

# **HUNDRED AND FORTY-SEVENTH REPORT**

## **PUBLIC ACCOUNTS COMMITTEE (1982-83)**

(SEVENTH LOK SABHA)

### **PURCHASE OF SECOND-HAND TRANSPORT AIRCRAFT FROM A PRIVATE FIRM**

**MINISTRY OF DEFENCE**



*Presented in Lok Sabha on 28-4-1983*

*Laid in Rajya Sabha on 28-4-1983*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*April, 1983 | Vaisakha, 1905 (Saka)*

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

**ANDHRA PRADESH**

1. Andhra University General  
Cooperative Stores Ltd.,  
Waltair (Visakhapatnam)

**BIHAR**

2. M/s. Crown Book Depot,  
Upper Bazar,  
Ranchi (Bihar).

**GUJARAT**

3. Vijay Stores,  
Station Road,  
Anard.

**MADHYA PRADESH**

4. Modern Book House,  
Shiv Vilas Palace,  
Indore City.

**MAHARASHTRA**

5. M/s. Sunderdas Gianchand,  
601, Girgaum Road,  
near Princess Street,  
Bombay-2.
6. The International Book House  
(Private) Limited,  
9, Ash Lane,  
Mahatma Gandhi Road,  
Bombay-1.
7. The International Book Service,  
Deccan Gymkhana,  
Poona-4.
8. The Current Book House,  
Maruti Lane, Raghunath  
Dadaji Street,  
Bombay-1.
9. M/s. Usha Book Depot,  
585/A, Chira Bazar,  
Khan House, Girgaum Road,  
Bombay-2.

10. M & J Services, Publishers,  
Representatives Accounts &  
Law Book Sellers,  
Bahri Road,  
Bombay-15.

11. Popular Book Depot,  
Dr. Bhadkamkar Road,  
Bombay-400001.

**MYSORE**

12. M/s. Peoples Book House,  
Opp. Jaganmohan Palace,  
Mysore-1.

**UTTAR PRADESH**

13. Law Book Company,  
Sardar Patel Marg,  
Allahabad-1.
14. Law Publishers,  
Sardar Patel Marg,  
P.B. No. 77,  
Allahabad-U.P.

**WEST BENGAL**

15. Granthaloka,  
5/1 Ambica Mookherjee Road,  
Belgharia,  
24-Parganas.
16. W. Newman & Company Ltd.,  
3, Old Court House Street,  
Calcutta.
17. Mrs. Manimala, Buys & Sells,  
128, Bow Bazar Street,  
Calcutta-12.

**DELHI**

18. Jain Book Agency,  
Connaught Place,  
New Delhi.
19. M/s. Sat Narain & Sons,  
3141, Mohd. Ali Bazar,  
Mori Gate,  
Delhi.

CORRIGENDA TO 147TH REPORT OF PUBLIC  
ACCOUNTS COMMITTEE (7TH LOK SABHA)

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
3	1.7	10	cost of	cost of
4	1.8	last line	19777	1977
30	1.71	1	Delete	'SECRET'
37	1.82	5	its	it
38	1.84	9	of	of
39	1.86	6	vident	evident
40	1.90	9	8.4.1978.5	8.4.1978,5
40	1.92	7	syears	9 years
43		16	its	it
		(under Column 4)		
46		15	vident	evident
		(under Column 4)		
47		23	296 lakhs	2.96 lakhs
		(under Column 4)		
48		13	9/8.4.19785	9/8.4.1978,5
		(under Column 4)		
48		15	woul	would
		(under Column 4)		
48		28	aircraf	aircraft
		(under Column 4)		

## CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE	iii
INTRODUCTION	v
REPORT	1
APPENDIX :—CONCLUSIONS AND RECOMMENDATIONS .	42

### PART II\* •

Minutes of sittings of the Committee  
held on :

21-12-1982

20-4-1983

---

\*Not printed. (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.)

**PUBLIC ACCOUNTS COMMITTEE**  
**(1982-83)**

**CHAIRMAN**

**Shri Satish Agarwal**

**MEMBERS**

*Lok Sabha*

2. Shri Chitta Basu
3. Smt. Vidyavati Chaturvedi
4. Shri C.T. Dhandapani
5. Shri G.L. Dogra
6. Shri Bhiku Ram Ja in
7. Shri K. Lakkappa
8. Shri Mahavir Prasad
9. Shri Sunil Maitra
10. Shri Dhanik Lal Mandal
11. Shri Jamilur Rahman
12. Shri Uttam Rathod
13. Shri Harish Rawat
14. Shri G. Narsimha Reddy
15. Shri Ram Singh Yadav

*Rajya Sabha*

16. Dr. Sankata Prasad
17. Smt. Pratibha Singh
18. Shri Syed Rehmat Ali
19. Shri B. Satyanarayana Reddy
20. Shri Kalyan Roy
21. Shri Nirmal Chatterjee
22. Shri A. P. Janardhanam

( iv )

**SECRETARIAT**

1. Shri T.R. Kri shnamachari—*Joint Secretary*
2. Shri K.C. Rastogi—*Chief Financial Committee Officer*
3. Shri K.K. Sharma—*Senior Financial Committee Officer*

## INTRODUCTION

1. **The Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Hundred and Forty-Seventh Report on Paragraph 7 of the Report of Comptroller and Auditor General of India for the year 1980--81, Union Government (Defence Services) on Purchase of second-hand transport aircraft from a private firm, relating to the Ministry of Defence.**

2. **The Report of the Comptroller and Auditor General of India for the year 1980--81, Union Government (Defence Services) was laid on the Table of the House on 5 April, 1982.**

3. **The Committee's examination has revealed that contract for the supply of four second-hand caribou aircraft was concluded with firm 'A' inspite of several obvious advantages arising out of the offer of firm 'B' and apparent disadvantages of the deal with firm 'A'. The Committee have expressed surprise that the term "standard preparation of military version" was left unspecified both in the letter of interest and the contract concluded thereafter. Consequently, a number of shortcomings and deviations from the standard of preparation of military version were revealed in the aircraft. The Committee have recommended that drawing lessons from the sad experience in this case, the Ministry should ensure that the requisite details are incorporated in the letter of interest as well as contract so as to obviate any possibility of vagueness resulting in subsequent additional expenditure and operational difficulties.**

4. **The engine of the first aircraft while being ferried from Station 'Y' to India on 29 August, 1977 failed at Station 'W' and the aircraft had to be feathered. A spare engine of the Air Force had to be flown from India and the aircraft after repair was ferried to India on 25 September, 1977 involving further additional unforeseen and infructuous expenditure. The ferrying of the remaining three aircraft were delayed due to a number of reasons. The Committee have expressed concern that the authorities had to incur unforeseen and additional expenditure to the tune of Swiss Francs 55,000 (Rs. 2.96 lakhs) for re-checking and re-hauling of the 3 aircraft, as they had been parked for over a year with no maintenance and as such**

(1A)

could not be ferried before they were made flight-worthy. The Committee are convinced that the authorities concerned in the Ministry of Defence are themselves to be blamed as they miserably failed to foresee these difficulties and to take adequate precautions. The Committee have emphasized that the various aspects of the whole deal should be gone into locating the various failures with a view to learning appropriate lessons from these lapses for the future.

5. The Committee (1982--83) examined Paragraph 7 at their sitting held on 21 December, 1982. The Committee considered and finalised the Report at their sitting held on 20 April, 1983. Minutes of the sitting form Part II\* of the Report.

6. For facility of reference and convenience, the observations and 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.

7. The Committee would like to express their thanks to the Officers of the Ministry of Defence for the cooperation extended by them in giving information to the Committee.

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

NEW DELHI ;

23 April, 1983

3 Vaisakha, 1905 (S)

SATISH AGARWAL

Chairman

Public Accounts Committee

---

\*Not printed. (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library.)



## **PURCHASE OF SECOND-HAND TRANSPORT AIRCRAFT FROM A PRIVATE FIRM**

### **REPORT**

#### *Audit Paragraph*

1.1 Having regard to the depleting strength of a transport aircraft with the Air Force and the delay anticipated in the induction of a new version, the need to purchase 4 to 6 of these aircraft was accepted by Government in September 1975. These aircraft being no longer in production, purchase had to be made of second-hand aircraft only.

1.2 The Ministry of Defence issued (September 1975) letters of interest to 4 foreign firms 'A', 'B', 'C' and 'D' (from whom offers had been received earlier) for the purchase of 4 to 6 second hand aircraft. The letter of interest, *inter alia*, specified that :

the aircraft offered should conform as close as possible to the standard of preparation of military version ; and

the aircraft and engines should have at least 50 *per cent* flying hours available before next overhaul, incorporate modifications and avionic equipment fits as specified and should be arranged to be delivered in India after satisfactory, acceptance flight (s) and checks.

1.3 Firm 'A' offered (September 1975) 6 aircraft conforming to the prescribed standard of preparation and specification at a total price of US \$ 3.66 million for 6 aircraft (\$ 2.665 million for 4 aircrafts). Firm 'B' offered (October 1975) 4 aircraft in 'as is where is' condition at a price of US \$ 420,000 each and 2 more at US \$ 390,000 each. Both the firms offered to supply spare engines at prices of US \$ 22,000 and US \$ 26,000 each respectively and spares as well at a negotiated price. The offer of firm 'C' did not give any estimates of prices and that of firm 'D' stipulated conditions in regard to payment, which were not acceptable ; hence these offers were not considered.

1.4 The aircraft offered for sale by firm 'A' were registered in the name of Mr. 'M' of foreign firm 'E', who represented firm 'A' during negotiation of the purchase. The aircraft offered by firm 'B' belonged to

**Governments of country 'X' (4 numbers) and country 'Y' (2 numbers). Firm 'B' was represented by an Indian firm 'F', which previously represented firm 'E'. The Negotiating Committee constituted for this purpose discussed (October 1975) these offers with the representatives for firms 'A' and 'B' and on its advice the aircraft offered for sale by these firms were inspected at their locations by the representatives of the Air Force (November 1975) and a public sector undertaking, hereafter 'undertaking' (December 1975) respectively. Only 5 aircraft (from which the engines, avionic equipment and cockpit instruments had been removed) were made available by firm 'A' for inspection; external corrosion on these aircraft was noticed but the internal structure and flooring were found corrosion free. The 4 aircraft belonging to Governments of countries 'X' and 'Y' offered by firm 'B' were found to have been maintained in a satisfactory condition except for one in which corrosion was noticed.**

1.5 Negotiations with these two firms were resumed in July 1976 and as a result firm 'A' gave a revised offer of US \$ 612,000 each for 6 aircraft and US \$ 646,000 each for 4 aircraft (later reduced to US \$ 596,000 each) alongwith spare engines up to 10 units at US \$ 22,000 each and spares at US \$ 45,000. Firm 'B', however, intimated (July 1976) that 4 aircraft belonging to Government of country 'X' were no longer available and instead offered 2 aircraft each belonging to Governments of countries 'Y' and 'Z' at US \$ 368,000 and US \$ 420,000 per aircraft respectively. The offer also included 6 spare engines at US \$ 252,000 and 10 propellers at US \$ 48,000 ; besides, spares valued at US \$ 1.300,000 were offered free of cost. The Guidance Committee constituted to advise the Negotiating Committee considered (July 1976) the relative merits of the two offers and on its direction enquiries were made from the Governments of countries 'X', 'Y' and 'Z' if the aircraft offered by firm 'B' were available for direct purchase and if so, their price and condition. The enquiries confirmed that 2 aircraft (with spare engines and spares) of country 'Y' were available at US \$ 1 million as a package deal and 2 aircraft (with spare engines and spares) of country 'Z' at US \$ 750,000. The availability of the aircraft from country 'X' was, however, not clear. The Guidance Committee discussed these offers in September 1976 and came to the conclusion that in spite of the offers from the Governments concerned being lower than those of firm 'B', there were certain advantage in procuring these aircraft through agents who would be responsible for carrying out necessary checks and

delivering the aircraft in fly-worthy condition. The Guidance Committee, therefore, directed that if any party offered the aircraft at prices 10 per cent below those quoted by the Governments of countries 'Y' and 'Z', the deal might be finalised. On a fresh offer received (August 1976) for the first time from an Indian firm 'G' for 2 aircraft from country 'H' at US \$ 360,000 per aircraft, the Guidance Committee considered all the offers again on 10th November 1976 and decided that arrangements should be made for the inspection of aircraft of country 'Z' (as those were not inspected earlier), that negotiations be made with firm 'B' to obtain the aircraft at prices offered by the Governments of countries 'Y' and 'Z' and that no other offer be considered.

