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INDUCTION OF AN AIRCRAFT

MINISTRY OF DEFENCE

HUNDRED AND SEVENTEENTH REPORT



# HUNDRED AND SEVENTEENTH REPORT

## PUBLIC ACCOUNTS COMMITTEE (1995-96)

(TENTH LOK SABHA)

### INDUCTION OF AN AIRCRAFT

### MINISTRY OF DEFENCE

*[Action Taken on 85th Report of Public Accounts Committee  
(10th Lok Sabha)]*



सत्यमेव जयते

*Presented to Lok Sabha : 8.3.1996*

*Laid in Rajya Sabha : 8.3.1996*

LOK SABHA SECRETARIAT  
NEW DELHI

*March, 1996/Phalguna, 1917 (Saka)*

**PAC No. 1494**

*Price : Rs. 10/-*

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**Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eighth Edition) and Printed by the Manager, P.L. Unit, Government of India Press, Minto Road, New Delhi.**

**1134LS**

## CONTENTS

		PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (1995-96).....		(iii)
INTRODUCTION.....		(v)
CHAPTER I	Report.....	1
CHAPTER II	Recommendations/observations which have been accepted by Government.....	5
CHAPTER III	Recommendations/observations which the Committee do not desire to pursue in the light of the replies received from Government. ....	12
CHAPTER IV	Recommendations/observations replies to which have not been accepted by the Committee and which require reiteration.....	13
CHAPTER V	Recommendations/observations in respect of which Government have furnished interim replies. ....	14
APPENDIX		
	Conclusions and Recommendations .....	15
PART II		
	Minutes of the Sitting of Public Accounts Committee held on 26.2.1996 .....	17

**COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE  
(1995-96)**

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3. Shri P. Sreedharan — *Under Secretary*

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\* Expired on 1 December, 1995.

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Hundred and Seventeenth Report on Action Taken by Government on the recommendations of the Public Accounts Committee contained in their Eighty-Fifth Report (Tenth Lok Sabha) on Induction of an aircraft.

2. In their earlier Report, the Committee after pointing out certain disquieting aspects had concluded that the execution of the contracts entered into with a foreign supplier by the Government for procurement of aircraft 'A' was not satisfactory. In this Report, the Committee have emphasised the need to effect systemic improvements for tightening the provisions in respect of future contracts with a view to ensuring accountability and that the defence requirements are met timely, effectively and without compromises and also incurring of extra expenditure of sizeable magnitude as in the present case is avoided.

3. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 26 February, 1996. Minutes of the sitting form Part-II of the Report.

4. For facility of reference and convenience, the recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

5. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI ;  
29 February, 1996  

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10 Phalgun, 1917 (Saka)

RAM NAIK,  
Chairman,  
Public Accounts Committee.

## CHAPTER I

### REPORT

This Report of the Committee deals with the action taken by the Government on the recommendations/observations of the Committee contained in their Eighty-fifth Report (Tenth Lok Sabha) on Paragraph 6 of the Report of the Comptroller & Auditor General of India for the year ended 31 March, 1992, No. 9 of 1993, Union Government—Defence Services (Airforce & Navy) relating to Induction of an aircraft.

2. The Eighty-fifth Report which was presented to Lok Sabha on 22 March, 1995 contained 11 recommendations. Action taken notes on all these recommendations/observations have been received from the Ministry of Defence. The action taken notes have been broadly categorised as follows:—

(i) Recommendations and observations which have been accepted by Government:

Sl. Nos. 1 to 10

(ii) Recommendations and observations which the Committee do not desire to pursue in the light of the replies received from the Government:

Nil

(iii) Recommendations and observations replies to which have not been accepted by the Committee and which require reiteration:

Sl. No. 11

(iv) Recommendations and observations in respect of which Government have furnished interim replies:

Nil

3. In the succeeding paragraphs the Committee deal with the action taken by Government on some of their recommendations.

#### *Unsatisfactory execution of the contract for procurement of aircraft "A"*

4. In order to fill the gap in the force level of Indian Air Force (IAF) and to enhance its operational capability, the Government of India concluded two contracts with aircraft manufacturers of foreign country for procurement of aircraft "A". The first contract was concluded in September 1986 for procurement of certain number of twin-engined aircraft alongwith spares, related equipment, weapons and 32 spare engines at a total cost of Rs. 1,388 crores. The aircraft were received between 1986 and 1990 as scheduled and inducted into the squadron from 1987. The second contract was concluded in February 1989, for procurement of a few more aircraft with related equipment, weapons and 16 spare engines at a total cost of Rs. 821 crores. All the aircraft and equipments on order were received during 1990.

