

**UNDUE FAVOUR TO VENDOR IN  
ACQUISITION OF SUBMARINES**

**MINISTRY OF DEFENCE**

**PUBLIC ACCOUNTS COMMITTEE  
(2009-10)**

**TENTH REPORT**

**FIFTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

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*Presented to Lok Sabha on 11.3.2010*

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LOK SABHA SECRETARIAT  
NEW DELHI

*February, 2010/Phalguna, 1931 (Saka)*

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2009-10)

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\*Appointed as the Chairman of the Committee w.e.f. 6th January, 2010 vice Shri Jaswant Singh resigned from the Chairmanship of the Committee.

## INTRODUCTION

I, the Chairman, Public Accounts Committee, as authorised by the Committee, do present this Tenth Report (15th Lok Sabha) on "Undue Favour to Vendor in Acquisition of Submarines" based on Para 2.2, Chapter II of Report No. CA-18 of 2008-09 of the Comptroller and Auditor General of India, Union Government (Defence Services—Air Force and Navy).

2. The Report of the Comptroller and Auditor General of India for the year ended March, 2007, Union Government, No. CA 18 of 2008-09, (Defence Services—Air Force and Navy) was laid on the Table of the House on 24.07.2009.

3. The Committee took evidence of the representatives of the Ministry of Defence on the subject at their sittings held on 27th October, 2009 and 2nd December, 2009. The Committee considered and finalised this Report at their sitting held on 28th January, 2010. Minutes of the sittings form Appendices to the Report.

4. 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.

5. The Committee would like to express their thanks to the representatives of the Ministry of Defence for tendering evidence before the Committee and furnishing information that the Committee desired in connection with the examination of the subject.

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

NEW DELHI;  
26 February, 2010  
6 Phalgun, 1931 (Saka)

GOPINATH MUNDE,  
*Chairman,*  
*Public Accounts Committee.*

## **REPORT**

### **I. Introductory**

Pursuant to a proposal mooted by the Government in 1980 for induction of Shishumar Class (SSK) Submarines in the Indian Navy, outright purchase and indigenous construction of four Diesel Electric (SSK) Submarines for the Navy was approved in July, 1980. Accordingly, sanction was accorded in March, 1982 for acquisition of two SSK Submarines (Type 1500) from HDW, West Germany and two material packages for indigenous construction of two Submarines in Mazagaon Dock Limited (MDL). Subsequently in November, 1985, the acquisition of two more SSK Submarines *i.e.* the fifth and sixth ones, with various options was sanctioned. The two Submarines that were bought from HDW, West Germany were commissioned in September, 1986 and November, 1986 respectively. Similarly, the first indigenously built SSK Submarine was commissioned in February, 1992 and the second was delivered in May, 1994. However, the proposal for the construction of the fifth and sixth Submarines was deferred by the Government in June, 1989 in the wake of allegations about payment of commissions by HDW in connection with the contracts signed with them.

2. Subsequently, as per the decision taken by the Government in 1997 for construction of two indigenous SSK Submarines (Project-75) of Type 1500 at MDL at an estimated cost of Rs. 700 crore and for enlisting the collaboration of an expert foreign agency to validate the design developed by the Submarine Design Group (SDG) of the Indian Navy, the Letter of Intent (LoI) was issued by the Naval Headquarters to (MDL) on 25th February, 1997. The (LoI) listed the names of four firms namely, Thomson CSF (France), VSEL (UK), Kockums (Sweden) and Roosvooruzheine (Russia) as possible collaborators for providing assistance in obtaining the material package and design validation for the project. Although MDL had tendered inquiries to these four firms, yet response was received only from Thomson-CSF (TCSF), France who were willing to participate in the project on the condition that their Combat Suite was selected for the Submarines. After due consideration, it was decided to proceed with the negotiations with TCSF on the price in regard to options offered by them.

3. Accordingly, price negotiations for construction of two Submarines under Project-75 were held with TCSF and MDL during February, 1999 to June, 1999. The negotiations with TCSF were held with a precondition that the Tube Launched Missile (TLM) Exocet SM 39 would be made available for the Project, as the Submarines under the Project which are likely to remain operational for next 25 to 30 years, must have the capability to launch missiles from under water against enemy targets. In September, 1999, the French offered SM 39 capability on Indian Submarines provided the French Industry was chosen for the Combat System of Project-75—Submarine Project together with those to be modernized at a later stage.

4. In a series of events, the Government, considering the contemporary and the future threat perceptions and to maintain the envisaged Submarine force level, approved the plan for the 'Project for Series Construction of Submarines for the Indian Navy and Acquisition of National Competence in Submarine Building'.

5. Two options emerged to revive the Submarine construction line at MDL on the basis of the understanding reached during the discussions with the French. Option-I envisaged construction of a fixed number of Submarines, some of which would be Type 1500 (HDW) design with combat suite of TCSF. The balance Submarines were to be based on the Scorpene design suitably modified to meet the Naval Staff Requirements. Option-II envisaged construction of some additional Submarines all based on Scorpene design suitably modified to meet the Naval Staff requirements.

6. The Naval Headquarters carried out the evaluation of Scorpene Class Submarines as both the options for indigenous construction of Submarines at MDL under Project-75 would involve construction of Submarines based on Scorpene design at one stage or the other. Ultimately, the second option was preferred because of the elimination of the involvement of HDW, amortization of the Transfer of Technology (ToT) cost over six platform, direct receipt of ToT by MDL from the designers, gradual improvement of MDL work content and indigenous component over six platforms of same design and the more advanced nature of the state- of-the-art Scorpene Submarine than that of Type 1500 HDW design.

7. In October, 2000, with the approval of the then Defence Minister, a Request for Proposal (RFP) was forwarded to TCSF, France seeking their technical and budgetary proposal for six Submarines under Project—75. In April, 2001 the Government approved the proposals to terminate negotiations with TCSF for construction of two Type 1500 HDW Submarines at MDL under Project—75 as approved in January, 1997 and June, 1998; negotiate with TCSF and DCNI (now Armaris, the collaborator) on their Scorpene offer for construction of six Submarines at MDL under Project—75 as envisaged in the thirty years plan of series construction of Submarines; and to seek approval of the Cabinet Committee on Security (CCS) for the firm Cost of the Project after concluding techno-commercial negotiations with the TCSF, DCNI and MDL.