1.6 Meanwhile, on 19th November 1976 a representative of firm 'A' delivered in person a revised offer at US \$ 510,000 per aircraft with 2 spare engines at US \$ 22,000 each (total value of the offer for 4 aircraft with 2 spare engines came to US \$ 2, 84,000). Firm 'B', on its part, offered (7th December 1976) to sell 4 aircraft with 6 spare engines and spares at the prices quoted by the Governments of countries 'Y' and 'Z' i. e. US \$ 1,750,000 which included spares valued at US \$ 1,200,000 at the invoice price. The offer of firm 'A' was further brought down (7th December 1976) by negotiations to US \$ 1,950,000. The comparative costs of the two offers of firms 'A' and 'B' on a like-to-like basis were arrived at Rs. 191.70 lakhs (US \$ 2. 13 million) and Rs. 199.30 lakhs (US \$ 1.89 million plus Rs. 28.84 lakhs).

1.7 The cost of spares (with an invoice value of US \$1,200,000) offered free of cost by firm 'B' was excluded in computing the comparative costs. It was, however, conceded that the difference in the offers was marginal and there would be saving in foreign exchange in accepting the offer of firm 'B' as the overhaul of these aircraft was to be carried out in India by the undertaking. The lead time for making available the aircraft for deployment was 18 months in the case of firm 'B' against 3 months in the case of firm 'A'. This delay was not acceptable to the Air Force. Thus, the offer of firm 'A' was accepted and Government sanction was issued in March 1977 for the purchase of 4 aircraft and two spare engines from firm 'A' at a cost of cost US \$ 1.950 million.

1.8 A contract was, therefore, concluded in February 1977 with firm 'A' represented by firm 'E' in the person of Mr. 'M' for the supply of 4 aircraft and 2 spare engines at US \$ 1.950 million. According to the

terms of the contract the aircraft with certificate of airworthiness from the Federal Aviation Administration of country 'U' were to be made available at station 'V' for inspection and acceptance between 45 to 110 days from the date of opening a letter of credit for payment due under the contract. Ninety-five *per cent* of the contract price was payable through letter of credit on delivery of each aircraft /engine and the balance within 30 days of its acceptance. The terms of contract excluded all warranties of performance except those as were available from the repair agencies for the repair/overhaul work done on these aircraft. The letter of credit under the contract was issued and opened in March 1977 for the contract amount and the aircraft were, therefore, to be delivered between May and July 1977. Before the aircraft were made available for acceptance, a petition was filed (17th May 1977) by firm 'F' against firms 'E' and 'A' in a court of law in India, claiming to be the authorised agent of firm 'E' and for the payment of 5 *per cent* commission to it on the sale of the aircraft. The court restrained (May and June 1977) the payment of any amount to Mr. 'M' and firms 'E' and 'A'. The order could be got vacated partially only in July 1977, when payment was authorised to be made retaining 5 *per cent* of the contract amount 95 *per cent* payment due under the contract was, therefore, released on 29th July 1977. Thereafter, a revised delivery schedule of the aircraft between 10th August 1977 and 14th December, 1977 was mutually agreed.

1.9 Meanwhile, on inspection of the aircraft by the representative of the undertaking in June 1977, it was noticed that the aircraft did not conform to the military version as was understood at the time of negotiations. Also, certain modifications (90 numbers, cost of which was not available) had not been incorporated. The brake system fitted to the aircraft was also not the same as the one in use with the Air Force. Since the contract did not clearly lay down these requirements and the certificate of airworthiness had been obtained from the agency mentioned in the contract, the contractual enforcement of these requirements (financial effect not available) became doubtful. However, to avoid delay in ferrying the aircraft, the first aircraft was accepted on 15th August 1977 with these deficiencies after notifying firm 'A'. The aircraft was accordingly ferried from station 'V' to India on 29th August 1977 when *en route* at station 'W', the engine of the aircraft failed and the aircraft had to be feathered. A spare engine of the Air Force was flown from India and the aircraft after repair was ferried to India on 25th September, 1977.

1.10 Arising out of the failure of the engine and the dispute regarding deficiencies noticed in the aircraft, further negotiations were held in India with Mr. 'M' (of firm 'E') and a supplementary agreement was concluded in January 1978. Under the terms of this agreement, the seller was to arrange the overhaul of the defective engine free of cost and also to provide warranty against defects or damages that would become apparent before 25th June 1978 in the engines, propellers and related rotatable components of the aircraft supplied. The seller also agreed to supply free of cost modification kits in respect of 11 modifications, wherever not already incorporated in the aircraft as well as sets of spares for the brake system fitted with aircraft. A sum of US \$ 35,000 was to be retained for this purpose from the payment due to the firm. The modification kits and spares for the brake system had not been supplied so far (October 1981).

1.11 The other 3 aircraft were made available for inspection on 27th January 1978 and after acceptance were ready to be ferried on 21st February 1978. On 14th February 1978, firm 'A' informed Government that Mr. 'M' no longer represented it and that it would, in future, be represented by another person Mr. 'P' of country 'AA'. The aircraft had not been deregistered from the name of Mr. 'M' and registered in the name of the Government of India. On 28th February 1978, Mr. 'P' the new agent of firm 'A' claimed payment of US \$ 599,915.41 (later in March 1978 an additional sum of US \$ 22,114) towards expenditure incurred on additional modifications incorporated, other incidental charges and hangarage and detained the aircraft pending payment of these claims. In March 1978, the agency which overhauled the aircraft obtained a court order of country 'AA' restraining the release of the aircraft until the payment of Swiss Francs 1 million due to it from Mr. 'M' for the overhaul work done on these aircraft. The Ministry of Defence stated (October 1981) that no payment was made and the aircraft were got released on 13th December 1978 "without the intervention of court." The legal expenses incurred in foreign exchange amounted to Rs. 2.82 lakhs. Since these 3 aircraft had been parked over a year with no maintenance, they could not be ferried before they were rechecked for their flight-worthiness. This work had to be entrusted (December 1978) to the repair agency at an expenditure not exceeding Swiss Francs 55,000 (Rs. 2.96 lakhs).

1.12 The Air Force crew of 21 sent abroad on 25th January 1978 for ferrying the aircraft had to be detained in country, 'AB' for varying

periods up to 1st February 1979 pending the release of the aircraft. An expenditure of Rs. 11.56 lakhs ( in foreign exchange ) was incurred on the stay of these personnel. The aircraft were ferried to India in February 1979. As regards the engine of the first aircraft that failed *en route*, the cost of overhaul/replacement was to be borne by firm 'A'. But the Ministry of Defence authorised (November 1979) the payment of £3,150 (Rs. 56,170) to the repair agency. The recovery of the same from firm 'A' was yet (October 1981) to be effected. The final payments under the contract were also yet to be settled (October 1981).

1.13 The Ministry of Defence stated (October 1981) that :

in computing the comparative costs of offers of firms 'A' and 'B', cost of spares (US \$ 1.2 million) offered free of cost by firm 'B' was taken into consideration, but was rejected as it was a 'non-asset' : and

in any contract, it was only possible to lay down the broad standard of preparation and not to go into details of individual items and modifications.

1.14 Although the 4 aircraft were in use, the following are the important points noticed in the deal :

The contract for the purchase of the aircraft was concluded with firm 'A' which did not own the aircraft. The offer of firm 'A' was considered as cheaper than that of firm 'B' by Rs. 7.60 lakhs without taking into account the spares (invoice value : US \$ 1.2 million) offered free of cost by firm 'B'. Besides, the acceptance of the offer of firm 'A' involved an additional expenditure in foreign exchange to the tune of US \$ 236,000 (Rs. 21.24 lakhs).

As the contract did not clearly specify the standard of preparation required of the aircraft, certain requirements as understood at the time of negotiations not complied with, could not be contractually enforced (the financial effect of the same was not known).

One of the reasons for preferring firm 'A' was stated to be that the aircraft would be available for deployment within 3 months of the date of signing the contract against 18 months if the offer of firm 'B' had been accepted. In fact, 3 out of the 4 aircraft were available for deployment after a delay of 19 months.

Government had to incur extra expenditure of Swiss Francs 55,000 (Rs. 2.96 lakhs) on the check of 3 aircraft before they were ferried and Rs. 11.56 lakhs on the crew detained abroad besides legal expenses of Rs. 2.82 lakhs in foreign exchange.

[Audit Paragraph 7 of the Report of the Comptroller and Auditor General of India for the year 1980-81, Union Government (Defence Services) ]

*Need for purchase of second hand aircraft*

1.15 It is seen from the Audit Paragraph that having regard to the depleting strength of a transport aircraft with the Air Force and the delay anticipated in the induction of a new version, the need to purchase 4 to 6 of these aircraft was accepted by Government in September, 1975. These aircraft being no longer in production, purchase had to be made of second hand aircraft only.

1.16 The Committee were informed by the Ministry of Defence that Caribou transport aircraft were inducted in IAF w.e.f. September/October, 1963.

1.17 During evidence, the Committee desired information to be furnished on the following points:—

- (a) When was the necessity of having more transport planes felt for the first time after 1962 war ?
- (b) When was a decision taken in this regard ?
- (c) How many transport planes were with the Air Force when a decision was taken about the purchase of second hand transport planes in September, 1975 ?
- (d) What was the type of planes available with the Air Force and why the Air Force did not go in for new ones ? What was the justification for opting for second hand aircraft ?
- (e) In view of the experience of 1962 where transport bottlenecks was a major factor there, why a decision was taken to go in for second hand planes ?

