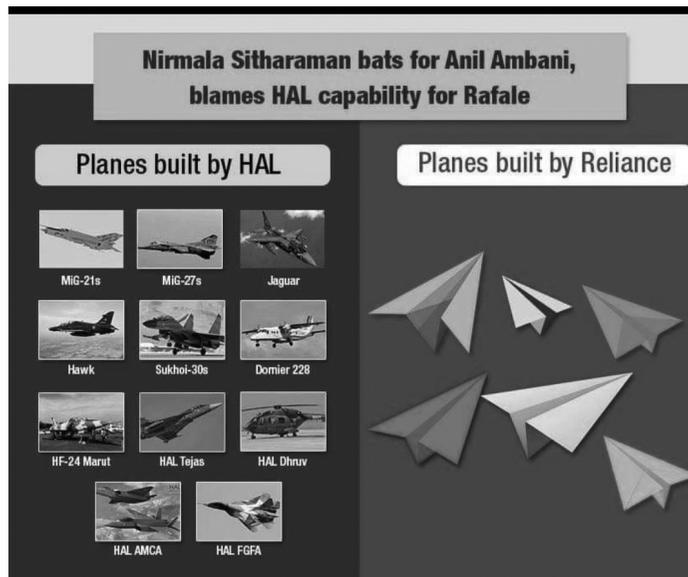
That the former HAL Chairman is telling the truth is also confirmed by the record of a press conference by the Dassault’s CEO, Eric Trappier, who stated two weeks before the Prime Minister’s visit to France that the deal was “95 per

cent complete” and that a work-share agreement had been signed with HAL.

This is where crony capitalism comes in. Anil Ambani’s Reliance Defence has no track record in defence production. In fact, many companies in his group are heavily in debt. How is it that such a private company was given the job of producing sophisticated equipment for an advanced fighter plane?

Here comes the direct role of Prime Minister Narendra Modi. Modi had gone on an official visit to France in April 2015. Prior to the visit, there was no discussion at any level of the government, or the Indian Air Force that the 126-plane contract with Dassault should be jettisoned and a new contract for a smaller number of planes be made. The Cabinet Committee on Security was not appraised of the issue. The Defence Minister, Manohar Parrikar, was informed of the decision hours before Modi left for Paris.

So the Prime Minister travels to France and among the people accompanying him is Anil Ambani. There is a report that Anil Ambani, after the announcement of the new agreement, had talks with the Dassault CEO. Hence, there is every reason to believe that it was on the suggestion of Modi that the French company decided to enter into an agreement with Anil Ambani.



The choice of a private company over HAL fits in with the Modi government’s drive for privatization of defence production. But the choice of a non-qualified company definitely implies that there was a *quid-pro-quo*.

Moreover, the price of a Rafale fighter in the new contract is significantly higher than what was committed to in the earlier agreement. It is to hide this fact that the Modi government has doggedly refused to give the price details in Parliament.

Some commentators have pointed out that there is no money trail, which has surfaced so far, regarding the deal. However, this should be seen in the context of how, in Modi’s India, corruption has become legitimized. Now, kickbacks can be paid legally through electoral bonds with no questions asked whatsoever.

There is the greater issue of the harm done to national security by this arbitrary action by the Prime Minister. The Air Force was desperately short of squadrons of fighter jets. The Request for Proposal (RFP) regarding this was issued in the year 2007 under the UPA government. After an elaborate process, the fighter plane was identified and the agreement was made for the 126 Rafale fighters in 2012.

Instead of expediting the implementation of this agreement, Modi scuttled it and, instead, acquired only two squadrons, i.e., 36 Rafale fighter planes, which do not meet the requirements of the Air Force. Moreover, by buying them off the shelf, there will be no transfer of technology. On top of all this, the Air Force has put out a fresh request through the government to buy 110 fighter planes. So the whole process has been delayed by more than a decade.

Prime Minister Modi is, therefore, culpable on two counts – compromising national security and promoting corruption and crony capitalism. That is why we need a Joint Select Parliamentary Committee to examine the deal and the role of the PM.

Understanding the Rafale Scam

The Rafale scam is like the proverbial onion. You take off a peel and there is another one underneath. And while you peel it, the pungency makes you cry. The most recent peel is the statement of the then President of France Francois

Hollande who had inked the deal with Narendra Modi.