5. In their 85th Report (10th LS), the Committee had found certain disquieting aspects in the implementation of the contract for procurement of the aircraft "A". It was observed that there was considerable shortfall in the performance of the aircraft fleet due to large scale premature failure of aeroengines procured for the aircraft. Out

of the total 188 aeroengines procured for the aircraft fleet, 158 aeroengines were prematurely withdrawn due to various defects. Further as many as 86 out of the 158 aeroengines had been withdrawn prematurely even before completion of the 50% of prescribed time before overhaul. Though the Ministry of Defence attributed premature failure of these certain aeroengines to design deficiency necessitating repairs free of cost, the contention could not carry conviction with the suppliers. Eventually the Ministry had to incur additional expenditure of Rs. 146.70 crores involving outflow of foreign exchange for rectification of those engines which had been withdrawn before completion of the prescribed time before overhaul. The Committee were surprised to note that the contract executed with suppliers also did not contain any provision to protect the Government's interests in such eventualities. They, therefore, had concluded that the contract was not sufficiently detailed particularly in view of the fact that the Government had procured a state-of-art aircraft which had been of recent origin and lacked adequate field experience.

6. The Committee had also observed that though the contract for procurement of aircraft was concluded in September 1986, and it was expected that the first engine of the aircraft would be due for overhaul by 1989, no repair facilities had been established for repair/overhaul of the aircraft and engines. In the absence of repair/overhaul facilities, the engines continued to be despatched to the suppliers and huge expenditure to the tune of Rs. 195 crores was incurred on their repair/overhaul. Significantly, this had increased the turn round time and reduced considerably the availability of the aircraft fleet. Keeping in view the strategic and other operational necessities which influenced the decision for selection of the aircraft 'A' and the level of expenditure incurred on its acquisition, the Committee had concluded that the decision not to plan indigenous repair/overhaul facilities simultaneously with the induction of the aircraft was not in the best interest of the country. The Committee had further noted that the contract for setting up of indigenous repair/overhaul, facilities was signed only in August 1991 and as per the target, the facilities involving an expenditure of about Rs. 247 crores was to be made available by 1996 only, by which time more than 50% of the total technical life of most of the aeroengines would have been completed and some engines might even approach their total technical life by the end of 1996. The Committee had recommended that all concerted efforts should be made by the Ministry for expeditious completion of the indigenisation project for repair/overhaul. They had also recommended that in future while negotiating such main contracts Government should also try to finalise the contract for transfer of technology simultaneously so as to avoid the type of difficulties experienced in the present case.

7. Commenting on the unsatisfactory execution of the contract for procurement of aircraft "A", the Committee in paragraph 63 of Eighty-fifth Report summed up the Report as follows:—

"From the facts stated in the foregoing paragraphs, the Committee are inclined to conclude that the execution of the contract for procurement of aircraft 'A' has not been satisfactory. While explaining the difficulties encountered by them in this regard, the Ministry of Defence stated that the contract



concluded for supply of aircraft 'A' stipulated that the suppliers were to provide spares and other equipment as well as repair/overhaul facilities for 10 years from the date of delivery. However, the clause was not honoured by the suppliers to the Ministry's satisfaction. According to the Ministry, due to the special relationship with the suppliers, the contracts were not strictly commercial in nature. However, with the changed environment and introduction of market economy in that country safeguards to protect our interests will be incorporated in future contracts to the extent possible. The Defence Secretary stated in evidence that comparative study of other contracts in relation to one parameter, i.e. foreign object damage revealed that engine withdrawals had the worst record in the case of aircraft 'A' until the defects were subsequently rectified. He also assured the Committee to examine the need for tightening the provisions in respect of future contracts. The Committee recommend that in the light of the experience in the induction of aircraft 'A', all possible corrective/remedial steps should be taken to prevent occurrence of such difficulties in future with a view to ensuring that the defence requirements are met timely, effectively and without any compromises and incurring of extra expenditure of sizeable magnitude as in the present case is avoided."

8. In their action taken note the Ministry of Defence stated as follows:—

"It will be ensured that in future all contracts will have suitable provisions to safeguard our interests notwithstanding the special relationship with the supplier's country."

The Ministry also added that a contract for procurement for a specific aircraft was concluded in January 1995 and provisions for safeguarding our interest had been incorporated therein.

9. As regards repair overhaul of engines, the Ministry in their action taken note *inter-alia* stated that all engines except six (under warranty) sent for overhaul had been received and sixteen were pending shipment to the suppliers.

10. Responding to the recommendation of the Committee regarding simultaneous finalisation of contracts for transfer of technology along with main contracts, the Ministry stated that it will be ensured in respect of future inductions that the issues relating to transfer of technology for setting up of indigenous repair/overhaul facilities are simultaneously planned and negotiated.