In reply, the Defence Secretary stated:—

“At that time in 1974 Air Force had 15 Caribou. Arrangement was that at least 12 should be serviceable and available for duty at any point of time. At that time they had Caribou, aircraft in fleet and they were looking for replacement by new aircraft. They had not been able to identify a new line which could be inducted to replace the Caribou. In 1975 an Apex planning group was constituted under the Chairmanship of the Deputy Chairman of the Planning Commission and that Apex Group considered various proposals which had been put up by the Defence Services and this was also one of the proposals considered by them and the Apex Group had approved the proposal to purchase four to six additional aircraft to augment the transport capability of the IAF till such time Buffalo Aircraft or its equivalent was produced in India. We have now been able to decide as to what would be the replacement of the Caribou aircraft and arrangement for inducting that has been made already. As has already been reported in the Haksar Committee, they did approve the suggestion that four to six aircraft of the Caribou should be inducted. Hence second hand was purchased so that the total availability goes up and effective fleet strength of 12 can be maintained in this quarter.

Fresh production by the manufacturers had been stopped. There was no other arrangement possibly at that time except to look around for second-hand aircrafts which could be used for temporarily augmenting the strength till a replacement is done.”

1.18 As intimated by the Ministry of Defence, the actual recommendation of the Apex Planning Group II reads as follows:—

“Replacement of the propeller and provision of Jet Packs for the existing fleet of Packet aircraft and purchase of 4 to 6 additional Caribous to augment the Transport, capability of the IAF till such time as the Buffalo aircraft or its equivalent is produced in India.”



1.19 Asked about the anticipated life of the Caribou aircraft, the representative of the Ministry of Defence stated:—

Normally depending of course on two aspects in terms of the calendar year, the life is 15 to 20 years when it may be replaced. When we normally refer to life, it also depends upon the number of flying hours it has done. When the life is over, then it is put through certain overhauling and then the aircraft becomes well serviceable. In respect of Caribou, it is 1800 hours. So depending upon whether I use it for 400 hours per year or more or less, the life depends. If I use it for 400 hours per year then it would take me for  $4\frac{1}{2}$  years. At that stage, overhauling is done if the aircraft has not worn out too badly. So it depends upon utilisation. If the utilisation is fast, the life span is extinguished faster.”

1.20 Further asked as to when the Ministry had come to know that this type of aircraft was going out of manufacture, the witness stated :—

“To the best of my knowledge we were told that they would be going out of manufacture around 1966-67 when the successor to it Buffalo would come.”

1.21 The Committee further enquired if any advance planning was done to replace these aircrafts when it was known that these would go out of operation after 15 years. The witness stated :—

“This was put across earlier to the Government. The Apex Group under Mr. Haksar studied it and they had made a suggestion as to which type could be selected and produced in India. That was the plan at that time.”

1.22 The witness clarified that the plan at that time meant 1975.

1.23 Asked whether the delay in procurement of the second hand aircraft was not a case of lack of foresight or of bad planning, the representative of the Air-Headquarters stated :—

“If I remember correctly the case for replacement was initiated for the first time in 1972 or so. But, at that time, certain evaluation were done on which type could be inducted and which should be the latest type etc. The decision was to go in for the successor aircraft. Either we are to buy this aircraft or to buy more of those to continue the present aircraft to fly longer.”

**1.24 The Defence Secretary further elaborated :**

**“Suppose the designated life of the aircraft was for 15 years. At that time, we did not know what would be the successor aircraft. I would not know that replacement of these aircraft would be required in this period. The time was taken to select a successor aircraft based on what was available in the market. A little before the time of induction in 1962 one does not know what would be available in 1977 or 1978. In 1966 we were aware that Caribou would not longer be manufactured. So, the replacement will have to be something other than caribou. Buffalo was the successor aircraft which the company manufactured. As a successor to Caribou, buffalo was one of the aircraft which was under our consideration. That decision to replace the caribou by buffalo could not be taken in 1977 or 1978. It was finally taken only in 1981.**

**I would submit that the aircraft purchased in 1962 would be fly-worthy till 1977. You would start looking at the alternative replacement only in 1976 and not in 1966. This difficulty had arisen because we did not straightway go and buy the buffalo which were the successor to this aircraft being manufactured by that company. We wanted to look round for the other aircraft. Finally, we came out with a cheaper and a much better aircraft. If we had decided purely on the basis of this suggestion, then, we would have landed ourselves to a position to go in for the aircraft which is more expensive. We will be inducting next year the aircraft which we have decided to purchase. They will be available to replace the caribou. The second point I wanted to make is this. It is not that we stop the aircraft flying on the day when 15 years life is over. This is an average life of the aircraft. Depending on that, we look for the other one. If the normal life of the caribou is 15 years, we can use it for more years even after this time is over.**

**We have been able to look after the maintenance of it. In 1982, almost five years after the expiry of 15 year limit, we are still using the aircraft effectively. We do not want to use it any further. Now there is the ageing process which is involved. There is cost of maintenance of it. The maintenance cost also goes up.”**

1.25 The Defence Secretary further stated :—

“There is no defective planning. In the Report the Deputy Chairman of the Apex Group has mentioned that replacement aircraft was under consideration even in 1975. In 1975, Government were considering to induct buffalo aircraft, then what you were saying would not be there. The aircraft would have been inducted. We have decided not to put in buffalo but to look for some other source as well. This is what I am submitting. It is not that the need for replacement was forgotten.”

1.26 Asked whether Buffalo was a costlier aircraft, the Defence Secretary replied :—

“They were costly and so we did not purchase that. If the Government decided to go ahead with the purchase of buffalo aircraft from the western concern more and more of this aircraft would have been inducted by now. It would cost much more than three times its cost. There are occasions where there is delay in decision-making. There are various valid reasons for the delay in taking the decision.”

1.27 According to the Audit Paragraph the Ministry of Defence issued in September 1975 letters of interest to 4 foreign firms ‘A’, ‘B’, ‘C’ and ‘D’ (from whom offers had been received earlier) for the purchase of 4 to 6 second-hand aircraft. The letter of interest, *inter alia*, specified that :

“The aircraft offered should conform as close as possible to the standard of preparation of military version ; and the aircraft and engines should have at least 50 per cent flying hours available before next overhaul, incorporate modifications and avionic equipment fits as specified and should be arranged to be delivered in India after satisfactory acceptance flight (s) and checks.”

1.28 The Committee enquired whether the credibility of the firms was verified before entering into negotiations with them. The Ministry of Defence stated :—

“Government of India was in this case purchasing second hand aircraft and not entrusting the job of manufacturing and supply of any new system. If a firm had second hand aircraft available for sale, this was adequate for the Government to open negotiations .

with the firm. These firms had indicated the availability of second hand Caribou aircraft with them and this was adequate to begin negotiations. Further matters could be gone into during the course of negotiations.”

1.29 Asked about the further precautionary steps taken by the Ministry of Defence during the course of negotiations to convince themselves about the credibility of firms ‘A’ and ‘B’, the Ministry stated :—

“Govt. of India took care not to make any advance payment to the supplier. The aircraft had been inspected by the Reps. of IAF and found to be available. The contract had provided that payment would become due only on furnishing a certificate of air-worthiness from FAA and on the Buyer furnishing an acceptance Certificate after due inspection. These were considered to be adequate safeguards for the delivery of the aircraft in proper conditions in the context that we had very limited options for the purchase of the second hand aircraft.”

1.30 The Committee enquired whether the standard of preparation of military version with regard to the proposed purchase of second hand aircraft was spelt out in precise terms in the letter of interest and if not, why the same was not done? In reply, the Ministry of Defence stated :—

“The letter of interest stipulated that the aircraft would conform as closely as possible to the Standard of Preparation of the military version of the Caribou aircraft OR upto Mod bulletin No. 4/1362. These were considered enough as they conveyed sufficiently precise meaning.”

1.31 It is seen from the Audit paragraph that the offer of firm ‘C’ did not give any estimates of prices and that of firm ‘D’ stipulated conditions in regard to payment, which were not acceptable hence these were not considered. The Committee desired to know whether efforts were made to ascertain estimates of prices from firm ‘C’ by utilising the services of our Embassy in that Country. The Committee further enquired about the conditions stipulated by firm ‘D’ in regard to payment which were considered

not acceptable and whether efforts were made to persuade firm 'D' to rectify these conditions. The Ministry of Defence stated :—

“Since the firm had written that they would write as soon as they were in a position to make a proposal, there was no occasion to restart with them.

The firm 'D' made an unsolicited offer through our AA in that country in August 1975. The firm demanded a payment of earnest money amounting to \$ 180,000 representing 17½% of the total price for the aircraft. There after, on 15.9.75 it intimated that another party had offered \$ 100,000 more per aircraft. The AA in that country made efforts and could persuade the firm to keep the offer open only upto 20.9.1975 on which date the offer of the competitor would take precedence. Thereafter, the firm responded to the tender enquiry and their offer dated 1.10.1975 was received by us on 9.10.1975. The proposal contained the same stipulation of making an earnest money deposit of 17½% of the quotation prior to inspection of the aircraft. Further more the offer was kept open only upto 15.11.1975 as against our request of keeping the offer valid upto 31.1.1976. The firm also indicated that it could not position a representative in New Delhi for any discussions/negotiations. These conditions were considered unacceptable. Since the firm had indicated that it could not position a representative in New Delhi for discussion/negotiations, there was no occasion to persuade them to rectify these conditions.”

1.32 The aircraft offered for sale by firm 'A' were registered in the name of Mr. 'M' of foreign firm 'E', who represented firm 'A' during negotiation of the purchase. The aircraft offered by.....firm 'B' belonged to Governments of country 'X' (4 numbers) and country 'Y' (2 numbers). Firm 'B' was represented by an Indian firm 'F', which previously represented firm 'E'.

1.33 Asked as to how it was ensured that firm 'E' had the necessary legal right to represent firm 'A', the Ministry of Defence stated :—

“The Military and Air Attache, Bonn had on 7th August, 1975, after contacting Firm 'E' intimated Air Headquarters that the aircraft would be available from firm 'A'. Firm 'A' had appointed

Mr. M of firm 'E' to represent firm 'A' for the sale of the aircraft *vide* their letter of 1st October, 1975. Firm 'A' also authorised Mr. M of firm 'E' to negotiate and conclude the sale of aircraft at the meeting of the Company held on 11th August, 1975. The resolution of the Company was communicated to the Government of India on 26th January, 1976, duly certified by the Notary Public. These ensured that the Firm 'E' had the legal right to represent firm 'A'."

1.34 It is seen from the Audit Paragraph that the Negotiating Committee constituted for this purpose discussed in October 1975 the offers with the representatives of firms 'A' and 'B', and on its advice the aircraft offered for sale by these firms were inspected at their locations by the representatives of the Air Force (November 1975) and a public sector undertaking, (December 1975) respectively. Only 5 aircraft (from which the engines, avionic equipment and cockpit instruments had been removed) were made available by firm 'A' for inspection; external corrosion on these aircraft was noticed, but the internal structure and flooring were found corrosion free. The 4 aircraft belonging to Government of countries 'X' and 'Y' offered by firm 'B' were found to have been maintained in a satisfactory condition except for one in which corrosion was noticed.