8. The first round of the Price Negotiation Committee (PNC) meeting was held from November, 2001 to June, 2002 and draft CCS Note was prepared in October, 2002. After many developments, the Government finally accorded their approval on 6th September, 2005 to the Project at a total cost of Rs. 18,798 crore (including Rs. 3553 crore towards taxes and duties and Rs. 2160 crore towards budgetary provisions) and the following contracts were signed on 6th October, 2005:—

- (a) Between the Government of India and MDL for construction of six Submarines;
- (b) Between MDL & Armaris, France for ToT supply of combat system and critical platform material; and
- (c) Between Government of India and MBDA for supply of Exocet SM 39 Block II missiles.



9. Construction of the Submarines commenced, only between December, 2006 and July, 2009. As per the contract signed with MDL, Submarines are scheduled to be delivered in batches till December, 2017. However, on account of problems with respect to absorption of technology and delays in augmentation of industrial infrastructure and Procurement of MDL purchased Materials (MPM), slippages in the delivery schedule were expected.

10. The Audit carried out a compliance audit of the Scorpene deal and gave their comments in Para No. 2.2 of Report No. CA-18 of 2008-09 for the year ended March, 2008. The main points of the Audit observation are as under:—

- (i) Despite the Indian Navy's depleting force level, the Ministry took nine years to finalise a contract for the construction of six Submarines.
- (ii) This delay led to increase in the project cost to the extent of Rs. 2,838 crore.
- (iii) The acquisition procedure lacked transparency and the Submarine design had not proven its efficacy in any other Navy worldwide.
- (iv) Technical evaluation conducted for the Scorpene Class Submarine including the missile to be fitted on-board was not comprehensive and was biased in favour of the vendor.
- (v) Contractual provisions have resulted in undue financial advantage to the vendor to the minimum extent of Euro 58.20 million (Rs. 349 crore) besides other unquantifiable benefits.
- (vi) No significant progress was achieved in the contract execution.

11. Against this backdrop, the Committee took up the subject for detailed examination and report. In the process, the Committee had a briefing by the Comptroller & Auditor General and other Audit Officers. The Committee also obtained the Background Note & Advance Replies from the Ministry of Defence. The representatives of the Ministry appeared before the Committee for tendering evidence on 27th October, 2009 and 2nd December, 2009. Subsequently the Post Evidence Replies were also obtained from the Ministry. Based on all these written and oral information, the Committee broached upon the subject in great detail and identified certain critical issues, as enumerated below in the entire acquisition process of the Submarine for the Indian Navy.

## **II. Delay in the Finalization of Acquisition**

12. The Committee were informed that three rounds of extensive negotiations involving three different Contract Negotiating Committees (CNCs) were held with Armaris, MDL and MBDA in February, 2005, July, 2005 and August, 2005 respectively.

13. In the above context, the Committee desired to be apprised of the reasons for such inordinate delay between the first and second negotiations. In reply, the Ministry of Defence stated that based on the outcome of the 2002 negotiations and deliberations thereon the draft CCS Note was formulated and forwarded to the Ministry of Finance in October, 2002. The Finance Ministry examined the Note in December, 2002 and again

in May, 2003. In June, 2003, the proposal was referred to the Central Vigilance Commission (CVC) in accordance with the observations of the Ministry of Finance. In November, 2003, the draft CCS Note was revised with remarks and documents raised by the Ministry of Finance and CVC. Thereafter, several rounds of examination, extensive deliberations and vetting by all concerned were done upto February, 2005. The CCS paper was forwarded to the Cabinet Secretariat in February, 2005 for placing before the CCS which in its meeting held in June, 2005 directed to resolve certain issues. Accordingly, CNCs were reconstituted and carried negotiations till August 2005 in order to implement the directions of the CCS.

14. The Committee asked during evidence the reasons for sending the Defence procurement decision to the CVC for pre-decision approvals. In reply, the Defence Secretary submitted as follows:—

"Sir, we are not doing that now generally. If in a specific case, it is so recommended, we send it. Otherwise, they are not being sent. .... On principle basis, they (CVC) are supposed to see after the transaction is completed."

### **III. Selection of the Vendor & Efficacy of the Scorpene Submarine**

15. In response to a specific query regarding the selection of the French Company for Scorpene Class of Submarines despite their reluctance to give a clear cut commitment of the release of the TLM Exocet SM 39 for two Type 1500 (HDW) Submarines until and unless Project-75 is linked with long term naval cooperation with France, the Committee were informed that although MDL had tendered inquiries from four LoI listed firms, as mentioned earlier, response was received only from TCSF, albeit conditional. Moreover, there were only three possible sources for procurement of Tube Launched Missile (TLM) viz. France, Russia and USA. While the US Harpoon missile was not available at that point of time, the Russian Klub' missile was not compatible with the tubes of either HDW or with that of the Scorpene design. Therefore, the Government opted for the French firm.

16. The Defence Secretary during evidence further elaborated:—

".....As it is, conventional Submarine manufacture is done by very few Companies, either it is done in Russia, Germany, France or in Spain; China has also the capability; and USA makes nuclear Submarine. So the number of Companies which can manufacture Submarines is also not very large, (so) a limited tender was floated and only one Company responded to that with which, keeping the situation and time (in mind), the best decision was taken."

17. As regards the efficacy of the Scorpene Submarine, Audit pointed out that as per the Defence Procurement Procedure 2002, Submarine should be trial evaluated in Indian Waters or the design should be validated through Computer simulations and model testing before accepting the proposals for Submarines. This was to enable the evaluation of the performance of the Submarine. The Ministry of Defence stated that the Scorpene design incorporated incremental improvements and underwent state of

art validations by the French. The Ministry also stated that Scorpene Submarines had already been commissioned by the Chilean and the Royal Malaysian Navy.

18. The Committee asked whether the Ministry of Defence/Indian Navy conducted any physical verification of the Scorpene Class of Submarines to satisfy themselves with the Sea Acceptance Trial (SAT)/Harbour Acceptance Trial (HAT) carried out by other countries. In reply, the Ministry of Defence stated that although SAT/HAT results of a Submarine were highly classified and no Navy would like to share the results with any Foreign Navy yet an Indian Naval delegation visited France and Spain in March, 2006 to study and review their SAT results. Before that a Joint Delegation of Indian Navy and MDL visited France in November, 2003 to carry out physical inspection and associate with the HAT of the Chilean Scorpene. In December, 2006 also, an Indian Naval Delegation sailed on board Chilean Scorpene Submarine in the Chilean waters. Moreover, a Joint Team of the Indian Navy and MDL visited the Malaysian Scorpene Submarine at Kochi, India.