11. Intimating the status of completion of indigenisation project for repair/overhaul which was started in 1991, it was stated by the Ministry that the setting up of overhaul line of RD-33 engine and KSA gear boxes at Hindustan Aeronautics Limited is going as per schedule. The line is expected to be operational by the beginning of 1996. Setting up of indigenous overhaul facilities for air frame are also going as per schedule and are expected to be operational by the middle of 1996.

12. To sum up, in their earlier Report, the Committee had observed that the execution of the contracts concluded by the Government with a foreign supplier for procurement of aircraft 'A' was not satisfactory. The Government had to

**incur additional expenditure on repair/overhaul of some engines procured alongwith the aircraft which were prematurely withdrawn due to certain defects. The Committee had observed that as a result of the lack of suitable provisions in the contract, the claim for repairing those engines free of cost as a design deficiency was not honoured by the suppliers. Further, certain clauses incorporated in the contract providing for supply of spares and other equipment as well as repair/overhaul facilities were also not honoured by the supplier's country to the satisfaction of the Government. The Committee had also questioned Government's decision not to plan and negotiate contracts for transfer of technology simultaneously for setting up indigenous repair/overhaul facilities alongwith the main contracts. In the absence of repair/overhaul facilities, the engines continued to be despatched to the suppliers and the Government had to incur huge expenditure to the tune of Rs. 195 crores on this count. All these factors taken together had resulted in shortfall in performance/availability of the aircraft fleet. Expressing their concern over this state of affairs, the Committee, in their earlier Report had recommended that all possible corrective/remedial steps should be taken to prevent occurrence of such difficulties in future. The Ministry of Defence, in their action taken note have inter-alia stated that in future all contracts will have suitable provisions to safeguard our interests. The Committee, however, regret to note that the Ministry's action taken note is completely silent about the manner in which they have effected/ proposed to effect systematic improvements for tightening the provisions in respect of future contracts and thereby safeguarding Government's interest. They, therefore, would like to be apprised of the precise steps taken by the Ministry in the matter and also desire that Government should ensure accountability in the execution of such contracts in future so that the defence requirements are met timely, effectively and without compromises and also incurring of extra expenditure of sizeable magnitude as in the present case is avoided.**

**13. In their earlier Report, the Committee had recommended that all concerted efforts should be made by the Ministry of Defence for expeditious completion of the indigenous project for repair/overhaul facilities. The Ministry of Defence have in their action taken note stated that the facilities will be set up during the current year. The Committee trust that sustained efforts will be made by the Ministry to ensure that indigenous repair/overhaul facilities will be made available by the stipulated time frame and apprise the Committee of the latest position in this regard. The Committee would also like to be informed of the latest position about the engines of the aircraft pending repair/overhaul.**

**CHAPTER II**  
**RECOMMENDATIONS AND OBSERVATIONS WHICH HAVE**  
**BEEN ACCEPTED BY GOVERNMENT**

**Recommendation**

In order to fill the gap in the force level of Indian Air Force (IAF) and to enhance its operational capability the Government concluded a contract with aircraft manufacturers of a foreign country in September 1986, for procurement of certain number of twin-engined aircraft alongwith spares, related equipment, weapons and 32 spare engines at a total cost of Rs. 1,388 crores. The aircraft were received between 1986 and 1990 as scheduled and inducted into the squadron from 1987. Another contract for procurement of a few more aircraft with related equipment, weapons and 16 spare engines was concluded with the same manufacturers in February 1989 for raising another squadron, at a total cost of Rs. 821 crores. All the aircraft and equipment on order were received during 1990. The aircraft fleet was to be sustained till the turn of the century and the flying task approved by the Government for the aircraft fleet was 15 hours per aircraft per month for combat aircraft and 20 hours per aircraft per month for trainers. The Committee were informed that the selection of aircraft 'A' was guided by its operational advantages, cost effectiveness and the attractive conditions for payment on credit. The operational and technical aspects of the aircraft were evaluated by an Evaluation Team from the Ministry of Defence as per the Air Staff Requirement (ASR) formulated prior to the procurement of the aircraft. The flight evaluation revealed that in overall terms, the aircraft was amongst the best fighter aircraft available in the world at that time and was considered suitable for induction into Indian Air Force (IAF) as a dedicated air superiority fighter. The examination of the Audit paragraph has however, revealed certain disquieting aspects in the implementation of the contract for procurement of the aircraft 'A'.

[S.No. 1, Para 53 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

**Action Taken**

The para gives a gist of the factual position and hence, the Ministry has no further comments to offer. This has been concurred in by the Finance Division of the Ministry of Defence.

M of D O.M. 5(1) / 93 / DO-I / D(Air-I), dated 24-1-1996.