1.35 The Committee desired to know whether the aircraft belonging to Governments of countries 'X', 'Y' and 'Z' were offered by firm 'B' in a flyworthy condition and what was the residual life of the aircraft 'on as is where is basis' ? In reply, the Ministry of Defence stated in a note :—

"A survey of the aircraft offered by firm 'B' in respect of countries 'X' and 'Y' was carried out by representatives of a public sector undertaking. The condition of the aircraft of countries 'X' and 'Y' offered by firm 'B' is given below in sub-para (a) and (b) :—

- (a) The aircraft belonging to country 'X' were grounded since July 1975 but the engines were groundrun once a week.
- (b) Out of 4 aircraft of country 'Y', two aircraft were flyworthy, one was under inspection one was grounded due to an accident on 8th January, 1975.
- (c) The aircraft belonging to country 'Z' were offered by firm 'B' in 'as is where is' condition and it was mentioned that the aircraft had not flown since June 1975 but were regularly maintained in airworthy conditions.

**It is not possible to estimate the residual life of the aircraft which was offered on 'as is where is' basis."**

**1.36 According to the Audit Paragraph negotiations with firms A & B were resumed in July 1976 and as a result firm 'A' gave a revised offer of US \$ 612,000 each for 6 aircraft and US \$ 646,000 each for 4 aircraft (later reduced to US \$ 596,000 each) along with spare engines up to 10 units at US \$ 22,000 each and spares at US \$ 45,000. Firm 'B', however, intimated (July 1976) that 4 aircraft belonging to Government of country 'X' were no longer available and instead offered 2 aircraft each belonging to Governments of countries 'Y' and 'Z' at US \$ 368,000 and US \$ 420,000 per aircraft respectively. The offer also included 6 spare engines at US \$ 252,000 and 10 propellers at US \$ 48,000; besides, spares valued at US \$ 1,300,000 were offered free of cost. The Guidance Committee constituted to advise the Negotiating Committee considered (July 1976) the relative merits of the two offers and on its direction enquiries were made from the Governments of countries 'X', 'Y' and 'Z' if the aircraft offered by firm 'B' were available for direct purchase and if so, their price and condition.**

**1.37 The Committee enquired whether the Ministry of Defence took up the matter directly with the Governments of countries 'X', 'Y' and 'Z' with regard to the availability/serviceability of these aircrafts soon after receipt of offer from firm 'B'. The Ministry of Defence stated:—**

**"Through our communication no. 13154 of 8.7.76, our Ambassador in country 'X' was advised to ascertain from the Govt. of 'X' urgently whether their caribou aircraft are available for sale to us directly without any intermediary if so, present condition of aircraft, how soon they can be sold to us and approximate price." Our Ambassador in country 'Y' was asked *vide* our communication No. 13156 dated 8.7.76 to ascertain urgently whether Govt. of 'Y' can sell the two aircrafts of their air force offered to us by an Agent direct without any intermediary, if so their present condition, approximate price and how soon they can be sold to us." Our Ambassador took action accordingly. Our Ambassador in country 'Z' was *vide* our communication No. 13156 of 8.7.76 requested to ascertain urgently whether 'Z' can sell these aircraft to us, direct without any intermediary. If so their present condition, approximate price and how soon they**

can be sold to us." The Ambassador replied that 'Z' would be agreeable to sell two Caribou aircraft either direct or through intermediary as is convenient to us subject to minimum price US \$ 750,000. The aircraft were for immediate sale and stated to be in good condition with new engines and appropriate spare parts." These reports were brought to the notice of the Guidance Committee. The Guidance Committee in its meeting held on 9.9.76 decided that though the offers of Y and Z were lower than those received from M/s Autair Ltd., there were certain advantages if the aircraft were procured from intermediaries since it would be their responsibility to carry out necessary checks and deliver them to us in fly-worthy condition. The Committee therefore directed that if any party offered the aircraft at prices 10% below those quoted by Govts. of Y and Z the deal may be finalised. In case the negotiated prices were higher than this, the matter would be considered further by the Guidance Committee."

1.38 Referring to the position stated in the Audit Paragraph that the firm 'B' had intimated in July 1976 that the four aircraft belonging to country 'X' were no longer available, the Committee desired to know whether the matter was followed up with the concerned Government. The Committee further desired to know whether the purchase of these aircraft directly from the Government concerned was taken up with them and if so what was the out come thereof. The Ministry of Defence stated :—

"Our Ambassador was advised to ascertain from the Government of country 'X' the availability of the aircraft. The Ambassador intimated as below in July 1976 "understand from Director of Purchase of 'X' Defence Forces that the question of trading in Caribous for Buffalo IH 5D aircraft was considered sometime back, but has now been given up on account of heavy cost involved. Instead Caribous are being reconditioned with spares which are available here in abundance. On further enquiry, he said that the idea of trading in has not been abandoned altogether and he would be willing to consider our proposals in the matter, if any." Later in August 1976, the Ambassador again intimated that 'X' Defence Force is considering reconditioning the Caribous and has invited quotations for this. After this is



found if economical, it will drop the proposal of replacing these aircrafts, otherwise it will revert to the earlier proposal and may then get in touch with you directly."

1.39 The Committee desired to know the reasons for appointing a Guidance Committee to advise the negotiating committee and also its constitution. The Ministry of Defence stated :

"The Negotiating Committee constituted at the level of the Joint Secretary was to go mainly into details of the offers and examine each clause of the contract to be entered into. Major issues like price etc. could be considered at a higher level which could devise the strategies to extract the best price. It would have been too much to expect from the high level committee to take up with each party the time consuming clause by clause analysis. The Guidance Committee Comprised of :

- (i) Additional Secretary (Defence)—Chairman
- (ii) Financial Adviser (DS) — Member
- (iii) Vice-Chief of Air Staff — Member"

1.40 The Committee desired to know as to why the following decisions of the Guidance Committee taken on 10.11.1976 were not carried out particularly when the quotations made by countries 'X', 'Y' and 'Z' were more attractive than firm 'A' offer made on 19.11.1976 to sell the aircraft at the rate of US \$ 5 10,00 each in fully overhauled condition and Zero hours basis :

- (a) A representative should be sent to country 'Z' to inspect the aircraft after ascertaining that the aircraft are still available.
- (b) A final attempt be made with firm 'B' to obtain the aircraft and connected engines and spares at prices offered by Government of countries 'Z' and 'Y'.
- (c) The negotiating committee would report the result of negotiation with firm 'B' to the Guidance Committee.
- (d) No other offers should be considered.

In reply, the Ministry of Defence stated :

**“As per the directions of the Guidance Committee referred to at (b) and (c) above, the Negotiation Committee met on 20.11.76 to negotiate with firm ‘B’. At the outset the Chairman stated that the representative of M/S Bedford had met him on 19.11.76 and indicated that his principals were prepared to sell the aircraft at the rate of \$ 510,000 each in fully overhauled condition and Zero hour basis. This as compared to the last offer of \$ 590,000 per aircraft was a steep cut-down. The Negotiation Committee after some discussion decided to invite the representative of M/s Bedford for discussion and to bring his latest offer to the notice of the Guidance Committee.**

**Negotiations with the representative of M/s Autair to obtain the aircraft and connected engines and spares at prices offered by Governments of ‘Z’ and ‘Y’ were not successful. M/s Autair offered these aircraft at Government price plus a commission of 4% i.e. \$ 1.750 million plus 4%. It was also anticipated at that time that an additional expenditure of Rs. 40 lakhs for fitment of Avionics as per IAF Specifications and overhaul of the aircraft would have to be incurred as these aircraft were offered on “as is where is” basis. It was estimated that these aircraft if procured would be inducted into service eighteen months after signing of the contract, as that would be the period for overhaul of the aircraft by HAL. The total cost of the offer of firm ‘B’ inclusive of ferrying and commission would be of the order of \$ 1.9-4 million cost of overhaul would have been incurred in addition.**

**In comparison the offer of M/s Bedford for the cost of 4 aircraft in fully overhauled condition plus the cost of ferrying would be of the order of \$ 2.132 million. The advantage of their offer was that these aircraft would be ready for induction into service within three to four months after signing of the contract.**

**The negotiations held with the representative of M/s Autair and the latest offer of M/s Bedford were brought to the notice of the Chairman, Guidance Committee on 25.11.76 and then to the committee on 3.12.76. Further actions were taken as decided by the Guidance Committee.”**

*Conclusion of contract*

1.41 According to the Audit Paragraph the comparative costs of the two offers of firms 'A' and 'B' on a like-to-like basis were arrived at Rs. 191.70 lakhs (US \$ 2.13 million) and Rs. 199.30 lakhs (US \$ 1.89million plus Rs. 28.84 lakhs).

1.42 The cost of spares (with an invoice value of US \$ 1,200,000) offered free of cost by firm 'B' was excluded in computing the comparative costs. It was, however, conceded that the difference in the offers was marginal and there would be saving in foreign exchange in accepting the offer of firm 'B' as the overhaul of these aircraft was to be carried out in India by the undertaking. The lead time for making available the aircraft for deployment was 18 months in the case of firm 'B' against 3 months in the case of firm 'A'. This delay was not acceptable to the Air Force. Thus, the offer of firm 'A' was accepted and Government sanction was issued in March 1977 for the purchase of 4 aircraft and two spare engines from firm 'A' at a cost of US \$ 1.950 million.

1.43 A contract was, therefore, concluded in February, 1977 with firm 'A' represented by firm 'E' in the person of Mr. M for the supply of 4 aircraft and 2 spare engines at US \$1.950 million.

1.44 The Committee desired to know the basis on which it was stated that the lead time required to repair the aircraft offered by firm 'B' would be 18 months. The Ministry of Defence stated that lead time of 18 months was estimated on the basis of past experience and that the time taken by HAL for the overhaul of caribou aircraft in the past has been between 16 to 32 months.

1.45 The Committee further enquired as to how an assessment of the leadtime could be made without ascer taining the actual condition of the aircraft particularly when during the inspection of the aircraft offered by firm 'A' in December 1975, it was noticed that the engines, avionic equipment and cockpit instruments had been removed and there was external corrosion on these aircraft. The Committee also asked whether the HAL was specially consulted with regard to the leadtime in these cases. The Ministry of Defence stated :

**“While the work on the aircraft of firm ‘B’ was to be done by HAL, that of firm ‘A’ was to be done by the agencies outside India, since the aircraft were offered in ‘zero hour’ condition. The aircraft of firm ‘A’ had already been entrusted to M/s Belair in 1974 for overhaul and the sellers were confident that the work would be completed within the time projected.**

**Air HQ were aware of estimated time taken in completion of major servicing by HAL by their experience with the similar aircraft existing with them. The question of consulting HAL especially for these aircraft does not arise as they were already in the process of being overhauled at the time of inspection.”**

**1.46 The Committee desired to know the reasons for treating the spares valued \$ 1.2 million offered free of cost by firm ‘B’ as a non-asset. The Ministry of Defence stated :**

**“The lists of items offered were considered and found to be non-assets in their totality since only a very small number of items were found to be useful.”**

**1.47 Asked as to how many items of these spares offered free of cost by firm ‘B’ were later procured to meet the IAF requirements after the purchase of the aircraft and what was their value, the Ministry of Defence stated that only 24 items have been procured till date at a total cost of \$ 19,435.35.**

**1.48 According to the terms of the contract the aircraft with certificate of airworthiness from the Federal Aviation Administration of country ‘U’ were to be made available at Basel (Switzerland) for inspection and acceptance between 45 to 110 days from the date of opening a letter of credit for payment due under the contract. Further the terms of contract excluded all warranties of performance except those as were available from the repair agencies for the repair/overhaul work done on these aircraft. Asked as to why the contract was concluded with firm ‘A’ when the aircraft were not registered in its name, the Ministry of Defence stated :**

**“The offer was received from firm ‘A’. Mr. ‘M’ had a valid authority to enter into a contract and sign on behalf of firm ‘A’. Therefore both firm ‘A’ and Mr. ‘M’ were party to this contract and in full knowledge of this transaction.”**

1.49 The Committee further asked as to why 'A' was preferred over 'B' when the aircraft were not in possession of the former. In reply, the Defence Secretary stated during evidence :

"There were two factors at that time which caused firm 'A' to be preferred over firm 'B'. The firm 'A' offered aircrafts in the service conditions, in a flying condition whereas others were offering at 'as is where is condition'. Now, the flying condition availability is certainly preferable to others because one does not know really about 'as is where is condition'.