19. Asked to compare the efficacy of the Scorpene Submarine *vis-à-vis* the Augusta 90 B Submarines, three of which had been acquired by Pakistan from the same French Company in the year 2006, the Defence Secretary deposed in evidence:—

"Scorpene is slightly an advanced version of Augusta 90 B, but Augusta 90 B is better than HDW, and one of them has air independent propulsion so the capacity to lie under the sea is much more than what is there in the other submarines that we have....."

20. The Committee then enquired about the rationale behind going in for indigenous production of Submarines despite the urgency involved in the acquisition of the Submarines. In response, the Defence Secretary stated:—

"Sir, one of the critical difficulties in taking this decision was that we were interested in acquiring the Submarines and at the same time, one concern of the Government always has been that we should be able to develop the indigenous capability also to build the Submarines....."

21. The Defence Secretary further stated:—

".....In our acquisition process, we have a 'buy' category which is a straight acquisition; then 'make' is another category, where we try to develop the technology of complex systems within the country which we cannot source from outside or there are other impediments in getting it. The third category is 'buy and make' which is used for complex systems where we get some systems which we buy directly from the foreign vendors and then the balance we also get through the transfer of technology so that we are able to build those systems indigenously within the country....."

#### **IV. Progress of the Construction**

22. In the above context, when the Committee desired to know the physical progress of the construction of the submarines at MDL, it was stated that the progress of the construction of the Submarines had been very slow as on 30th September, 2009.

23. Expressing their concern over such tardy progress of the construction of the Submarines, the Committee wanted to know whether the first Submarine would be delivered by the stipulated time *i.e.* 2012. In reply, the Ministry of Defence stated that the first submarine was expected to be delayed, but MDL was attempting to reduce the gap between the scheduled delivery of the submarines by having commenced construction of the third and fourth submarines ahead of schedule.

#### **V. Reason for Delay**

24. Asked to furnish for such inordinate delay in the construction/delivery of submarines, it was replied that the progress and construction of Scorpene submarines had been slow on account of teething problem, time taken for absorption of technology, delays in augmentation of industrial infrastructure and procurement of MDL Purchased Material (MPM) items.

25. The Committee, then desired to know whether systemic deficiencies had also contributed towards the delays. In response, the Defence Secretary submitted in evidence:—

".....there is a systemic problem. There is a problem of the mindset also. There are difficulties in the entire process itself."

26. He further stated:—

"Sir, firstly, the process of Defence procurements because of their high value, limited number of suppliers, high technology, and the service requirements—itsself is a complex process. Then, trials etc. are also required to be done in hot weather, cold weather etc. those kind of considerations, make the process as it is."

27. When asked to throw more light on the defence acquisition process, the Defence Secretary submitted:—

"It starts with the services qualitative requirement. Then there is acceptance of necessity by the Defence Acquisition Council that you require that equipment. The, solicitation of offers is done through Request for Proposals. Thereafter, evaluation of technical offers is done by the Technical Evaluation Committee. This is a complicated process in our country because our country is of sub-continental dimension and we have to have trials in hot weather, cold weather, high mountains and deserts. Then, there is field evaluation staff and evaluation oversight by the Technical Committee for acquisition above Rs. 300 crore. After the equipment is found to be technically okay, commercial negotiations by Contract Negotiation Committee are held. Then, the approval of the Competent Financial Authority is taken and award of contract supply order is done."

28. The Committee asked about the usual time taken to complete the procurement process. The Defence Secretary replied that in the Defence Procurement Procedure, the time for each activity, as mentioned above, was laid down and if everything went on well, it took about two to three years for major acquisition.

29. The Committee then queried about factors that led to abnormal delay in the acquisition of Scorpene Submarines especially when a definite time-frame had been prescribed for completion of various procurement relating activities. In reply, the Defence Secretary deposed in evidence.

".....there have been difficulties in some of the areas because a part of the Scorpene was built in Spain and a part of it was built in France and initially in transference of technology data, they also had a difficulty in transferring data and we also had a difficulty in absorbing that information....."

30. In response to another specific query regarding Pakistan's acquisition of Augusta 90 B Submarines at a much faster rate than their Indian counterparts, the Defence Secretary stated:—

"I was explaining this that in our system there is focus on transparency. I do not know about the Pakistani system....."

31. Asked to state categorically whether outright buying submarines could have cut down delay, the Defence Secretary replied:

"....Buying outright can cut down delays and that is there. But ultimately, one of the goals is to acquire self-reliance. Ultimately, in a war situation we find that for maintenance for spare parts and other things, indigenous capability is always a requirement and in many situations in the past we have found that when we needed the parts the most, they would not be available....but the over all effort is that we must create the capability within the country."

## **VI. Impact of the Delay on the Operational Ability**

32. The Committee then desired to know the impact of the delay in the acquisition of the submarines on the operational ability of the Indian Navy. In reply, the Ministry of Defence stated that the impact of delayed procurement on the operational preparedness of the Navy was addressed through enhancement of service life and capabilities of existing platforms through midlife upgrades and modernization.

33. A representative of the Navy supplemented in evidence:—

"I just explained to the Hon'ble Members that delay of new induction platform does definitely affect to some extent the number of available platforms for operational role. But, as I mentioned, this happens all the time because ship and submarine construction are very complex processes that take five to seven years, particularly when you do not have technology. So, to counter that, the life of the existing submarines is enhanced by giving them better weapons and sensors and extending their life so that we maintain the minimum force level of submarines at sea."

34. On the issue of navy's morale in the wake of the non-availability of state of the art Submarines, the representative of the Navy further stated:—

".....it is not really affecting the morale in that terms because we have submarines which are being deployed for special tasks and will continue to bridge the gap till we get the new submarines."

35. Asked to state the likely date by which the first lot of the Scorpene Submarines were finally expected, the Defence Secretary replied in evidence that while the first lot of submarines, would get delayed significantly, the overall procurement of submarines was being monitored regularly and on priority by the Ministry.

## **VII. Monitoring Mechanism**

36. The Committee then desired to be apprised of the monitoring mechanism evolved to oversee the Defence procurement procedure. In reply, the Defence Secretary submitted:—

"As far as the monitoring system is concerned we have a three-tier structure. One is the apex review which is held at the level of the Secretary (Defence Production) which is done at the level of the Ministry. Then, at the Navy level, CWP&A holds a quarterly review. Then every four months a review is taken also at the CMD level in MDL. So there is a three-tier structure. The Navy is conducting a review; the Ministry is conducting a review; and at the company level also a review is being taken so that whatever are the difficulties in this complex project can be removed and it can progress properly. So there, is an institutional system in place and whatever difficulties are there, efforts are made to see that those impediments are removed because this need is compelling and we want these submarines should come in the time-frame."