Never before has India witnessed a situation when the Prime Minister directly intervened to scrap an earlier defence deal without any discussion whatsoever with any other authority mandated to decide the kind of equipment and hardware required for the Defence of the country, not even with the Air Force. Never before has the country witnessed such blatant promotion of crony capitalism in the form of the company owned by Anil Ambani in an international defence deal.

The buck starts and stops with the Prime Minister who acted individually and directly.

In addition, we have a Defence Minister, Nirmala Sitharaman, who has no hesitation in lying or in defaming a Navratna public sector company, in the defence of, not the country, but the leader.

In this question and answer format, we bring you the details of the scam. These issues substantiate the correctness of the demand of many opposition parties, including the CPI(M), for the formation of a Joint Select Committee of Parliament to examine the deal and the role of the Prime Minister.

What was the original Rafale deal?

Rafale, an advanced fighter aircraft made by Dassault Aviation of France, was selected for procurement by India after a decade of evaluating 6 competing fighter aircraft. MoD initiates an Open Tender in 2004 for 126 fighter aircraft. This was done through an open tendering process, given a series of defence purchase scandals, including Bofors. The tender process (request for Information or RFI) was initiated in 2004 for 126 “Multi-Role Combat Aircraft” (MRCA); it was then revised to Medium-weight multi-role combat aircraft (MMRCA) in the Request for Proposal (RFP) issued in 2007.

The Indian Air Force (IAF) decided on this number - 126 aircraft (7 squad-

rons) - after carefully considering the aircraft mix and the impending retirement of the old MiGs which would deplete IAF fleet strength. Adding 126 Rafales to the forthcoming indigenous Tejas Light Combat Aircraft (LCA) and the Russian-origin Sukhoi 30 MKI would have given IAF a strong, balanced and well-equipped fleet of light, medium, and heavy fighters.

The Rafale aircraft was selected in 2012 after rigorous field trials in India, and after comparing life-cycle (life-time) costs of the aircrafts. According to the tender, the first 18 aircraft would be bought outright. The remaining 108 would be manufactured in India by the Navratna defence public sector company, Hindustan Aeronautics Ltd (HAL) under technology transfer from Dassault. India would not only have acquired the fighters, but also obtained advanced technologies for use in subsequent aeronautical development, or in other industries. This has always been the preferred mode in India: promoting indigenisation in manufacture and self-reliance in technology

What is Modi’s Rafale Deal?

The Rafale deal was almost in its final stages when it was cancelled without any explanation by India in April 2015 during PM Narendra Modi’s Paris visit. In a meeting with Francois Hollande, the then French President, Modi decided to replace the original Rafale deal of 126 aircraft with a government-to-government deal for the outright purchase of just 36 Rafale aircraft. These 36 aircraft would be made entirely in France by Dassault. Anil Ambani of Reliance Anil Dhirubhai Ambani Group (Reliance ADAG) was also in Paris during Modi’s visit. Later, Ambani’s company became the off-set partner of Dassault.

Obviously, with only 36 aircraft being bought outright in fly-away condition, there is no question of technology transfer. The offsets, a part of all defence contracts, was not for the Rafale aircraft,

No indigenous manufacture, HAL replaced as offset partner by Anil Ambani Reliance

which would be delivered fully equipped, but for Falcon luxury executive jets, also manufactured by Dassault. A great opportunity to undertake indigenous manufacture of advanced aircraft, and to acquire and absorb advanced technologies, was lost. This new deal was signed on 23 September, 2016, in New Delhi by the Defence Ministers of India and France. Deliveries of the 36 purchased aircraft are scheduled to start in September/October 2019, and are to be completed by April 2022.

No explanation has ever been given by the PM or the Ministry of Defence (MoD) on why the decade-long process of acquiring 126 aircraft through an open tendering process was abandoned in favour of a direct deal for only 36 aircraft. Who decided the price of the aircraft? Who decided on the number 36? None of these questions have been answered till date.

The outright purchase of only 36 fighters also leaves a big hole in the strength of the IAF, leaving it short of the number of required squadrons. MoD is now talking again of a new tender for 110 aircraft. Why then was the earlier deal cancelled? Why are we again taking to the discredited route of piecemeal purchase of defence equipment?