The inspection has been permitted and we made it, but it is found that the aircraft has not been flown since a number of years and the reliability factors were also rather unknown. Taking that into account, the Committee at that time preferred to purchase from firm 'A' rather than 'B'."

1.50 The Committee desired to know the year of manufacture of the aircraft purchased from firm 'A' and offered for sale by firm 'B' and the date/dates on which four aircraft were actually received in India and the date/dates on which payments were made in respect of each aircraft. The Ministry of Defence stated :

"The year of manufacture of each of the four aircraft alongwith its serial number is given below. However, aircraft purchased from firm 'A' were not offered by firm 'B' :

<u>Sl. No.</u>	<u>Date of Manufacture</u>
28	11.12.61
31	11.12.61
83	8.3.63
94	8.4.63

The year of manufacture of the aircraft offered by firm 'B' is as under :

<u>Sl. No</u>	<u>Year of Manufacture</u>
23	June 1961
40	December 1961
97	June 1963
107	July 1963

The exact dates of payment alongwith the dates on which those aircraft arrived in India is given below :

<u>Date of acceptance by Indian Rep.</u>	<u>Date of Remittance by S.B.I.</u>	<u>Date of aircraft arrival</u>	<u>Remarks</u>
16 8.77 (one a/c)	14.9.77	25.9.77	
9.2.78	22.2.78	20.1.79 18.2.79	2.2.79 } Ferry delayed due to legal procee- dings

5% of total payment and \$ 35000/- have not yet been paid till date.

95% of the payment due under contract was not released on 29 July 1977. As per the contract, payments were to be released only after the acceptance of the aircrafts by the IAF representatives and upon the Buyer furnishing the acceptance certificate and other relevant documents to the bank."

1.51 It was stated in the letter of interest that the aircraft were to be delivered in India. The Committee therefore asked as to why it was provided in the contract that the aircraft would be delivered at a station abroad. The Ministry of Defence stated :

"The letter of interest expressed the preferences of the Government of India on the standard of preparation and delivery of the aircraft. It is not necessary that all these requirements are met in *toto* by the supplier. The buyer and the seller after negotiations arrived at mutually acceptable standard of preparation and delivery. The Government of India found it reasonable to accept delivery of the aircraft in Basel where it was being overhauled by an overhaul agency authorised by the manufacturers of the air-

craft *viz.* De Havilland of Canada. The cost of the aircraft would naturally depend on the place of delivery. If the seller was to deliver the same aircraft in India, it is only reasonable to expect that the cost of transportation from Basel to India and the incidentals would have been passed on to the Government of India."

*Short-comings in the aircraft*

1.52 On inspection of the aircraft in June 1977, it was noticed that the aircraft did not conform to the military version as was understood at the time of negotiations. Asked as to in what respect the aircraft supplied by firm 'A' did not conform to the Military Version as understood by the Air Force, the Ministry of Defence stated :

"There was some dispute over the interpretation of the term military version. A few components fitted on the aircraft differed from the ones fitted in the IAF aircraft at that point of time. Those fitted on the contract aircraft were the alternatives approved by the manufacturers. The dispute was subsequently resolved when the Supplier agreed to fit the aircraft with the required components or in lieu to supply the mod-kits. A supplementary agreement was subsequently concluded and a sum of \$ 35,000 was with-held"

1.53 The Committee desired to know as to how the alternatives of the components fitted affect the military version of the aircraft as understood by IAF and whether the fact of incorporation of these alternatives was known to the authorities before hand. The Ministry of Defence stated :

"This did not affect the military utilisation of the aircraft, although it meant use of components different than those used on other aircraft in IAF. It was also not earlier known to the authorities."

1.54 The Committee desired to know as to why it was not thought necessary to stipulate the specifications in the contract to ensure their compliance. The Committee also enquired as to in what respect, the short-comings in the aircraft supplied had affected their performance and whether the same have since been rectified and if so, at what cost. The Ministry of Defence stated :

“Unlike in the case of new weapon system ordered for manufacture and supply, the standard of preparation of aircraft in service is generally known. Government of India was purchasing a well-known caribou aircraft. It was understood that the aircraft would be overhauled and prepared to the required specifications in the presence of the representatives of the Indian Air Force at Basel. Under the circumstances, detailed specification were not incorporated.

- (ii) Shortcomings in the aircraft relate only to certain non-mandatory modifications and their non-incorporation has not affected the performance of these aircraft.
- (iii) Certain differences in the standard of preparation were noticed in the aircraft and it was pointed out to the seller that the remaining three aircraft will not be accepted till they were brought to the specification of the rest of the fleet of IAF. The supplementary agreement, therefore, was concluded with the seller which provided for supply of certain spares and modkits for the first aircraft which was already ferried to India earlier and also incorporation of modification on the balance three aircraft. Alternatively, the seller was to supply the modkits/spares within 250 days of signing of the supplementary agreement. For this purpose, an amount of US \$ 35,000 was to be withheld from the payment due to the firm till all modkits/spares have been received.”

1.55 The Committee enquired about the total number of modifications that should have been incorporated as understood at the time of concluding the contract and out of these how many were not incorporated. In reply, the Ministry of Defence have stated in a note :

“The total number of modifications applicable to caribou aircraft is 684. Out of these, nine modifications which Air Headquarters considered desirable were not embodied on these aircraft.”

1.56 The Committee wanted to know the cost of incorporating such modifications. The Ministry of Defence have stated :

“The cost of the modifications is Can. \$ 23, 346.22. No separate charges are incurred for their embodiment, since they were to be carried out during second line servicing of the aircraft.”



1.56A In reply to another question, the Ministry of Defence have informed that none of these modifications have since been incorporated.

*Ferrying of aircraft*

1.57 According to the Audit Paragraph the first aircraft was accepted on 15th August, 1977 with the deficiencies after notifying firm 'A'. The aircraft was accordingly ferried from station 'V' to India on 29th August 1977 when en route at station 'W' the engine of the aircraft failed and the aircraft had to be feathered. A spare engine of the Air Force was flown from India and the aircraft after repair was ferried to India on 25th September, 1977.

1.58 Asked about the reason for failure of the engine en route, the Ministry of Defence stated that the engine failed in flight due to failure of Master Rod and its bearing and this is a material failure.

1.59 The Committee further enquired as to why this defect was not detected at the time of inspection of the aircraft. The Ministry of Defence stated :

“At the time of inspection and the test flight, the aircraft/aero engine were found fully serviceable and free of any defect. Failure of the engine occurred only en-route. Such failures cannot be forecast.”

1.60 Asked about the latest position with regard to the receipt of certain spares and modkits for the first aircraft which were to be supplied in the light of the supplementary agreement, the Ministry of Defence stated that the five modkits and spares which were not incorporated in the first aircraft were to be supplied by the seller within 250 days as per the Supplementary Agreement. Those have not yet been supplied.

1.61 The Committee further desired to know whether the modifications in the aircraft which were required to be carried out by firm 'A' as per supplementary agreement have since been carried out. The Ministry of Defence stated :

“Out of all the 11 modifications, two are already found incorporated on receipt of the aircraft. An additional modkit was also received for all the four aircraft. The remaining eight modkits were of

class 'C' and class 'D' nature and in no way affected flight safety, operational capability and maintenance of the aircraft."

1.62 According to the Audit Paragraph the other 3 aircraft were made available for inspection on 27 January, 1978 and after acceptance were ready to be ferried on 21 February, 1978 but could not be ferried due to future developments like appointment of another representative by firm 'A' viz. Mr. 'P' of country 'AA' in place of Mr. M and a court order obtained by the agency which overhauled the aircraft restraining the release of the aircraft, which were subsequently got released on 3 December, 1978. On account of delay due to these developments the aircraft had to be rechecked for their airworthiness and additional expenditure of Swiss Francs 55,000 lakhs (Rs. 2.96 lakhs) had to be incurred.

1.63 The Committee enquired as to how the release of the aircraft was finally obtained. In reply, the Ministry of Defence stated :

"The aircraft were held up at Basel on account of a Restraint order issued by the Court in a case initiated by M/s Balair who overhauled these aircrafts. Our efforts to get the restraint order vacated were not successful. Thereafter M/s Balair offered that they were prepared to hand over these aircraft after testing their airworthiness for which purpose they expected an advance payment of Swiss Fr. 55,000. An amicable settlement was reached with M/s Balair and aircraft were released and flown out to India."

1.64 The Committee enquired if any negotiations were concluded with the repair agency to which the Ministry have replied in the affirmative. The Ministry have also stated that the negotiations were conducted by a Team of officers from Ministry of Defence (including the Legal Adviser), the Ministry of Finance (Defence) and Air Headquarters.

1.65 The Committee desired to know as to why the points of litigation were not sorted out at the time of conducting the negotiations. The Defence Secretary explained during evidence : —

"What happened was that when our crew arrived to take charge of the aircraft, there was bad weather condition and they had to stay on. Meanwhile, some dispute developed between the com-

pany in Switzerland who had done some overhauling work on the aircraft and the seller to us. The dispute between them caused our aircraft to get held up because one of the parties went to the court in Switzerland and got a stay order from the court. That was not anticipated.

When the suit was filed, the court in Switzerland took the view that in the registration which was available at that time the aircraft was in the name of Mr. Masin and, therefore, if any amount was due from him to the other firm in Switzerland, the aircraft could not be moved unless that was paid. That was the reason why it was held up."

1.66 Asked as to why the negotiating team did not ensure that the aircraft were free from encumbrances, particularly, when the aircraft were registered in somebody else's name and were lying in a different country, the representative of the Ministry of Defence stated :

"We entered into a contract with the party which owned this aircraft and the contract was for giving the aircraft to us in overhauled and fly-worthy condition with appropriate certificate of airworthiness. This is only a seller of the aircraft and not the agency which would overhaul. They had given this aircraft to another party for overhauling. But our contract was with firm 'A' to give us in overhauled condition. It so happened that the party which was overhauling the aircraft on behalf of firm 'A' claimed certain damages and charges which, they said, had not been paid by firm 'A' and, therefore, they got a restraint from the court that the aircraft could not be released until firm 'A' paid them that amount. We were not a party to this contract and we could not have foreseen at the time of signing the contract that a dispute would arise between the firm and the contractor for overhauling."

1.67 Elucidating further, the Defence Secretary stated :—

"When our team arrived to take charge of the aircraft in January, 1978, at that time there was no indication or idea given by Mr. Masin or Balair that a dispute was likely to arise or that any payment was due over which a dispute was likely. This dispute

arose some time later. Meanwhile what firm 'A' did was, they changed Mr. Masin and appointed somebody else. All these things happened after our team had arrived there. They went to court and got a stay order. That things like this would develop was something which could not be anticipated."