37. Drawing the attention of the Ministry to their 187th Report (Eighth Lok Sabha) of the Public Accounts Committee, which was presented to the Parliament in October 1989 and wherein it was recommended to streamline the Defence Procurement Procedure, the Committee desired to know the efforts made by the Ministry in that direction. The Defence Secretary responded:—

"Different efforts have been made to streamline the process. In fact, the Public Accounts Committee, first time in their Report in 1989, had said that the procedure needs to be streamlined and Defence Procurement Procedure was promulgated. Subsequently, after the Kargil War, under the Kargil Review Committee, a Group of Ministers took a detailed exercise in the year 2001 and they observed that the existing procurement system was suffering from lack of integrated planning, lack of correlation between planning and corresponding Budget allocation, cumbersome administrative, technical, and evaluation procedures and absence of dedicated professionally equipped procedure within the Ministry of Defence."

38. The Defence Secretary further stated that as a result of this recommendation of the GoM, the Ministry of Defence undertook the revision of the procurement procedure and DPP, 2002 was promulgated which incorporated the provision of 'buy' and 'buy and make' and a Defence Acquisition Council was set up.

39. Asked to state specifically whether there was still scope for improvement in the procurement procedure, the Defence Secretary admitted that he would not disagree with the fact that there was a scope for improvement. He further stated:—

"What I was trying to say is that a lot of effort has been made in streamlining the procedure, but as you said, still there is scope for improvement and we are trying to respond to the feedback that we are receiving from the various stakeholders and every year, whatever changes are recommended, they are incorporated in our procurement procedure to bring about greater transparency, have a level playing field and reduce delays."

#### **VIII. Initiatives taken by MDL and Modernisation of MDL**

40. As regards the Transfer of Technology (ToT) problem which aggravated the delay caused mainly by the cumbersome decision making process in construction of the Scorpene Submarines, the Committee were informed that the teething problems of ToT had been fully addressed as per a mutually agreed action plan between MDL and Armaris as a result of which the project was progressing satisfactorily.

41. The Committee then desired to know the other major initiatives taken by MDL to avoid delay in the construction of the Scorpene design Submarines. In reply, it was stated that MDL had taken various initiatives like opening up of parallel work fronts, revival of three new bays (5530 sq. metres) for use for structural fabrication work, vigorous pursuance of outsourcing, development of a new workshop (8800 sq. metres) with additional submarine launch facility for parallel production of submarine, and augmentation of crane machines and other infrastructures.

42. When the Committee desired to know from the Ministry of Defence regarding contemplation of any modernization programme of MDL with a view to avoiding delays in construction of the submarines, the Defence Secretary submitted in evidence:—

".....I would like to inform you that we have taken a massive modernization programme of all the three shipyards, namely Mazagaon, Goa Shipyard and GRSE. I do not have the exact figures for it, but the total value for it would be of the order of Rs. 2000 crore, and this upgradation would be completed in the next two or three years. It would be done, particularly, in Mazagaon Dock because the submarines are there; our new assembly line is also proposed to be opened; and new facilities are being created."

#### **IX. Naval Staff Qualitative Requirement (NSQR)**

43. Audit pointed out that as per DPP 2002, Submarine should be trial evaluated in Indian waters or the design should be validated through computer simulations and Model testing before accepting the proposal for submarine. This was to enable the evaluation of the performance of the submarine with reference to Naval Staff Qualitative Requirement (NSQRs).

44. In the above context, the Committee desired to know whether the Scorpene Submarine had fully met the NSQR especially in respect of the diving depth, speed,



endurance, noise level etc. In reply, the Ministry of Defence stated that designs available from different designers would vary in their choice of parameters and may differ from the parameters referred in qualitative requirements in different areas. Eventually, a cumulative assessment had to be made of these designs based on the analysis of net compliances/non-compliances and relevant factors.

45. The Ministry further stated that the Navy carried out technical evaluation of Scorpene against the NSQR. Certain non-complaint parameters of the Scorpene submarine with regard to the NSQR were deliberated with the French delegation in August, 2000. Clarifications with regard to the issues raised by the Indian side were provided by the French and a number of parameters of Scorpene were altered to cater to the NSQR. Post clarification by the French Delegation, the design of the Scorpene Submarine in the offered configuration was formally accepted as an option for Project-75 and the same was approved by the competent authority.

#### **X. Financial Loss on Account of Delay**

46. Audit had pointed out that the Submarine Project cost had increased from Rs. 12,609 crore since the initial price negotiations in October, 2002 to Rs. 15,447 crore by October, 2005 when the contract was finalized. The increase in the cost was primarily due to escalations and Exchange Rate Variations (ERV). Similarly, the cost of the Tube Launch Missiles negotiated at Euro 174.45 million in 2002 had escalated to Euro 201.5 million in 2005, even after a discount of 1.03 per cent by the vendor. Thus inaction in concluding the contract for three years led to an escalation in the price of submarines by more than Rs. 2800 crore and to an additional Euro 27.05 million commitment on the procurement of the missiles.

47. Audit had further pointed out that the provision for compensation to the maximum extent of Euro 710 million (Rs. 4,260 crore) for the first two submarines in case their performance did not match NSQR, would not fully cover Rs. 11,142 crore that would have been invested towards the construction of the submarines.

48. In this context, the Committee asked about the financial loss caused to the Government on account of delay in the acquisition of submarines. The Ministry of Defence, in reply, stated that contracts were concluded as per the provisions of DPP wherein delivery schedules were indicated as agreed with the vendor. It was also stated that slippages in the delivery of the contracted items sometimes occurred due to various unforeseen reasons. However, the Liquidated Damages (LD) clause was incorporated in the contracts as per the provisions of DPP in case the contractual delivery schedule was not met. The Committee were further informed that loss on account of the delayed delivery was difficult to quantify.

49. The Committee then desired to know the measures taken by the Ministry/ Navy to maintain the prices through the currency of the contract in light of the cost escalation of the Project. In reply, the Ministry stated that the execution of Project-75 contract spanned over a duration of almost 12 years. Accordingly, appropriate cost escalation formulae based on the Government published indices were incorporated in the contracts. These escalation formulae were mutually arrived at after negotiations during the CNCs and were approved by the competent Authority.