**Recommendation**

The Committee note that the engines for the aircraft were imported in two batches— first batch called Series-I having a total life of 300 hours before overhaul (TBO) and the second called Series-II with a life of 350 hours before overhaul. However, out of the total 188 aeroengines procured for the aircraft fleet, 158 aeroengines were prematurely withdrawn due to defects till 31 March 1993. Consequently, an additional expenditure of Rs. 146.70 crores involving outflow of foreign exchange had to be incurred for rectification of these engines which had been withdrawn before completion of the prescribed time before overhaul. What has further

concerned the Committee is that as many as 86 out of the 158 aeroengines had been withdrawn prematurely even before completion of 50% of the prescribed life before overhaul. The two main causes attributed to the premature withdrawals of the aeroengines where engines had not completed 50% of the prescribed time before overhaul were: (a) Nozzle Guide Vane (NGV) cracks and (b) damage due to foreign object ingestion (FOD). Though the Ministry of Defence had maintained frequent failure of Nozzle Guide Vane as a design deficiency necessitating repairs free of cost, the contention could not carry conviction with the suppliers. The suppliers also did not accept the same claim of the Ministry in respect of FOD problem which they termed as an operational improvement. Eventually the Ministry had to incur an additional expenditure of Rs. 75 lakhs on fitment of nose wheel guards to the engines prematurely withdrawn due to FOD problem. Surprisingly, the contract executed with the suppliers did not contain any provision to protect the Government's interests in such eventualities. The Ministry of Defence were unable to offer any convincing explanation for the non-inclusion of any suitable clause in the contract which would have safeguarded their interests against such deficiencies / defects in the design and manufacture of the aircraft. The Committee are, therefore, led to conclude that the contract was not sufficiently detailed particularly in view of the fact that the Government had procured a state-of-art aircraft which was of recent origin and lacked adequate field experience.

[Sl. No. 2, Para 54 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

It will be ensured in all future contracts that adequate provisions for safeguarding our interest are made. A contract for procurement of a specific aircraft has been concluded in January, 1995 and provisions for safeguarding our interests have been incorporated therein. This has been concurred in by the Finance Division of the Ministry of Defence and vetted by PDA (AF&N).

M of D O.M. No. 5(1) / 93 / DO-I / D(Air-I), dated 18-7-1995.

#### **Recommendation**

Apart from the reasons cited above, engines of aircraft 'A' had also to be withdrawn due to other defects which necessitated repair / overhaul. The Committee note that in all as many as 185 engines had been repaired and overhauled so far; 35 engines were presently with the manufacturers for repair / overhaul and 36 were further awaiting despatch. During evidence, the Secretary, Ministry of Defence admitted that there had been long delays of two to three years in getting back the engines after repair / overhaul. As per the information made available to the Committee an expenditure of Rs. 195 crores had been incurred for repair / overhaul of aeroengines / aggregates. The Committee have been informed that an expenditure amounting to Rs. 92.5 crores is further expected to be paid to the manufacturers for repair / overhaul. It is evident from the facts stated above that aircraft 'A' fleet had been giving extensive problems in operation and maintenance since its induction which is a matter of great concern to the Committee. They desire that action should be taken expeditiously for obtaining back the engines promptly after repair / overhaul so that serviceability of the aircraft is not affected adversely any further. The Committee would like to be informed of the latest position in respect of the number of engines awaiting despatch / return to / from

the manufacturer and also the expenditure incurred on the repair / overhaul and on spare parts for the aircraft.

[Sl. No. 3, Para 55 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

(a) *Engine Overhaul*:— The IAF has been in constant touch with supplier for despatch of engines back to India after overhaul / repairs. All engines except six (under warranty) went for overhaul have been received and 16 are pending shipment to Russia at Embarkation HQs, Bombay. These engines are likely to be received by Dec. 95. The cost of overhaul of each engine Rs. 1.794 crores and, therefore, the total cost of overhaul of 52 engines contracted vide AA 05 Contract No. 80 / 311508451 dated 29 Sep. 94 is Rs. 93.288 crores.

(b) *Supply of spares*:— Since May 94, contracts have been signed for procurement of spares and repair of rotables at a total cost of Rs. 80.562 crores.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by PDA (AF&N).

M of D O.M. No. 5(1) / 93 / DO-I / D (Air-I), dated 18-7-1995.

#### **Recommendation**

The cumulative effect of premature failure of engines due to design and other defects and the related problems had been that there was considerable shortfall in the performance of the aircraft fleet. As against the target of 75%, the actual serviceability of the aircraft during the years 1992-1994 varied between 54.9 and 59.7 percents. The present utilisation rate of the aircraft fleet is 7 hrs. per month as against 15 hrs. / 20 hrs. per month as authorised by the Government. While maintaining that the utilisation rate referred to the maximum hours authorised to fly and that there was no restriction on flying lesser hours, the Ministry of Defence attributed the shortfall in serviceability of the aircraft apart from premature failure of engines to problems arising out of non-availability of avionic aggregates and repair facilities in the country, extremely poor product support due to the changed environment prevailing in the manufacturing country etc. The Committee feel perturbed that despite the enormous money spent on induction and the additional expenditure incurred on design and other rectifications, the aircraft has failed in performance in terms of the targetted serviceability resulting in restricting the flying efforts and thereby compromising with operational and training commitments.