The Modi deal is likely to be significantly more costly

As per the earlier deal, 126 Rafale aircraft were stated to cost about Rs. 53,350 crore at April 2015 exchange rates, or around Rs. 423 crore per aircraft. Subhash Bhamre, Minister of State in the Ministry of Defence, stated in parliament earlier this year that the base price of each aircraft under the new deal was Rs. 670 crore (*Financial Express*, March 12, 2018). With the add-ons, the current price per aircraft for the new Modi deal is about Rs. 1,496 crore.

Nirmala Sitharaman, the Defence Minister, had pledged to release the actual price figures of the Rafale deal to the media. Subsequently, the MoD and the Modi government hid behind the secrecy clause in the agreement to not reveal

No explanation given for cancellation of the original tender and the adoption of discredited direct purchase route.

the prices. As commentators have pointed out, the confidentiality clause relates only to the actual details of the equipment, and not their price. The French government has also confirmed the same, stating that it was up to the Indian government to decide what to reveal to its parliament and people, as long as it did not reveal the strategic details.

Unfortunately for the government, Dassault has revealed the actual value of the Rafale deal in its 2017 financial report. It is worth \$7.4 billion or Rs. 53,870 crore (October 1, 2018 exchange rate).

While the stubborn refusal by the government to reveal price details makes an apple-to-apple cost comparison with the original deal difficult, it appears that the new deal will see a significantly higher cost per aircraft than the original deal.

Prices in the Two Deals

Items	Old Deal	New Deal
Number of Aircrafts	126	36
Total Price	\$10.2 billion Rs. 74,250 crore)	\$7.4 billion (Rs. 53,870 crore)
Price per Aircraft	Rs. 589 crore	Rs. 1,496 crore

Note: Based on per dollar exchange rate of Rs. 72.80 (October 1, 2018)

HAL made the scapegoat for Modi's decision cancelling open tender

With no manufacture in India under the new agreement, the Navratna defence PSU, HAL, has been knocked out of the Rafale deal. To add insult to injury, Defence Minister Nirmala Sitharaman is trying hard to blame HAL for the scrapping of the earlier deal. This is extraordinary; HAL is a part of her Ministry and cannot openly refute her claims.

She recently stated that, a) the negotiations between Dassault and HAL had virtually collapsed on sharing of the work and guarantees for HAL-made aircrafts; and b) HAL "did not have the capacity" to produce Rafales in India,

or at the pace required by the IAF. This forced the Government to bail out of the original deal and execute a new government-to-government deal.

Defence Minister
Sitharaman makes a bogus
claim that the workshare
agreement between HAL
and Dassault collapsed

These claims are the only “explanation”
provided by the government, and virtually
blame HAL for the original deal being
cancelled.

If the negotiations between Dassault and
HAL were indeed bogged down, why did

Eric Trappier, the CEO of Dassault, state in his annual financial results press conference (March 13, 2014) that Dassault Aviation has reached a firm agreement with India’s Hindustan Aeronautics (HAL) over workshare for the 126 Rafale fighters? The agreement, Trappier stated, covered the general configuration of the aircraft, the technology transfers and the detailed workshare between the two partners. It also included a mechanism for handling warranties. The solution to the issue of guarantees was that each side would guarantee its scope of work. T.

Suvarna Raju, who retired a few weeks
ago as Chairman and Managing Director
of HAL, confirmed that Dassault and
HAL had indeed signed a work-share
contract and given it to the government.

Final Workshare agreement
between Dassault and HAL
already with the Government
when the deal was cancelled

He also called for the government
to release the relevant papers to clear any doubts on this score (*Hindustan Times*, September 20, 2018). In other words, the finalisation of the workshare agreement and the mechanism for guarantees had been worked out between the two parties. It was there with the government at the time of the cancellation of the original contract. It is shameful that the Defence Minister then questions the capability of HAL which works under her Ministry!

HAL’s capability is well-known. Besides earlier work on the famous Gnat or Ajeet fighter of 1965 fame, the indigenous Marut HF-24 and Kiran Jet Trainer, HAL has made 200 upgraded engines for the MiG-29 aircraft. It is even currently manufacturing close to 200 Su-30 MKI fighters from scratch under license from Russia. It has undertaken major upgrades of more than 70 Mirage 2000 aircraft acquired from Dassault. It is also making Hawk 132 Advanced Jet Trainers under license from British Aerospace. HAL has also commenced

manufacture of the indigenously developed Tejas LCA. It has set up a dedicated, new helicopter manufacturing facility outside Bangalore, where it is making hundreds of helicopters. How can anyone, leave alone India’s Defence Minister, question HAL’s proven capability to manufacture fighter aircraft, that too under license or technology transfer?