50. As per Audit, separate Performance Bank Guarantees were to be provided for performance and warranty. But the vendor had provided a combined guarantee and thus avoided providing a warranty of 58.20 million Euros.

51. In this context, the Committee desired to be apprised of the reasons for letting the vendor provide a Combined Bank Guarantee for performance and warranty. In reply, the Ministry stated that the issue of combined guarantee for performance and warranty was deliberated prior to the conclusion of the contract. The aspect regarding sufficiency of Performance-cum-Warranty Bank Guarantee to provide the required cover on reduction from 5 per cent to one per cent after SDC+96 months was deliberated. The value of Bank Guarantee available after SDC+96 would be 11.64 ME and the outstanding deliveries (58 ME) plus outstanding warranty liability (52.42 ME) would be 110.42 ME. Thus the BG of 11.64 ME worked out to 10 per cent instead of 5 per cent of the deliverables (1164 ME) which was available upto SDC+96 months or upon signing of the last SAT protocol of the second submarine whichever occurred first, except if the above durations had been mutually extended.

52. In response to a specific related query, the Ministry of Defence replied that at the time of the signing of the contract, the Ministry considered that if the deliveries were made as per the contractual terms and conditions, one per cent of the Bank Guarantee was sufficient to cover both performance and warranty liabilities.

53. Asked to state the reasons for not incorporating the Agency Commission Clause in the GoI-MDL contract, it was replied that in lieu of the Agency Commission clause, an Integrity Pact had been included in the MDL-Armatis and GoI-MBDA contracts, to avoid all forms of corruption by ensuring free, fair, transparent and unprejudiced dealing prior to, during and subsequent to the currency of the contract. The integrity pact incorporated stringent penal clauses enabling Government of India to cancel the contract and impose liquidated damages equivalent to 5 per cent of the contract value as well as debar the seller for a minimum period of five years.

54. As per Audit, by not synchronizing the delivery of the SM 39 missiles with the delivery of the submarines, the warranty clause incorporated in the Missile contract had been rendered ineffective.

55. In this context, when the Committee desired to hear the views of the Ministry/ Navy, it was stated that the delivery of the missiles was dovetailed with the schedule of the construction of the submarines. It was also stated that the delivery of the missiles should not be looked at in isolation only with respect of the warranty clause because these were strategic weapons that might be required in case of any unforeseen eventuality. Possessing adequate number of these missiles in the inventory when Scorpene Submarines would have been in service was considered essential.

56. The Ministry of Defence further stated that under the circumstances where delays were expected in the construction of the first submarine, the issue of missile delivery/extension of warranty was taken up with the OEM *i.e.* MBDA, France. The OEM had extended the warranty of the first batch of missiles for a period of 24 months at no extra cost.

57. Asked to state the position regarding the extension of warranty of the subsequent batches of missiles, the Ministry replied that the Indian side that requested the French side regarding delayed delivery of the missiles or for offer of extension of the warranty to match the delayed Submarine commissioning schedule. However, MBDA had extended the warranty only for the first batch of the missiles. A meeting was being arranged with MBDA, France and the issue of extension of warranty of other batches of the missiles would be taken up then.

58. As regards the justification of marking payment to MDL by the Government of India even after March, 2007 despite poor progress in the construction of Submarines, the Ministry of Defence clarified that MDL needed to continue contractual payments to the collaborator who were meeting their contractual obligations. MDL had to also incur expenditure to continue the project. Therefore, the Imprest based payments had to be continued till the Milestone Based System had been finalized. Moreover, the contract had specified the change over from the Imprest to Milestone payment system and not the stoppage of payment. Further, all payments released even after March, 2007 were made to pay the bills for expenditure incurred/payments admissible. These bills were verified by the Submarine Overseeing Team (SOT) who conducted the technical scrutiny/verification prior submission to the Controller of Defence Accounts (CDA), Navy.

## PART II

### OBSERVATIONS/RECOMMENDATIONS

1. The process of acquisition and indigenous construction of state of the art Submarines for the Indian Navy was given serious thought three decades ago when the Government mooted a proposal in 1980 for induction of Shishumar Class (SSK) Submarines in the Indian Navy. Accordingly, in March, 1982 a decision was taken and sanction accorded for procurement of four Submarines out of which two were to be bought from HDW, West Germany and two to be indigenously built at Mazagaon Dock Limited (MDL). The two Submarines that were bought from HDW were commissioned in the year 1986 and out of the two indigenously built SSK Submarines, one was commissioned in 1992 and the other was delivered in 1994. In between, a proposal which was considered in 1985 to procure the fifth and sixth Submarines had to be deferred by the Government in the wake of allegations about payment of commissions by HDW. In 1997, a decision was taken by the Government for construction of two indigenous SSK Submarines of Type 1500 at MDL as well as for enlisting the collaboration of an expert foreign agency to validate the design and development by the Submarine Design Group (SDG) of the Indian Navy. Pursuant to that, the Letter of Intent (LoI) listing the names of four firms i.e. Thomson - CSF (France), VSEL (UK), Kockums (Sweden) and Rosvoorouzhine (Russia) was issued by the Naval Headquarters to MDL which in turn tendered inquiries to all the four firms. But response was received only from TCSF, France who were willing to participate in the Project on the condition that their Combat Suite was selected for the Submarines. Amid a series of developments, the Government approved in 1999 the plan for the 'Project for Series Construction of Submarines for the Indian Navy and Acquisition of National Competence in Submarine Building'. As per the approval, a fixed number of Submarines were to be built over a certain period. The programme was to be implemented in two phases viz. Phase I and Phase II. In Phase I some Submarines were to be built at MDL under Project-75 and some more at another production line to be created by absorbing technology. In Phase II some additional Submarines were to be built which will be completely indigenous. Two options emerged to carry out the Submarine construction at MDL. Option I envisaged construction of some Submarines, which would be Type 1500 (HDW) design with Combat suite of TCSF and the remaining on the Scorpene design suitably modified to meet the Naval requirements. Option II envisaged construction of certain number of submarines all based on the Scorpene design. As indigenous construction of Submarines at MDL under Project-75 would involve Scorpene design at one stage or the other, the Naval Headquarters carried out the evaluation of Scorpene Class Submarines and ultimately Option II was preferred mainly because of the elimination

of HDW, the more advanced nature of the Scorpene Submarine than that of the Type 1500 HDW design, amortization of the Transfer of Technology (TOT) cost over six platforms, direct receipt of TOT by MDL from the designers etc. In October, 2000 a Request for Proposal (RFP) was forwarded to TCSF, France seeking their technical and budgetary proposal for the Submarines under Project - 75. The Construction of the Submarines could commence only between December, 2006 and July, 2009 and resultantly the delivery of the Submarines have been delayed badly. The Committee's indepth examination of the subject has revealed certain disquieting aspects that led to such an inordinate delay grossly undermining the imperatives involved, as has been pointed out in the succeeding paragraphs.