[Sl. No. 4, Para 56 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

The para gives a gist of the factual position. However, corrective measures have been taken to improve the serviceability of the fleet by identification of the alternate sources for spares / aggregates, deputation of empowered delegations to negotiate and conclude contracts, indigenisation and setting up of indigenous overhaul facilities.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by the PDA(AF&N).

M of D O.M. No. 5(1) / 93 / DO-I / D(Air-I), dated 18-7-1995.

### **Recommendation**

The Ministry of Defence have assured the Committee that they have taken a series of measures for improving the serviceability of the aircraft. These included increasing the degree of indigenisation of spares, execution of new contracts / agreements with other countries for improving the product support, setting up of specially empowered task forces in the Ministry etc. According to the Ministry, these steps have improved the support and spares availability over the last two years. The Committee desire that the Ministry of Defence should take appropriate steps to further improve the serviceability of the aircraft and would like to be apprised of the latest level of serviceability of the aircraft as well as the utilisation rate.

[Sl No. 5, para 57 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

### **Action Taken**

The serviceability of the fleet for last six months has been 54% which is expected to further improve now. The utilisation rate of aircraft for last 6 months has been seven hours per aircraft per month, which is also expected to further improve in the months to come. The measures initiated for improving the serviceability of the fleet viz. identification of alternate sources for spares / aggregates, deputation of empowered delegations to negotiate and conclude contracts for supply in shortest span of time, indigenisation etc. are being pursued vigorously to improve the serviceability further.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by PDA (AF&N).

M of D. O. M. No. 5 (1) / 93DO-I / D(Air-I), dated 18-7-1995.

### **Recommendation**

It is further disquieting to note that though the contract for procurement of the aircraft was concluded in September 1986 and it was expected that the first engine of the aircraft would be due for overhaul by 1989, no repair facilities had been established for repair/overhaul of the aircraft and its engines. Due to mis-match, four repair contracts for repair/overhaul of 156 engines at a cost of Rs. 180.49 crores were concluded with the manufacturers during a short span of one and a half years i.e. during July 1990 to January 1992. In the absence of repair/overhaul facilities, the engines continued to be despatched to the suppliers and as pointed out earlier, an expenditure to the tune of Rs. 195 crores had already been incurred on repair/overhaul of engines and aggregates and an expenditure amounting to Rs. 92.5 crores is expected to be incurred further on this count. The Ministry of Defence have contended that the repair/overhaul facilities were not planned simultaneously with the induction of the aircraft as need for it would have a risen only after adequate exploitation of the aircraft in service which in this case is 300 hrs/6 years for series-I engine and 350 hrs./8 years for series-II engines and the facilities thus created would have remained idle/grossly under-utilised for many years. They, however, admitted that in hindsight it may appear that planning of repair/ overhaul facilities alongwith induction of aircraft may have been advantageous. But according to them, at that time there were no indications that the manufacturing country would break up in near future and that their earlier experience with induction of their aircraft had not given any cause for alarm. Keeping in view the strategic and other operational necessities which influenced the decision for

selection of the aircraft 'A' and the level of expenditure incurred on its acquisition, the Committee are of the considered view that the decision not to plan indigenous repair/overhaul facilities simultaneously with the induction of the aircraft was not in the best interest of the country.

[Sl. No. 6, Para 58 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

It will be ensured in respect of future inductions that the issues relating to transfer of technology for setting up of indigenous repair/overhaul facilities are simultaneously planned and negotiated.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by PDA (AF&N).

[M of D O. M. No. 5(1) / 93 / DO-I / D (Air-I), dated 18-7-1995.]

#### **Recommendation**

The Committee note that the contract for setting up of repair/overhaul facilities was signed only in August 1991 and as per the present target, the repair facilities involving an expenditure of about Rs. 247 crores would be available by 1996 only. Till that time, the engines obviously would continue to be despatched to the manufacturers abroad for repair/overhaul at a considerable cost. Significantly, this would also increase the turn round time and reduce considerably the availability of the fleet. Ironically, by the time the facilities are set up, more than 50% of the total technical life (TTL) of most of the aero-engines (800 hrs./8 years) would have been completed and some of the engines may approach their total technical life by the end of 1996. The Committee recommend that all concerted efforts should be made by the Ministry for expeditious completion of the indigenisation project for repair/overhaul and apprise the Committee of the precise progress made. They further recommend that in future while negotiating such main contracts Government should also try to finalise the contracts for transfer of technology simultaneously so as to avoid the type of difficulties experienced in the present case.