Unfortunately, even the IAF Chief was pressured by the powers that be into issuing statements criticizing HAL for poor delivery times and quality, as well as high price, so that the government could hide behind the military uniform for its decision! If the IAF and HAL really did have problems, is it not the duty of the Defence Minister to sort them out? Or is a debt-ridden Anil Ambani Reliance Group with no prior experience a better alternative? Is the delivery of HAL too slow and is Dassault supplying aircrafts much faster than HAL under this deal? As per the new deal, Rafale jets would be delivered to India at a leisurely pace of 12 aircraft per year, after the first set of 3 in 2019. From the signing of the agreement till all the 36 aircraft are delivered, it will take Dassault a total of 6 years.

Why then this hoo-hah about HAL’s pace of delivery? HAL was earlier criticised by the Indian Air Force for a schedule of delivering 12 Tejas Light Combat Aircraft per year, which has now been stepped up to 18. This is apart from everything else that HAL has been doing.

If pace of HAL’s delivery
was the issue, why give 6
years to Dassault to deliver
36 aircraft?

It is very clear that HAL is being made a scapegoat for the government’s inexplicable decision to cancel the earlier tender and sign a new deal which, as it turns out, will be a windfall for a new private entrant into defence manufacturing, namely Anil Ambani.

Enter Anil Ambani-Reliance, the surprise partner

In this tender, it was stipulated that 50% of the contract price would be spent in India through offsets. Dassault has to invest an amount equal to 50 per cent

Reliance Defence Ltd was
incorporated 12 days before
Modi cancelled original deal

of the total Rafale contract price in India as per this “offset” clause. Of course, the goal of offsets is not only to retain a substantial chunk of defence acquisition expenditure within the

country, but also to strengthen indigenous defence manufacturing capability, broaden the defence industrial base, and acquire advanced technical know-how.

The sequence of dates is important here. On 28 April, 2015, just 12 days before the original deal was cancelled in Paris, Reliance ADAG registered a new company called Reliance Defence Limited. On 10th April, 2015, Modi cancelled the original deal for 126 aircraft and signed a new one for 36 aircraft. Anil Ambani was in Paris at the time the original contract was cancelled, and a new one struck. Again, 13 days after the Paris Agreement was signed, Reliance Defence Limited's subsidiary, Reliance Aerostructure Limited, was formed. We are now being asked to believe that all these dates and events are just mere coincidences.

Under the new deal, Reliance Aerostructure Limited, a part of the deeply indebted Reliance Anil Dhirubhai Ambani Group with Rs 1 lakh crore worth of stressed assets, would be the main offset partner of Dassault. The total value of this Reliance offset contract is estimated to be around Rs. 20,000 crore, while the remaining sum of about Rs. 9,000 crore, together making up 50% of the total contract value, is being handled by other Indian partners.

Further, since the deal is for outright purchase of 36 Rafales, Dassault's offset work that is being undertaken by Reliance Defence has no relation to Rafale, and is reported to involve manufacture of some components for Dassault's Falcon executive jets.

Can it be that in a deal of this size, government had no say in choice of offset partner?

The only claim of manufacturing experience the Reliance group has, is its recent acquisition of Pipavav Shipyard in January 2016. Even this acquisition was made by Reliance Defence Systems Private Limited, a company different from Reliance Defence Limited.

Reliance, despite its Rs. one lakh crore debt, gets offset contract of Rs. 20,000 crore.

Who made the decision to choose Reliance?

The Defence Minister and other government spokespersons have claimed that the decision to choose the debt-ridden Reliance ADAG as offset partner was made independently by Dassault, and that the Indian government had nothing to do with it. The four flagship companies of Reliance ADAG – Reliance Infrastructure Limited, Reliance Capital Limited, Reliance Communications Limited and Reliance Power Limited have a combined debt of over Rs 1 lakh crore according to their balance sheets.

It would be amazing that a company of the size and reputation of Dassault would choose, on its own, a totally inexperienced, brand new entrant into the aviation sector, indeed the manufacturing sector, as its offset partner. It is also well-known that all such big-ticket armament contracts involve the highest authorities of both countries and that, in case of license manufacture or offsets, the purchasing government would have an important say in choice of offset partner. It is unimaginable that the Indian government would have simply washed its hands off the whole offset negotiations and allowed Dassault to pick anyone it chose.