2. The Committee note that a limited tender was floated as the number of companies which can manufacture conventional Submarines like Russia, Germany, France and Spain, as reported by the Ministry of Defence. Only one Company *i.e.* TSCF from France responded to the tender inquiries and according to the Ministry, the best decisions was taken to award the contract to TCSF, keeping in view the situation and time. Here, the Committee would like to point out that TCSF was selected for Scorpene Class of Submarines despite the Company's reluctance to give a clear cut commitment on the release of the Tube Launch Missiles (TLM) Exocet SM 39 for two Type 1500 (HDW) Submarines until and unless Project 75 is linked with long term Naval Cooperation with France. The Committee acknowledge the fact that the US 'Harpoon' missile was not available at that point of time and Russian 'Klub' missile was not compatible with the Tubes of either HDW or Scorpene design Submarines. Without disputing the contention of the Ministry that due to limited choice, preference was given to the French Submarine and Missiles, the Committee would, however, like to express their displeasure over the manner in which the Indian side succumbed to the conditions imposed by their French counterparts in the implementation of Project-75. Since such pressure tactics do not get well between two Sovereign Nations, the Committee would like the Ministry of Defence to put across their points firmly in any future negotiations with any country before awarding contracts for induction of force level.

3. As per Defence Procurement Procedure 2002, Submarine should be trial evaluated in Indian waters or the design should be validated through Computer simulations and model testing before accepting the proposal for Submarine. Such evaluation is intended to enable to gauge the performance of the Submarine with reference to the Naval Staff Qualitative Requirement (NSQR). According to the Ministry, the Scorpene design incorporated incremental improvements and underwent state-of-the-art validations by the French. The Ministry have further contended that Scorpene Submarines have already been commissioned by the Chilean and the Royal Malaysian Navy. The Committee also find that a delegation of Indian Navy and Joint Delegation of Indian Navy and MDL visited France and Spain and even sailed on-board Chilean Scorpene in Chilean waters besides visiting Malaysian Scorpene at Kochi at

different times to conduct physical verification of the Scorpene Submarines in order to satisfy themselves with the Sea Acceptance Trial (SAT) and Harbour Acceptance Trial (HAT). The Committee are, however, concerned to observe that the Ministry accepted the unproven design of the Scorpene Submarine based on the validation of the design through computer simulation despite the fact that the design of the Scorpene Submarine had not proved its efficacy in other Navies. In such a scenario, deviations in respect of the prescribed parameters such as stability, speed, endurance, noise levels, manoeuvring performances etc. of the Submarines can not be ruled out. The Ministry have, however, inserted specific provisions in the contract regarding corrective actions in case the main performance parameters are not met. The Committee feel that the measures taken by the Ministry are in right direction and these should be persisted with, more so when the design of the Scorpene Submarine has yet to prove its efficacy elsewhere, so as to compel the vendor to take corrective action whenever slightest deviations from the original parameters are noticed. Such measures appear to be more imperative to maintain the requisite defence preparedness.

4. The Committee further desire that the Military should ensure total transparency and accountability by being absolutely clear in the Defence requirement as they play a greater role and have more responsibility in Defence procurement and as most importantly frequent deviations from Quality Requirement (QR) may lead to an uncalled for compromise on national security.

5. The Committee note that pursuant to the approval of the Government in April 2001 to have negotiations with TCSF and Armaris on their Scorpene offer for construction of Submarines at MDL under Project-75 as envisaged in the Ministry in the plan of series construction of Submarines, the first round of the Price Negotiation Committee (PNC) meeting was held from November 2001 to June 2002. But astonishingly the Contract Negotiating Committee (CNC) could be held only in February, 2005, after a gap of three years and subsequently the third one in August 2005. Reasons for such abnormal delay between holding the PNC and CNC meeting have been attributed to forwarding of the CCS note to the Ministry of Finance for examination, reference to Central Vigilance Commission in accordance with the observations of the Ministry of Finance followed by several rounds of examination, extensive deliberations and vetting by all concerned. Needless to say, the process is too cumbersome, particularly the reference of Defence proposals to CVC for such a matter relating to national security. Notwithstanding the statement of the Defence Secretary that only in specific cases, if recommended, the Defence procurement decisions are sent to the CVC, the Committee feel that the system of pre audit of the procurement decisions of the Ministry of Defence by the Central Vigilance Commission should be dispensed with as it is unnecessary and totally uncalled for and resultantly leads to unacceptable delays, as has happened in the instant case.

6. The Committee are given to understand that there are three categories in the Defence acquisition process. One is the 'Buy' category which is a straight acquisition. The second one is the 'Make' category where Defence try to develop the technology of complex systems within the country which they cannot source from outside or there are other impediments in getting it. The last category is 'Buy' and 'Make' wherein some systems are directly bought from the foreign vendors and the balance through Transfer of Technology (TOT) in order to enable the Defence to build those systems indigenously within the country. And in the acquisition of Submarines, the 'Buy and Make' method was given precedence over the other two categories as the concern of the Government has always been to develop the indigenous capability and build the Submarines. This concern of the Government is well founded as in many situations in the past, the Defence have experienced that during war situation indigenous capability is an essential requirement for maintenance of spare parts and other equally important things. The Committee feel that while the objective of hundred per cent indigenisation is laudable, the capabilities and capacities available in the country have to be assessed realistically. That is because even if basic infrastructure is available, the requirement of associated essentials such as equipment, technical expertise and capacity building would still take time. Moreover, while trying to achieve long term objective of self reliance in Defence acquisition, there is a need to achieve a realistic balance between the existing capacity in the country, including that of the private sector with the urgency/timelines involved in the planned acquisition. The Committee therefore, recommend that based on a case to case urgency, a rational and flexible approach towards 'Buy', 'Make' and 'Buy and Make' theories have to be adopted with a view to meeting any contingencies.