1.68 When asked if the Air Force had ultimately to pay for the overhauling charges, the Defence Secretary stated :—

"We paid only for the additional work. What I was submitting was that the work that had to be done by Balair was with reference to his arrangement with Mr. Masin is not what was paid for by us. That amount which we wanted to claim from Mr. Masin that case is still going on. We have nothing to do with it. We have not paid for it. The 55,000 Swiss Franc that we paid relate to certain other items of work which involve, as you yourself mentioned, charges for testing and landing because everytime we take off and land, we have to pay landing charges—some work that had to be done to make it upto date and bring it airworthy because of the long delay."

1.69 The Committee pointed out that the aforesaid amount was paid by the Defence Ministry on behalf of firm 'A'. The Defence Secretary clarified :—

"The amount which was in dispute between Firm 'A' and Mr. Masin was 993,000 Swiss Francs. That was the amount in dispute between Balair and Mr. Masin. We have not paid any part of that at all. What we have paid was that because of this delay of one year or so, the aircraft had to be retouched in order to make it flyworthy and also had to be tested and test flights had to be organised. Now, the testing charges, etc. as has been explained have been paid by us to the firm so that we can thereafter take away the aircraft and bring it back to India.

The matter has been referred to arbitration. We have also put in a claim for 6% of 55,000 Swiss Francs as part of our claim on the firm. The arbitrator did not accept our claim of this amount but we had preferred this as a claim on the party and it had referred it to the arbitrator who had considered their claim *vis-à-vis* our claim."

***Expenditure on Air Force Crew***

1.70 According to the Audit Paragraph the Air Force crew of 21 sent abroad on 25th January 1978 for ferrying the aircraft had to be detained in country 'AB' for varying periods upto 1st February, 1979 pending the release of the aircraft. An expenditure of Rs. 11.56 lakhs (in foreign exchange) was incurred on the stay of these personnel. The aircraft were ferried to India in February 1979.

1.71 The Committee desired to know the number of crew and other staff sent abroad in connection with the purchase and ferrying of the four aircraft with the following details :—

- (a) Period for which they stayed abroad.
- (b) Purpose for which they were sent and the actual work done by them.
- (c) Whether the ferrying of the aircraft was also delayed due to bad weather and if so, why this factor was not taken into account.
- (d) Whether it was genuinely necessary for all these persons to stay there when it was known that the delivery of aircraft was likely to be delayed? Was it not possible for these officers to come back and go again when the aircraft were ready for delivery?

In reply, the Ministry of Defence stated in a note :—

- (a) The details of officers and ferry crew who went abroad is given separately in the attached lists :—

Deputation of officers to Switzerland for negotiating an agreement with M/s. Balair.

	Arrival	Departure
(1) An officer from Ministry of Finance (Defence).	Basel (Switzerland)	(Geneva)
(2) An officer from Ministry of Defence.	1738 hrs. 7.12.78	1950 hrs. 17.12.78
(3) Addl. Legal Adviser in the Ministry of Law & Legal Adviser in the Ministry of Defence.		

**SECRET****TEMPORARY DUTY: FERRY OF AIRCRAFT FROM SWITZERLAND**

	<u>ARRIVAL BASEL (SWITZERLAND)</u>	<u>DEPARTURE BASEL (SWITZERLAND)</u>
(a) 9 Officers	1630 hrs./25.1.78	1130 hrs./28.4.1978
(b) 5 Officers	1630 hrs./25.1.78	1400 hrs./14.6.78
(c) 5 Officers	1630 hrs./25.1.78	1130 hrs /6.4.78
(d) 2 Officers	1630 hrs /25.1.78	1000 hrs./1.2.79

(b) The crew when for acceptance, transit inspection and ferry of the aircraft.

(c) The bad-weather was a transient phenomena. The weather was below the minimum/prescribed for our pilots. With the existing science of meteorology, it was not possible to accurately forecast much in advance the onset of such prolonged bad weather.

(d) Before the crew went, the delivery of the aircraft was expected to be on schedule. The crew had to stay since it was hoped that the aircraft would become available for ferry as soon as the imposed legal restrictions were cleared. The decision to send the aircrew back could only be taken when it was somewhat certain that the aircraft would not be available for ferry. Otherwise, a hasty despatch might have cost us more money, which we would have incurred on the recall and return of aircrew to Switzerland. The picture became clearer around 30 March, 78 and it was decided that barring four officers required for essential working on the aircraft (runup of engines etc.), the balance crew would be recalled. These crews were routed back to India between 06 Apr. 78 and 08 Apr. 78. As the legal proceedings were getting prolonged, two more officers were routed back to India on 14 June, 78. The balance two were retained for the absolutely minimum maintenance and care and they returned to India on 01 Feb, 79.

1.72 According to the agreement with Balair it was stipulated that if the material used by Balair was found defective or the workmanship execu-

ted by Belair was found insufficient within 100 hours of flying, but before the expiry of 90 days, Belair would replace the same free of charge with all reasonable despatch on being called upon to do so. The Committee desired to know if there had been any occasions to take resort to this provision. The Ministry of Defence replied in the negative.

The Committee also enquired about the date on which these four aircraft were actually inducted in service. The standard of performance of these aircraft and the expenditure incurred on the maintenance of these aircraft and what part of this expenditure was required to be borne by the supplier. In reply, the Ministry of Defence have stated in a note :—

“Actual dates of the induction of four aircraft in service were as under :

Sl. No.	
1	27 Feb 79
2	25 Sep 77
3	27 Feb 79
4	27 Feb 79

None of the four second-hand Caribou aircraft had at any time been on prolonged unserviceability. The average hours flown per year on these four second-hand Caribou aircraft are as follows :—

Sl. No.	Average flying hours/aircraft/year
1	328
2	385
3	422
4	<u>377</u>
	378

**Average flying hours, per aircraft per year**

Average flying per aircraft per year by the Caribou fleet since 1976 has been 354/aircraft/year. It will, therefore, be observed that the average flying per year (378 hours) of the four second-hand Caribou aircraft has been higher than that of the fleet average flying (354 hours/per year). No unusual problems have been

encountered in the maintenance of the four secondhand Caribou aircraft and the aircraft have given a high rate of serviceability.

No separate records are kept for the expenditure incurred on the maintenance of each aircraft. However, it is confirmed that the four secondhand Caribou aircraft have not been subjected to any unusual maintenance problems involving any additional expenditure other than the routine maintenance.

No part of the expenditure on normal maintenance was required to be borne by the supplier."

1.73 The Committee desired to know the total expenditure incurred ultimately on the purchase of the four aircraft from firm 'A' in comparison to the offer of firm 'B' and the financial details of the offer of countries 'X' 'Y' and 'Z' for the supply of the aircraft. The Ministry of Defence stated :—

"The total expenditure incurred on the purchase of the four aircraft from firm 'A' in comparison to offer of firm 'B' is given below :—

<u>Firm 'A'</u>	US \$
(a) Cost of 4 aircraft plus 2 engines	1,950,000.00
(b) Payment to M/s. Belair	34,742.00
(c) Expenses on delegation	9,856.00
(d) Court fees in Switzerland & France	31,293.00
Total US \$	2,025,891.00
 <u>Firm 'B' (Autair)</u>	
Autair Offer (Package)—4 aircraft	1,118,000.00
two quick engine change units	148,000.00
4 Zero Time Engines	104,000.00
10 Propellers @ US \$ 26,000 each	260,000.00
Spare valued at US \$ 1.2 million (10% of invoice value)	120,000.00
Case of Avionics @ US \$ 31,000 per a/c	124,000.00
Total : US \$	<u>1,874,000.00</u>



**The cost is without overhaul and fitment of Avionic equipment. This work would have cost as follows :**

	Rs.
(i) Cost of fitment of avionics at Rs. 1.5 lakhs per a/c.	600,000.00
(ii) Cost of Air Frame overhaul at Rs. 3.5 lakhs each excluding spares.	1,400,000.00
(iii) Cost of engines overhaul at Rs. 1.5 lakhs each ex- cluding spares.	1,200,000.00
(iv) Painting and refurbishing at Rs. 1 lakh each (Adhoc)	400,000 00
Total Rupees expenditure for above :	3,600,000.00 -----

Note : The amount of Rs. 11.56 lakhs corresponding to US \$ 128,949 on account of expenses incurred on the stay of IAF pesonnel in Switzerland has not been included in the comparative cost statement as ferry costs on both sides were not reflected."

The Ministry of Defence have further stated that :—

"The Autair was not favoured for the following reasons :—

- (a) Autair offer was a package deal and the various items offered therein could not be delinked or deleted from their offer. The Autair package deal included spares valued at US \$ 1.2 offered at US \$ 0.12 M. Our records indicate that out of 3102 items included in Autair list, we have procured till date only 24 items. Evidently, the spares offered by Autair though appearing arttactive would have proved a liability in their storage.
- (b) 10 propellers included by Autair at a value of US \$ 2,60,000 in their package offer were also not required and would have remained unutilised in storage. Till date, IAF has not procured any additional propellers for its Caribou fleet.
- (c) The airframe hours done by the aircraft offered by Autair were 9300, 8900, 1884 and 1699. As against this, the aircraft offered by Bedford Inc had done only 2135, 2187, 1849 and 3025 hours.

- (d) The aircraft offered by Autair were to be delivered in 'as is where is' condition, whereas the Bedford Inc offer was for fully over-haul aircraft fitted with avionics equipment as per IAF standard. To fit the avionic equipment as per IAF standard in Autair aircraft, a leadtime of  $1\frac{1}{2}$  years to 2 years would have been required. In such an event, it would not have been possible to maintain the sanctioned UE of 12 Caribou aircraft.
- (e) If the avionics had to be fitted on receipt of the aircraft in India from Autair, the aircraft would have required complete stripping for undertaking the wiring and would have also required simultaneously complete overhaul though they would have 50% of the life for their next overhaul."

Under the circumstances, the offer of M/s. Bedford Trading Inc was more favourable.

25 (ii) The financial details of the offer of countries 'X' 'Y' and 'Z' are as follows :

X	Y	Z
Financial details not received	Sale of 2 a/c plus 6 engines plus Substantial spares at a total cost of US \$ 1 million.	Sale of 2 a/c at a cost of U. S. Dollars 750,000/-."

1.74 Asked as to how far the delay in the availability of the aircraft has affected the operational efficiency of the Air Force, the Ministry of Defence stated that the delay was not allowed to affect the operational efficiency. Allotted operational tasks were fulfilled by temporarily supplementing the Caribous by other aircraft/helicopters.

1.75 The Committee desired to know the safeguards which have been or are proposed to be devised by the Government while entering into such agreements in the light of experience in this case. In reply, the Ministry of Defence stated :—

"Except for the delay in induction of these aircraft caused by legal complications, it must be appreciated that we got these aircraft at a very good bargain. These aircraft have given excellent ser-

vice and as will be seen the average per year flying hours per aircraft (378 hours) has been higher than that of the fleet average flying (354 hrs./per year). The experience of the legal tangles in this case has been kept in view while conducting negotiations for procurement of various systems. In particular a clause on "Sovereign Immunity" has been included into the agreements for purchase of various systems thereafter."