The Indian government's position has now been refuted by none other than Francois Hollande, the former French President. In an interview given to the French online investigative and opinion website *Mediapart* on September 21, 2018, on how and by whom Reliance was selected, he said: "We didn't have any say in that. It is the Indian government which had proposed this service group (Reliance), and Dassault who negotiated with Ambani. We didn't have the choice, we took the interlocutor who was given to us."

Hollande explodes the myth that Dassault chose Reliance: "We didn't have the choice, we took the interlocutor who was given to us."

Hollande further clarified the matter to the French news agency, AFP, on September 22, "Mr. Hollande said that the name of Reliance group had appeared as part of a 'new formula' in negotiations over the Rafale deal, decided by the Modi government after he came to power".

Top officials in the Modi administration have strenuously maintained that the

Indian government was not involved in the offset contracts of Dassault. In August 2015, more than a year after PM Modi announced the new deal, and a few months before the final deal was signed, the MoD made an amendment to the offset guidelines. This allowed the foreign vendors to give details of its Indian offset partner to the defence ministry at a date later than the contract signing date. The Modi government has been hiding behind this clause to deny knowledge of Dassault's offset partners in the Rafale deal.

However, the Defence Procurement Purchase (DPP) of 2013 and 2016, which spell out the offset guidelines, has other clauses that mandate, prior to the finalisation of the contract, the bidder has to submit full details of its offset contract to the negotiating committee. *Caravan* magazine's cover story on the Rafale deal (September 2018) says that in response to an RTI by Caravan, the Air Force headquarters confirmed that *the inter-governmental deal and the offset contract between Dassault and the government of India were both signed on the same day -- 23 September 2016*. If

MoD really did not know Dassault's offset partner, it is then a violation of DPP 2013 offset guideline. Or the government is lying to the people about not knowing who Dassault's offset partner was when signing the agreement.

The inter-governmental Rafale deal and the offset contract between Dassault and the GOI signed on the same day – 23 September 2016

We have seen enough to expect that many more such skeletons will come tumbling out of the BJP government's closet in the near future. The Rafale deal could very well turn out to be Modi's equivalent of the Bofors case.

This is the first time a Prime Minister directly intervened to scrap an earlier defence deal and strike a new one, violating all norms of defence procurement and without any consultations or discussions, not even with the Air Force. Never before has the country witnessed such blatant crony capitalism: promoting Anil Ambani, whose companies have no experience and whose business empire is over a lakh crore in debt, in a critical defence deal.

The buck starts and stops with the Prime Minister who acted individually and directly.

In addition we have a Defence Minister Nirmala Sitharaman who has no

hesitation in lying or in defaming a navratna public sector company, in the defence of, not the country, but of the leader and Anil Ambani's business empire.

The CPI(M) and many opposition parties are demanding the formation of a Joint Select Committee of Parliament to examine the deal and the role of the Prime Minister. We call upon the people to support this demand and expose this blatant misuse of the office of the PM for promoting the worst kind crony capitalism and endangering the defence of the nation

Rafale Deal - Timeline	
2004	Tender for 126 Multi-Role Combat Aircraft (MRCA) initiated with issuing a Request for Information (RFI)
2007	Aircraft category requirement revised to Medium-weight multi-role combat aircraft (MMRCA) in the final RFP.
2012	Dassault's Rafale aircraft selected after rigorous field trials and comparison of life-cycle costs.
28 March 2015	The Reliance Anil Dhirubhai Ambani Group registers a new subsidiary named Reliance Defence Limited.
10 April 2015	PM Modi in Paris, announces the cancellation of the tender for 126 aircraft for an outright purchase of 36 Rafale aircraft fully made in France by Dassault. Anil Ambani was in Paris during Modi's visit.
24 April 2015	Reliance Defence Limited's subsidiary Reliance Aerostructure Limited formed 13 days after the Paris Agreement
23 September 2016	Defence ministers of India and France sign the agreement for purchasing 36 Rafale aircraft from Dassault.
	Offset agreement between Dassault and the Government of India signed on the same day
3rd October 2016	Reliance Aerostructure and Dassault Aviation form joint venture with 51% and 49% shares respectively.