7. The Committee are constrained to observe that the progress of the construction of the Submarines of MDL has been very slow as on 30th September, 2009 and resultantly the delivery of the Submarines would be delayed significantly. That the Mazagoan Dock Limited is attempting to reduce the gap between the scheduled delivery of the Submarines by having commenced the construction of another batch of Submarines ahead of schedule is no consolation to the Committee. According to this Ministry, the progress on the construction of Submarines has been slow on account of some teething problems, time taken for absorption of technology, delays in augmentation of industrial infrastructure and procurement of MDL Purchased Material (MPM) items. The Committee are of the view that care should have been taken to foresee such problems before awarding the contract and going for indigenisation. They are particularly concerned to note that there was problem in transference and absorption of technology which adversely impacted Project-75. However, now that the problems of Transfer of Technology (ToT) have been reportedly fully addressed as per a mutually agreed action plan between MDL, and Armaries, the Committee hope that the problem would not resurface so that the Project progresses satisfactorily and the Submarines are delivered within the stipulated time line.

8. The Committee are happy to note that MDL has been taking a number of measures to avoid delays in the construction of Scorpene design Submarines. Such initiatives include opening up of parallel work fronts, revival of three new bays for use of structural fabrication work, development of a new work shop, vigorous pursuance of outsourcing etc. It is equally encouraging to note that the Ministry have taken up a massive modernisation programme of the three shipyards with particular emphasis on MDL. The Committee are of the opinion that efforts on the part of MDL itself for augmentation of infrastructures and that of the Ministry for embarking upon massive modernisation programme of the PSUs that are engaged in modern technology, high value and strategic importance fabrication of weapon system are steps in right direction and the momentum should be maintained uninterrupted as a national strategic imperative.

9. What concerns the Committee more is that systemic deficiencies played a greater role than any other cause that delayed the acquisition of Submarines Existence of such failings was corroborated by the Defence Secretary himself when he admitted before the Committee that there are problems in the system, mindset and in the whole process. The Committee acknowledge that Defence procurement is a complex process which starts with the services qualitative requirement, proceeds through the Defence Acquisition Council, Request For Proposals, Field Evaluation Staff, Technical Evaluation Committees and Contract Negotiation Committee and culminates with approval of the Competent Finance Authority. But the Committee fail to understand the reasons for inordinate delay in the Defence procurement when a definite time frame has been laid down for each of the activities involved in the process. In this context, the Committee find that Pakistan has acquired the Augusta 90 B Submarines from the same French firm at a much faster rate than their Indian counterparts. The Defence Secretary has made an effort to defend the delay on their part on the plea of focus on transparency in the Indian system. The Committee are well aware that transparency is and should be the essence of Governance, particularly matters relating to the National Security. But in the name of transparency, things should not be allowed to linger on for an indefinite period which would ultimately prove detrimental to the interest of the Nation. Prudence, therefore, requires that an introspection be made to usher in a paradigm shift in the entire system and the mindset of the decision makers that would ensure strict adherence to the prescribed time frame for each of the Defence procurement processes which in turn would facilitate the acquisition according to plan.

10. In this context, the Committee would also like to point out that due to the very nature of the long term plans/programmes of the Defence procurement, the Competent Authority approving the procurements may not be always fully aware of the implications of the delay and its consequential impact on the operational preparedness. Further, since the Defence procurements, by their very nature of a long lead time, greatly impact the country's Military preparedness as a whole, the Committee feel that it is absolutely necessary to put in place a long term perspective plan, with the approval of an Empowered Committee of Ministers, which would certainly make the decision making process faster and more transparent at every level.



11. The Committee note that a three-tier monitoring system has been evolved to oversee the Defence procurement process. This includes a review by the Secretary, Defence Production at the Ministry level, the Controller of Warship Production and Acquisition at the Navy level and the Chairman & Managing Director, MDL at the Company level. The Committee are surprised that despite oversight at each level, the acquisition of Submarines got delayed inordinately. In this context, the Committee would like to point out that pursuant to the Recommendation made in their 187th Report (Eighth Lok Sabha), the Defence Procurement Procedure was promulgated to streamline the process. However, subsequent to the Kargil war, a Group of Ministers took a detailed review of the Defence procurement system and observed a number of shortcomings like lack of integrated planning, cumbersome administrative, technical and evaluation procedures and absence of dedicated professionally equipped procedure within the Ministry of Defence. Much to the consternation of the Committee, although a second Defence Procurement Procedure was promulgated in the year 2002 following the above observations of the GoM, yet the same bottlenecks in the Defence procurement system appear to have resurfaced in the acquisition of Submarines for the Indian Navy. As the Defence Secretary has candidly admitted before the Committee that there is still lot of scope for improvement in the procurement system, the Committee would like to impress upon the Ministry to take corrective action, wherever warranted to improve and streamline the procedure so that Defence acquisitions do not suffer.

12. The Committee note that due to delay in finalisation of the contract for as long as three years *i.e.* 2002 to 2005, there has been an escalation in the price of Submarines by more than Rs. 2,800 crore and an additional Euro 27.05 million commitment on the procurement of missiles. The increase in the cost of Submarine has been primarily due to escalations of Exchange Rate Variations (ERVs) and increase in the cost of Missiles despite a discount of 1.03 per cent by the vendor, as has been pointed out in detail by the Audit. But astonishingly the Ministry of Defence have expressed their inability to quantify the exact financial loss on account of the delayed finalisation of the contract and prolonged delivery of the Submarines. As it is an established fact that time overrun in finalisation of contracts and completion of planned projects certainly leads to cost escalation, the Ministry owe an explanation in this regard.

13. The Committee observe that in order to compensate slippages in the delivery of contracted items on the part of the vendor due to unforeseen circumstances, a Liquidated Damage (LD) clause has been incorporated in the contract as per the provisions of DPP. The Committee also note that an 'Integrity Pact' *in lieu of* 'Agency Commission' Clause has also been incorporated in the contract to avoid all forms of corruption by ensuring free, fair, transparent and unprejudiced dealings before, during and after the currency of the contract. While acknowledging the incorporation of the Liquidated Damage Clause and the 'Integrity Pact' in the contracts, the Committee would simultaneously like to prevail upon the Ministry to ensure that the Liquidated Damages are invariably realised in all cases of slippages and the Integrity Pact is followed in letter and spirit.