1.76 The Committee desired to know if presently there was any proposal for the indigenous manufacture of transport aircraft. The Defence Secretary stated in evidence :

"There are two categories of aircrafts on the transport section. We are proposing to manufacture the lighter variety in our country. We have also been able to get some commonality of use for light variety amongst the other Departments of the Government of India. We find, in respect of light variety, there will be adequate quantity of aircrafts in demand which will be able to sustain a viable level of production. At the moment, it is to identify particular aircraft which then will be taken up for production by our agency."

1.77 Asked whether any firm decision has been taken on this score, the Defence Secretary stated :—

"A firm decision to manufacture was taken. But the identification of particular category or particular item is currently under consideration."

1.78 The Committee desired to know the comments of the Defence Secretary on the efficacy of the whole deal, in retrospect. The Defence Secretary stated :

"At that time we really did not know what was the condition of the aircraft offered by firm B. In retrospective, we feel that considering the total cost incurred on the acquisition of these aircrafts as compared to the price of new aircrafts that would have obtained at that time and subsequent performance of these aircrafts, it was better.

There was a series of unfortunate incidents which delayed the arrival of the aircrafts. There was a court case here. There was a court case in Switzerland. But otherwise, what we had acquired as an asset, appears to be a good one and it is serving in the Air Force since then fairly well."

1.79 Elucidating the position further the Deputy Chief of Air Staff stated :

"The aircrafts, after they were inducted in the service, have performed well. We have not had any prolonged unserviceability of any kind on these aircrafts. We have carried out a statistical study of the aircraft and the flying that they have done. The average flying of Caribou fleet as such per aircraft is 354 hours per year. As against this, these 4 aircrafts on the average have done 378 hours. In other words their utilisation has been good. Now one is already due for over hauling, which it is undergoing. The other two are awaiting overhaul. And the fourth one is still flying."

1.80 Having regard to the depleting strength of 'Caribou' transport aircraft, inducted in Indian Air Force w. e. f. September/October 1963 and the delay anticipated in the induction of a new version, the Apex Planning Group II had *inter alia* recommended in 1975 for the "purchase of 4 to 6 additional caribous to augment the Transport capacity of the IAF till such time as the Buffalow aircraft or its equivalent is produced in India." These aircraft being no longer in production, purchase had to be made of second hand aircraft. The Ministry of Defence accordingly issued in September, 1975 letters of interest to 4 foreign firms 'A' 'B' 'C' and 'D' from whom offers had been received earlier for the purchase of 4 to 6 second-hand aircraft.

1.81 On scrutiny of the various offers, two offers of Firms 'A' and 'B' remained in the field for final analysis, Whereas firm 'A' offered to sell the 4 aircraft belonging to it, the aircraft offered by firm 'B' in July 1976 belonged to Government of countries 'Y' and 'Z' (2 each). Consequent on the survey of the aircraft offered by country 'Y' by the representative of HAL it was found that those two aircraft were fly-worthy. Further in spite of the fact that country 'Z' was agreeable to sell their aircraft either direct or through intermediary and the "aircraft were for immediate sale and in good condition with new engines and spare parts", the Guidance Committee in its meeting

held on 9-9-1976 decided that "though the offers of Government of countries 'Y' and 'Z' were lower than those received from firm 'A' there were certain advantages if the aircraft were procured from intermediaries since it would be their responsibility to carry out necessary checks and deliver them to us in fly-worthy conditions."

1.82 Firm 'A' which had earlier *suo moto* revised and brought down its original offer of September, 1975 twice in July 1976 and 19 November, 1976 agreed as a result of further negotiations conducted in pursuance of Guidance Committee's decision of 10 November, 1976 to further bring down their offer on 7.12.1976 so as to make its acceptable. According to the Audit, the final comparative costs of the two offers of firms 'A' and 'B' on a like-to-like basis were arrived at as Rs. 191.70 lakhs (US \$ 2.13 million) and Rs.199.30 lakhs (US \$ 1.89 million plus Rs. 28.84 lakhs). Incidentally, the cost of spares (with an invoice value of US \$ 1,200,000) offered free of cost by firm 'B' was excluded while computing the comparative costs. Whereas, the aircraft offered by firm 'A' were to be delivered at Station 'V' after overhaul, the overhauling work having been already entrusted since 1974 to a firm there, the aircraft offered by firm 'B' on "as is where is" basis would have to be got overhauled in India by HAL. A contract was finally concluded in February 1977 with firm 'A' represented by another firm 'E' in the person of Mr. 'M' for the supply of 4 aircraft and 2 spare engines at US \$ 1.950 million inspite of the fact that offer of firm 'B' was more attractive and involved considerable saving of foreign exchange.]

1.83 The Committee are surprised to note that contract for the supply of 4 second-hand caribou aircraft was concluded with firm 'A' inspite of several obvious advantages arising out of the offer of firm 'B' and apparent disadvantages of the deal with firm 'A'. The main advantage of 'B's offer was that the two aircraft belonging to country 'Y' were flyworthy and the other two belonging to country 'Z' according to our own Ambassador's statement were "for immediate sale and stated to be in good condition with new engines and appropriate spare parts." On the other hand when the aircraft offered by Firm 'A' were inspected in December 1975, by representatives of the Air Force and HAL, it was found that engines, avionic equipment and cockpit instruments had been removed and external corrosion on these aircraft was noticed. Further as the aircraft offered by the firm 'B', were to be got overhauled in India, considerable saving of foreign exchange could have been effected, Yet another advantage of firm 'B's offer was that they had

offered free of cost spares (with an invoice value of US \$ 1,200,000), which were unfortunately excluded in computing the comparative costs. As confirmed by the Ministry of Defence 24 items of these spares at a cost of \$ 19,435.35 had to be subsequently procured to meet the IAF requirements after the purchase of the aircraft. As such, it was not correct to treat all of these spares as non-asset. An important drawback of the offer from firm 'A' was that the aircraft were registered with a third party viz. Mr. 'M' of another firm 'E' which was bound to create complications and in fact there were difficulties as subsequent events proved.

1.84 The important specifications made in the letter of interest were that the aircraft should conform as close as possible to the standard of preparation of military version and should be arranged to be delivered in India after satisfactory acceptance flight. The Committee are surprised to note that the term "standard preparation of military version" was left unspecified both in the letter of interest and the contract concluded thereafter. Consequently, a number of shortcomings and deviations from the standard of preparation of military version were revealed in the 4 second-hand aircraft, procured by the authorities. As a result on this the aircraft brought into the country in September, 1977 was found to be suffering from a number of shortcomings and a Supplementary Agreement had to be concluded with the supplier to fit the aircraft with the required components or in lieu to supply the modkits at a cost of Can. \$ 23,346 22. The Committee are concerned to note that the supplier has so far failed to fit the components. Viewed in the context of the sad outcome of this omission, the Committee cannot accept the contention of the Ministry that "unlike in the case of new weapon system ordered for manufacture and supply, the standard of preparation of aircraft in service is generally known." Drawing lessons from the sad experience in this case the Ministry should ensure that the requisite details are incorporated in the letter of interest as well as contract so as to obviate any possibility of vagueness resulting in subsequent additional expenditure and operational difficulties.

1.85 The Committee are surprised to note that while placing orders for these aircraft with firm 'A' the authorities deviated from the stipulation made in their initial letter of interest to the effect that the aircraft and engines "should be arranged to be delivered in India for satisfactory acceptance flights and checks," and agreed to accept the delivery of the aircraft at Basel.

**1.86** The main justification given by the Ministry for concluding the contract with firm 'A' despite the various snags in the offer was that the lead time for making available the aircraft for deployment was 3 months in this case against the 18 months in the case of firm 'B', the aircraft being urgently required for induction. The Committee are deeply concerned to note that even this purpose was not achieved as is vident from the fact that as many as 3 aircraft were received in the country in 1979 only involving further additional unforeseen and infructuous expenditure on the deal.

**1.87** The engine of the first aircraft while being ferried from Station 'V' to India on 29 August, 1977 failed at station 'W' and the aircraft had to be feathered. A spare engine of the Air Force had to be flown from India and the aircraft after repair was ferried to India on 25 September, 1977 involving further additional unforeseen and infructuous expenditure. This clearly indicates that the aircraft was not properly checked by the Officers who were sent to station 'V' for the purpose particularly when it has been admitted by the Ministry of Defence that this was a material failure. The Committee recommend that this needs to be gone into indepth and responsibility fixed for the lapse.

**1.88** The ferrying of the remaining three aircraft were delayed due to a number of reasons. The first reason was that on 14 February, 1978, firm 'A' replaced their agent Mr. 'M' by another person Mr. 'P'. Surprisingly, the aircraft had not been deregistered from the name of Mr. 'M' and registered in the name of the Government of India. Thereafter on 28 February, 1978, Mr. 'P' the new agent of firm 'A' claimed payment of US \$ 599,915.41 (later on March 1978 an additional sum of US \$ 22,114) towards expenditure incurred on "additional modifications incorporated, other incidental charges and hangarage and detained the aircraft pending payment of these claims." Thereafter in March 1978, the agency which overhauled the aircraft obtained a court order, restraining the release of the aircraft until the payment of Swiss Francs 1 million due to it from Mr. 'M' for the overhaul work done in these aircraft. The aircraft were released on 13 December, 1978.

**1.89** The Committee are concerned to note that the authorities had to incur unforeseen and additional expenditure to the tune of Swiss Francs 55,000 (Rs. 2.96 lakhs) for re-checking and re-hauling of the 3 aircraft, as they had been parked for over a year with no maintenance and as such could not be ferried before they were made flight-worthy. The Committee are

convinced that the authorities concerned in the Ministry of Defence are themselves to be blamed as they miserably failed to foresee these difficulties and to take adequate precautions. The Committee need hardly emphasize that the various aspects of the whole deal should be gone into locating the various failures with a view to learning appropriate lessons from these lapses for the future.

1.90 Infructuous expenditure to the tune of Rs. 11.56 lakhs (in foreign exchange) was incurred on the overstay of Air Force crew of 21 sent on 25 January, 1978 for ferrying the aircraft. The crew remained in Switzerland for varying periods upto 1st January, 1979, pending the release of the aircraft. The Committee feel that much of this expenditure would have been avoided had the team for ferrying of the aircraft been sent, on ensuring that all the necessary formalities for the ferrying of the aircraft were fulfilled and the aircraft were ready for the purpose. 14 Officers belonging to the party stayed from 25.1.1978 to 6/8.4.1978. 5 Officers from 25.1.1978 to 14.6.1978 and the remaining two officers of the crew continued to stay upto January 1979. The Committee would like to know the justification for sending such a large contingent and why the officers who were not needed did not return immediately when it became clear that there was no possibility of ferrying of the aircraft in the near future.

1.91 The Committee are not convinced by the argument adduced by the Ministry that the delay was not allowed to affect the operational efficiency, as "allotted operational tasks were fulfilled by temporarily supplementing the caribou by other aircraft/helicopter." From this, the Committee cannot but conclude that the decision of the Ministry was wholly unjustified.