[Sl. No. 7, (Para 59 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

The setting up of overhaul line of RD-33 engine and KSA gear boxes at Hindustan Aeronautics Limited is going as per schedule. The line is expected to be operational by the beginning of 1996. Setting up of indigenous overhaul facilities for air frame are also going as per schedule and are expected to be operational by the middle of 1996.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by PDA (AF&N)

[M of D O. M. No. 5(1) / 93 / DO-I / D (Air-I), dated 18-7-1995.]

#### **Recommendation**

The Committee's examination has further revealed that non-availability of radar components had resulted in the grounding of seven aircraft for a period of over two

years. The Ministry have attributed non-availability of these components to inadequacy of product support from the suppliers. They further stated that offers were also not forthcoming from the suppliers for repairs of these components. The Committee are of the opinion that proper advance planning by the Government of adequate reserves of the spares could have definitely prevented the grounding of the aircraft for a prolonged period and its consequential impact on training and operational commitments. Unfortunately, such prudence on the part of the authorities concerned was missing. The Committee, therefore, recommend that proper planning be made by the Ministry to obviate such lapses in future.

[Sl. No. 8, Para 60 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

Limited repairs on some of the components of radars is undertaken with the help of imported breakdown spares. We have been able to conclude the contract for repair of radars with a foreign supplier.

The unserviceability of avionic aggregates have been basically due to unserviceability of PCBs. This problem has been got over by getting a sizable number of avionic aggregates through an alternate source. This process will continue till our own overhaul facilities are established. Also limited PCB repair is undertaken locally. Some critical PCBs have also been procured. PCB repairs are included in the overhaul project and once the facilities are set up, the availability of avionic aggregates will improve.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by PDA (AF&N).

[M of D O. M. No. 5 (1) / 93 / DO-I / D (Air-I), dated 18-7-1995.]

#### **Recommendation**

Two sets of flight data ground processing unit costing Rs. 99.52 lakhs each were procured by the Government from the manufacturers under the contract of February 1989. The Committee have been surprised to find that one of these units became unserviceable during warranty period and is still lying unutilised. Although a provision existed in the contract to either repair or replace the defective components, the suppliers failed to meet the same despite the issue being raised at Governmental level. The Ministry of Defence pleaded that since the contracts were not strictly commercial in nature due to special relationship with the suppliers no penalty clause existed to safeguard against breach of such conditions in the contract. The Committee are constrained to point this out as yet another area where Government had to suffer heavily due to the glaring inadequacies in the contractual provisions. While deprecating such a state of affairs, the Committee recommend that all possible steps should be taken by the Government to obviate such recurrences in future.

[Sl. No. 9, Para 61 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

All steps will be taken to avoid such recurrences in future and appropriate clauses are being incorporated in contracts to safeguard our interests.



This has been concurred in by the Finance Division of the Ministry of Defence and vetted by the PDA (AF&N).

[M of D O. M. No. 5(1) / 93 / DO-I / D (Air-I), dated 18-7-1995.]

#### **Recommendation**

The aircraft 'A' fleet was initially planned to be sustained till the turn of the century. However, according to the Ministry, there is a scope of sustaining the squadrons upto 2003 with reduced Utilisation Rates (UR), reduced Strike Off Wastage (SOW) and Maintenance Reserve (MR), the possibilities of which would be further explored. Besides a proposal for acquisition of certain numbers of additional aircraft are stated to be under the consideration of the Government which if procured will help in sustaining the present fleet for a few more years. The Committee would like to be apprised of the progress made in this regard.

[Sl. No. 10, Para 62 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

A contract for acquisition of additional aircraft with certain improvements has been signed on 17.1.95 on credit basis. It would now be possible to sustain 3 squadrons of MIG-29 aircraft upto the year 2010.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by the PDA(AF&N).

[M of D O. M. No. 5(1) / 93 / DO-I / D (Air-I), dated 18-7-1995.]

### **CHAPTER III**

**RECOMMENDATIONS AND OBSERVATIONS WHICH THE COMMITTEE  
DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED  
FROM GOVERNMENT**