1.92 The Committee note that the caribou aircraft were inducted in the Indian Air Force in 1962 and the expected life of these aircraft was about 15 years depending upon the actual utilisation of these aircraft. The Ministry of Defence were aware that this type of aircraft would go out of manufacture in 1966-67. Further the proposal to purchase aircraft to replace Caribou transport aircraft was initiated as late as in 1972, and even thereafter the Ministry took as much as 9 years to decide the aircraft which is to replace Caribou and a decision in this regard was taken only in 1981 and the new aircraft are expected to be inducted this year. This typifies the delay in



**decision making on a vital matter affecting transport capacity of our defence forces. The Committee expect better advance planning in future.**

NEW DELHI ;  
*23 April, 1983*  

---

*3 Vaisakha, 1905 (S)*

SATISH AGARWAL  
*Chairman*  
*Public Accounts Committee*

## APPENDIX

### Conclusion and Recommendations

Sl. No.	Para No.	Ministry Concerned	Conclusion/Recommendations
1	2	3	4
1	1.80	Defence	<p>Having regard to the depleting strength of 'Caribou' transport aircraft, inducted in Indian Air Force w. e. f. September/October 1963 and the delay anticipated in the induction of a new version, the Apex Planning Group II had <i>inter alia</i> recommended in 1975 for the "purchase of 4 to 6 additional caribous to augment the Transport capacity of the IAF till such time as the Buffalow aircraft or its equivalent is produced in India." These aircraft being no longer in production, purchase had to be made of second hand aircraft. The Ministry of Defence accordingly issued in September, 1975 letters of interest to 4 foreign firms 'A', 'B', 'C' and 'D', from whom offers had been received earlier for the purchase of 4 to 6 second-hand aircraft.</p>
2	1.81	Do	<p>On scrutiny of the various offers, two offers of Firms 'A' and 'B' remained in the field for final analysis. Whereas firm 'A' offered to sell the 4 aircraft belonging to it, the aircraft offered by firm 'B' in July 1976 belonged to Governments of countries 'Y' and 'Z' (2 each). Consequent on the survey of the aircraft offered by country 'Y' by the representative of HAL it was found that those two aircraft were fly-worthy. Further inspite of the fact that country 'Z' was agreeable to sell their aircraft either direct or through intermediary and the "aircraft were for imme-</p>

diate sale and in good condition with new engines and spare parts", the Guidance Committee in its meeting held on 9.9.1976 decided that "though the offers of Government of countries 'Y' and 'Z' were lower than those received from firm 'A' there were certain advantages if the aircraft were procured from intermediaries since it would be their responsibility to carry out necessary checks and deliver them to us in fly-worthy condition."

3 1.82 Defence

Firm 'A' which had earlier *suo moto* revised and brought down its original offer of September, 1975 twice in July 1976 and 19 November, 1976 agreed as a result of further negotiations conducted in pursuance of Guidance Committee's decision of 10 November, 1976 to further bring down their offer on 7.12.1976 so as to make its acceptable. According to the Audit, the final comparative costs of the two offers of firms 'A' and 'B' on a like-to-like basis were arrived at as Rs. 191.70 lakhs (US \$ 2.13 million) and Rs. 199.30 lakhs (US \$ 1.89 million plus Rs. 28.84 lakhs). Incidentally, the cost of spares (with an invoice value of US \$ 1,200,000) offered free of cost by firm 'B' was excluded while computing the comparative costs. Whereas, the aircraft offered by firm 'A' were to be delivered at station 'V' after overhaul, the overhauling work having been already entrusted since 1974 to a firm there, the aircraft offered by firm 'B' on "as is where is" basis would have to be got overhauled in India by HAL. A contract was finally concluded in February 1977 with firm 'A' represented by another firm 'E' in the person of Mr. 'M' for the supply of 4 aircraft and 2 spare engines at US \$ 1.950 million inspite of the fact that offer of firm 'B' was more attractive and involved considerable saving of foreign exchange.

---

1    2    3

---

4

---

4    1.83    Defence

The Committee are surprised to note that contract for the supply of 4 second-hand caribou aircraft was concluded with firm 'A' inspite of several obvious advantages arising out of the offer of firm 'B' and apparent disadvantages of the deal with firm 'A'. The main advantage of 'B's offer was that the two aircraft belonging to country 'Y' were flyworthy and the other two belonging to country 'Z' according to our own Ambassador's statement were "for immediate sale and stated to be in good condition with new engines and appropriate spare parts." On the other hand when the aircraft offered by Firm 'A' were inspected in December, 1975, by representatives of the Air Force and HAL, it was found that engines, avionic equipment and cockpit instruments had been removed and external corrosion on these aircraft was noticed. Further as the aircraft offered by the firm 'B', were to be got overhauled in India, considerable saving of foreign exchange could have been effected. Yet another advantage of firm 'B's offer was that they had offered free of cost spares (with an invoice value of US \$ 1,200,000), which were unfortunately excluded in computing the comparative costs. As confirmed by the Ministry of Defence 24 items of these spares at a cost of \$ 19,435.35 had to be subsequently procured to meet the IAF requirements after the purchase of the aircraft. As such, it was not correct to treat all of these spares as non-asset. An important drawback of the offer from firm 'A' was that the aircraft were registered with a third party viz. Mr. 'M' of another firm 'E', which was bound to create complications and in fact there were difficulties as subsequent events proved.

---

---

1      2      3

---

4

5      1.84    Defence

The important specifications made in the letter of interest were that the aircraft should conform as close as possible to the standard of preparation of military version and should be arranged to be delivered in India after satisfactory acceptance flight. The Committee are surprised to note that the term "standard preparation of military version" was left unspecified both in the letter of interest and the contract concluded thereafter. Consequently, a number of shortcomings and deviations from the standard of preparation of military version were revealed in the 4 secondhand aircraft, procured by the authorities. As a result of this the aircraft brought into the country in September, 1977 was found to be suffering from a number of shortcomings and a Supplementary Agreement had to be concluded with the supplier to fit the aircraft with the required components or in lieu to supply the modkits at a cost of Can.\$ 23,346.22. The Committee are concerned to note that the supplier has so far failed to fit the components. Viewed in the context of the sad outcome of this omission, the Committee cannot accept the contention of the Ministry that "unlike in the case of new weapon system ordered for manufacture and supply, the standard of preparation of aircraft in service is generally known." Drawing lessons from the sad experience in this case the Ministry should ensure that the requisite details are incorporated in the letter of interest as well as contract so as to obviate any possibility of vagueness resulting in subsequent additional expenditure and operational difficulties.

6      1.85    Defence

The Committee are surprised to note that while placing orders for these aircraft with firm 'A' the

---

---

1      2      3

---

4

authorities deviated from the stipulation made in their initial letter of interest to the effect that the aircraft and engines "should be arranged to be delivered in India for satisfactory acceptance flights and checks", and agreed to accept the delivery of the aircraft at Basel.

7      1.86    Defence      The main justification given by the Ministry for concluding the contract with firm 'A' despite the various snags in the offer was that the lead time for making available the aircraft for deployment was 3 months in this case against the 18 months in the case of firm 'B' the aircraft being urgently required for induction. The Committee are deeply concerned to note that even this purpose was not achieved as is vident from the fact that as many as 3 aircraft were received in the country in 1979 only involving further additional unforeseen and infructuous expenditure on the deal.

8      1.87    -Do-      The engine of the first aircraft while being ferried from Station 'V' to India on 29 August, 1977 failed at Station 'W' and the aircraft had to be feathered. A spare engine of the Air Force had to be flown from India and the aircraft after repair was ferried to India on 25 September, 1977 involving further additional unforeseen and infructuous expenditure. This clearly indicates that the aircraft was not properly checked by the Officers who were sent to station 'V' for the purpose particularly when it has been admitted by the Ministry of Defence that this was a material failure. The Committee recommend that this needs to be gone into indepth and responsibility fixed for the lapse.

---

---

1      2      3

---

4

9      1.88    Defence      The ferrying of the remaining three aircraft were delayed due to a number of reasons. The first reason was that on 14 February, 1978, firm 'A' replaced their agent Mr. 'M' by another person Mr. 'P'. Surprisingly, the aircraft had not been deregistered from the name of Mr. 'M' and registered in the name of the Government of India. Thereafter on 28 February, 1978, Mr. 'P' the new agent of firm 'A' claimed payment of US \$ 599,915.41 (later on March 1978 an additional sum of US \$ 22,114) towards expenditure incurred on "additional modifications incorporated, other incidental charges and hangarage and detained the aircraft pending payment of these claims." Thereafter in March 1978, the agency which overhauled the aircraft obtained a court order, restraining the release of the aircraft until the payment of Swiss Francs 1 million due to it from Mr. 'M' for the overhaul work done in these aircraft. The aircraft were released on 13 December, 1978.

10    1.89    -Do-

The Committee are concerned to note that the authorities had to incur unforeseen and additional expenditure to the tune of Swiss Francs 55,000 (Rs. 2.96 lakhs) for rechecking and re-hauling of the 3 aircraft, as they had been parked for over a year with no maintenance and as such could not be ferried before they were made flight-worthy. The Committee are convinced that the authorities concerned in the Ministry of Defence are themselves to be blamed as they miserably failed to foresee these difficulties and to take adequate precautions. The Committee need hardly emphasize that the various aspects of the whole deal should be gone into locating the various failures with a view to learning appropriate lessons from these lapses for the future.

---

1	2	3	4
11	1.90 Defence	<p>Infructuous expenditure to the tune of Rs. 11.56 lakhs (in foreign exchange) was incurred on the overstay of Air Force crew of 21 sent on 25 January, 1978 for ferrying the aircraft. The crew remained in Switzerland for varying periods upto 1st January, 1979, pending the release of the aircraft. The Committee feel that much of this expenditure would have been avoided had the team for ferrying of the aircraft been sent, on ensuring that all the necessary formalities for the ferrying of the aircraft were fulfilled and the aircraft were ready for the purpose. 14 Officers belonging to the party stayed from 25.1.1978 to 9/8. 4. 1978 5 Officers from 25. 1. 1978 to 14. 6. 1978 and the remaining two officers of the crew continued to stay upto January 1979. The Committee would like to know the justification for sending such a large contingent and why the officers who were not needed did not return immediately when it became clear that there was no possibility of ferrying of the aircraft in the near future.</p>	
12	1.91 Defence	<p>The Committee are not convinced by the argument adduced by the ministry that the delay was not allowed to affect the operational efficiency, as "allotted operational tasks were fulfilled by temporarily supplementing the caribou by other aircraft/helicopter." From this, the Committee can not but conclude that the decision of the Ministry was wholly unjustified.</p>	
13	1.92 Defence	<p>The Committee note that the caribou aircraft were inducted in the Indian Air Force in 1962 and the expected life of these aircraft was about 15 years depending upon the actual utilisation of these aircraft. The Ministry of Defence were aware that this type</p>	



---

1	2	3	4
---	---	---	---

---

of aircraft would go out of manufacture in 1966-67. Further the proposal to purchase aircraft to replace Caribou transport aircraft was initiated as late as in 1972, and even thereafter the Ministry took as much as 9 years to decide the aircraft which is to replace Caribou and a decision in this regard was taken only in 1981 and the new aircraft are expected to be inducted this year. This typifies the delay in decision making on a vital matter affecting transport capacity of our defence forces. The Committee expect better advance planning in future.

---