**-N I L-**

## **CHAPTER IV**

### **RECOMMENDATIONS AND OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION**

#### **Recommendation**

From the facts stated in the foregoing paragraphs, the Committee are inclined to conclude that the execution of the contract for procurement of aircraft 'A' has not been satisfactory. While explaining the difficulties encountered by them in this regard, the Ministry of Defence stated that the contract concluded for supply of aircraft 'A' stipulated that the suppliers were to provide spares and other equipment as well as repair/ overhaul facilities for 10 years from the date of delivery. However, the clause was not honoured by the suppliers to the Ministry's satisfaction. According to the Ministry, due to the special relationship with the suppliers, the contracts were not strictly commercial in nature. However, with the changed environment and introduction of market economy in that country safeguards to protect our interests will be incorporated in future contracts to the extent possible. The Defence Secretary stated in evidence that comparative study of other contracts in relation to one parameter, i.e. foreign object damage revealed that engine withdrawals had the worst record in the case of aircraft 'A' until the defects were subsequently rectified. He also assured the Committee to examine the need for tightening the provisions in respect of future contracts. The Committee recommend that in the light of the experience in the induction of aircraft 'A', all possible corrective/remedial steps should be taken to prevent occurrence of such difficulties in future with a view to ensuring that the defence requirements are met timely, effectively and without any compromises and incurring of extra expenditure of sizeable magnitude as in the present case is avoided.

[Sl. No. 11, Para 63 of Appendix II to Eighty-fifth Report of PAC  
(10th Lok Sabha)]

#### **Action Taken**

It will be ensured that in future all contracts will have suitable provisions to safeguard our interests notwithstanding the special relationship with the supplier's country.

This has been concurred in by the Finance Division of the Ministry of Defence and vetted by the PDA (AF&N).

[M of D, O.M. No. 5(1)/93/D.-I/D(Air-I), dated 18-7-1995.]

**CHAPTER V**

**RECOMMENDATIONS AND OBSERVATIONS IN RESPECT OF WHICH  
GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

**-NIL-**

**NEW DELHI;**  
**29 February, 1996**  

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**10 Phalgun, 1917 (S)**

**RAM NAIK,**  
**Chairman,**  
**Public Accounts Committee.**

## APPENDIX

### Statement of Conclusions/Recommendations

Sl. No.	Para No.	Ministry/ Deptt.	Conclusion/Recommendations
1	2	3	4
1	12	Ministry of Defence	<p>To sum up, in their earlier Report, the Committee had observed that the execution of the contracts concluded by the Government with a foreign supplier for procurement of aircraft 'A' was not satisfactory. The Government had to incur additional expenditure on repair/overhaul of some engines procured along with the aircraft which were prematurely withdrawn due to certain defects. The Committee had observed that as a result of the lack of suitable provisions in the contract, the claim for repairing those engines free of cost as a design deficiency was not honoured by the suppliers. Further, certain clauses incorporated in the contract providing for supply of spares and other equipment as well as repair/overhaul facilities were also not honoured by the supplier's country to the satisfaction of the Government. The Committee had also questioned Government's decision not to plan and negotiate contracts for transfer of technology simultaneously for setting up indigenous repair/overhaul facilities alongwith the main contracts. In the absence of repair/overhaul facilities, the engines continued to be despatched to the suppliers and the Government had to incur huge expenditure to the tune of Rs.195 crores on this count. All these factors taken together had resulted in shortfall in performance/availability of the aircraft fleet. Expressing their concern over this state of affairs, the Committee, in their earlier Report had recommended that all possible corrective/remedial steps should be taken to prevent occurrence of such difficulties in future. The Ministry of Defence, in their action taken note have <i>inter-alia</i> stated that in future all contracts will have suitable provisions to safeguard our interests. The Committee, however, regret to note that the Ministry's action taken note is completely silent about the manner in which they have effected/proposed to effect systemic improvements for tightening the provisions in respect of future contracts and thereby safeguarding Government's interests. They</p>

therefore, would like to be apprised of the precise steps taken by the Ministry in the matter and also desire that Government should ensure accountability in the execution of such contracts in future so that the defence requirements are met timely, effectively and without compromises and also incurring of extra expenditure of sizeable magnitude as in the present case is avoided.

- 2      13      **Ministry  
of Defence**      In their earlier Report, the Committee had recommended that all concerted efforts should be made by the Ministry of Defence for expeditious completion of the indigenous project of repair/ overhaul facilities. The Ministry of Defence have in their action taken note stated that the facilities will be set up during the current year. The Committee trust that sustained efforts will be made by the Ministry to ensure that indigenous repair/overhaul facilities will be made available by the stipulated time frame and apprise the Committee of the latest position in this regard. The Committee would also like to be informed of the latest position about the engines of the aircraft pending repair/overhaul.
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## PART-II

### MINUTES OF THE TWENTY-SECOND SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (1995-96) HELD ON 26 FEBRUARY, 1996

The Committee sat from 1530 hrs. to 1630 hrs. on 26 February, 1996 in Room No. 51, Parliament House Annexe, New Delhi.

#### PRESENT

Shri Ram Naik — *Chairman*

#### MEMBERS

##### *Lok Sabha*

2. Kumari Mamata Banerjee
3. Shri Anil Basu
4. Shri Dileep Singh Bhuria
5. Shrimati Maragatham Chandrasekhar
6. Dr. K.D. Jeswani
7. Maj. Gen. (Retired) Bhuwan Chandra Khanduri
8. Shri Peter G. Marbaniang
9. Shri Shravan Kumar Patel

##### *Rajya Sabha*

10. Shri Triloki Nath Chaturvedi
11. Shri Misa R. Ganesan
12. Shri Rajubhai A. Parmar
13. Shri G.G. Swell

#### *Secretariat*

1. Shri G.C. Malhotra — *Joint Secretary*
2. Smt. P.K. Sandhu — *Director*
3. Shri P. Sreedharan — *Under Secretary*

#### REPRESENTATIVES OF THE OFFICE OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

1. Shri A.K. Thakur — Pr. Director  
— (Reports-Central)
2. Shri Vikram Chandra — Pr. Director  
— (Indirect Taxes)
3. Smt. S. Ghosh — Director (Customs)

2. \*\*\*

3. The Committee thereafter took up for consideration the following draft Reports:

i) Induction of an aircraft Action Taken on 85th Report (10th Lok Sabha)

ii) \*\*\*\*

iii) \*\*\*\*

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\*Not appended.

The Committee adopted the draft Reports at Sl. No.(i) and (iii) above without any amendments. The Committee adopted the draft Report at Serial No.(ii) above with certain modifications as shown in Annexure\*.

The Committee also authorised the Chairman to finalise these draft Reports in the light of the comments of Audit arising out of factual verification and to present these Reports to the House.

	***	***	***
4.	***	***	***
5.	***	***	***

*The Committee then adjourned.*

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\*Not appended.



**LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATION**

Sl. No.	Name of Agent	Sl. No.	Name of Agent
<b>ANDHRA PRADESH</b>		<b>UTTAR PRADESH</b>	
1.	M/s. Vijay Book Agency, 11-1-477, Mylargadda, Secunderabad-500306.	12.	Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad, U.P.
<b>BIHAR</b>		<b>WEST BENGAL</b>	
2.	M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).	13.	M/s. Manimala, Buys & Sells, 123, Bow Bazar Street, Calcutta-1.
<b>GUJARAT</b>		<b>DELHI</b>	
3.	The New Order Book Company, Ellis Bridge, Ahmedabad-380006. (T.No. 79065)	14.	M/s. Jain Book Agency, C-9, Connaught Place, New Delhi. (T.No. 351663 & 350806)
<b>MADHYA PRADESH</b>		15.	M/s. J.M. Jaina & Brothers, P. Box 1020, Mori Gate, Delhi-110006. (T.No. 2915064 & 230936)
4.	Modern Book House, Shiv Vilas Place, Indore City. (T.No. 35289)	16.	M/s. Oxford Book & Stationery Co., Scindia House, Connaught Place, New Delhi-110 001. (T.No. 3315308 & 45896)
<b>MAHARASHTRA</b>		17.	M/s. Bookwell, 2/72, Sant Nirankari Colony, Kingsway Camp, Delhi-110 009. (T.No. 7112309).
5.	M/s. Sunderdas Gian Chand, 601, Girgaum Road. Near Princes Street, Bombay-400 002.	18.	M/s. Rajendra Book Agency, IV-DR59, Lajpat Nagar, Old Dobule Storey, New Delhi-110 024. (T.No. 6412362 & 6412131).
6.	The International Book Service, Deccan Gymkhana, Poona-4.	19.	M/s. Ashok Book Agency, BH-82, Poorvi Shalimar Bagh, Delhi-110 033.
7.	The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-400 001.	20.	M/s. Venus Enterprises, B-2/85, Phase-II, Ashok Vihar, Delhi.
8.	M/s. Usha Book Depot, Law Book Seller and Publishers' Agents Govt. Publications, 585, Chira Bazar, Khan House, Bombay-400 002.	21.	M/s. Central News Agency Pvt. Ltd., 23/90, Connaught Circus, New Delhi-110 001. (T.No. 344448, 322705, 344478 & 344508).
9.	M & J Services, Publishers, Representative Accounts & Law Book Sellers, Mohan Kunj, Ground Floor, 68, Jyotiba Fuele Road Nalgaum, Dadar, Bombay-400 014.	22.	M/s. Amrit Book Co., N-21, Connaught Circus, New Delhi.
10.	Subscribers Subscription Service India, 21, Raghunath Dadaji Street, 2nd Floor, Bombay-400 001.	23.	M/s. Books India Corporation Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110 052. (T.No. 269631 & 714465).
<b>TAMIL NADU</b>		24.	M/s. Sangam Book Depot, 437B/4B, Murari Lal Street, Ansari Road, Darya Ganj, New Delhi-110 002.
11.	M/s. M.M. Subscription Agencies, 14th Murali Street, (1st Floor), Mahalingapuram, Nungambakkam. Madras-600 034. (T. No. 476558)		