14. According to Audit, separate Performance Bank Guarantees are to be provided for performance and warranty. But the vendor has provided a combined Guarantee and thus avoided providing a warranty of 58.20 million Euros. Clarifying the position, the Ministry of Defence have apprised the Committee that at the time of the signing of the contract, the Ministry considered that if the deliveries are made as per the contractual terms and conditions, one per cent of the Bank Guarantee would be sufficient to cover both performance and warranty liabilities. In this context, the Committee would like the Ministry to consider obtaining separate Bank Guarantees in case the vendors at any point of time deviate from the contractual obligations.

15. The Committee note that the issue of missile delivery/extension of warranty, when delays were expected in the construction of the first Submarine, was taken up with the OEM *i.e.* MBDA France. The OEM has extended the warranty of the first batch of missiles for a period of 24 months at no extra cost. As regards the extension of the warranty of other batches of the missile, the Committee have been informed that a meeting is being arranged with MBDA where the issue would be taken up. The Committee desire that in the scheduled meeting, the Ministry should impress upon the firm to extend warranty to other batches of missiles also as they propose to possess adequate number of missiles in the inventory.

16. To sum up, the Committee find that successive Governments have planned the procurement of Submarines in their Maritime Perspective Plans. This has been going on since ages and there have been inordinate and unacceptable delays on the part of several Governments in deciding about the essential fleet strength; total requirements and thereafter on the type of Submarine to be inducted. The question whether it should be indigenously fabricated or a new type procure; plus the source of procurement has always intrigued the decision makers. Such indecisiveness on the part of the decision makers and the systemic flaws in the procurement of Submarines have led to time and cost overrun and undue favour to the vendor besides adversely impacting the operational preparedness of the Indian Navy. The Committee, therefore, urge upon the Ministry to take action in accordance with their above Observations/Recommendations.

NEW DELHI;  
26 February, 2010  
6 Phalguna, 1931 (Saka)

GOPINATH MUNDE,  
Chairman,  
Public Accounts Committee.

## APPENDIX I

### MINUTES OF THE SECOND SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2009-10) HELD ON 27TH OCTOBER, 2009

The Committee sat from 1100 hrs. to 1220 hrs. on 27th October, 2009 in Room No. 53, First Floor, Parliament House, New Delhi.

#### PRESENT

Shri Jaswant Singh—*Chairman*

*Lok Sabha*

2. Shri Naveen Jindal
3. Shri Satpal Maharaj
4. Shri Bhartruhari Mahtab
5. Shri Jitendra Singh (Alwar)
6. Kunwar Rewati Raman Singh
7. Shri Aruna Kumar Vundavalli

*Rajya Sabha*

8. Shri Prasanta Chatterjee
9. Shri Sharad Anantrao Joshi
10. Shri Ashwani Kumar
11. Dr. K. Malaisamy

#### SECRETARIAT

1. Shri Raj Shekhar Sharma — *Director*
2. Shri M.K. Madhusudhan — *Additional Director*
3. Shri Sanjeev Sharma — *Deputy Secretary*

#### **Representatives of the Office of the Comptroller and Auditor General of India**

1. Shri Vinod Rai — Comptroller & Auditor General of India
2. Ms. Rekha Gupta — Dy. CAG Report Central (RC)
3. Shri Gautam Guha — Director General of Audit, (Defence Services)
4. Shri R.B. Sinha — Director General (Report Central)
5. Shri P.K. Kataria — Pr. Director (Report Central)

### Representatives of the Ministry of Defence

- |                           |   |                                |
|---------------------------|---|--------------------------------|
| 1. Shri Pradeep Kumar     | — | Defence Secretary              |
| 2. Shri R.K. Singh        | — | Secretary (Defence Production) |
| 3. Smt. Indu Liberhan     | — | Secretary (Defence Finance)    |
| 4. Vice Adml. D.K. Dewan  | — | VCNS                           |
| 5. Shri S.K. Sharma       | — | DG (Acquisition)               |
| 6. Shri S. Chandrasekaran | — | FA (Acquisition)               |
| 7. Smt. Preeti Sudan      | — | JS AM(MS)                      |

2. At the outset, the Chairman, PAC welcomed the Members and C&AG of India to the sitting of the Committee. The Chairman informed the Members that the sitting had been convened to take Oral Evidence of the Representatives of the Ministry of Defence in respect of Para 2.2, Chapter II of C&AG Report No. CA-18(2008-2009) Union Government (Defence Services—Air Force and Navy) relating to "**Undue favour to vendor in acquisition of submarines**".

3. Thereafter, the representatives of the Ministry of Defence were called in. The Chairman read out the provision of *Direction 58* of the **Directions by the Speaker** regarding confidentiality of proceedings.

4. Then, the officials from the Ministry gave detailed powerpoint presentation explaining the key issues relating to the Audit Para and also the Ministry's position with regard to the various Audit observations made therein.

5. The Secretary also explained in brief the position of the Ministry on the Audit findings and responded to the queries raised by the members. The Hon'ble Chairman then directed the Defence Secretary to furnish written information to the list of points arising out of the Audit Para which would be sent to him separately, at the earliest, for being considered by the Committee at their next sitting.

6. As the evidence on the subject remained inconclusive, the Committee decided to hold another sitting on Thursday, the 12th November, 2009 for taking further oral evidence of the representatives of the Ministry of Defence.

*The witnesses then withdrew.*

A copy of the verbatim proceedings of the sitting has been kept on record.

*The Committee then adjourned.*

## APPENDIX II

### MINUTES OF THE FIFTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2009-10) HELD ON 2ND DECEMBER, 2009

The Committee sat on Wednesday, the 2nd December, 2009 from 1500 hrs. to 1600 hrs. in Room No. 62, First Floor, Parliament House, New Delhi.

#### PRESENT

Shri Jaswant Singh—*Chairman*

#### *Lok Sabha*

2. Shri Bhartruhari Mahtab
3. Kunwar Rewati Raman Singh
4. Shri Aruna Kumar Vundavalli
5. Shri Khagen Das
6. Shri Naveen Jindal
7. Shri Satpal Maharaj
8. Dr. K. Sambasiva Rao

#### *Rajya Sabha*

9. Shri Sharad Anantrao Joshi
10. Shri Ashwani Kumar

#### SECRETARIAT

1. Shri Ashok Sarin — *Joint Secretary*
2. Shri Raj Shekhar Sharma — *Director*
3. Shri M.K. Madhusudhan — *Additional Director*
4. Shri D.R. Mohanty — *Under Secretary*

#### **Representatives of the Office of the Comptroller and Auditor General of India**

1. Shri Vinod Rai — Comptroller & Auditor General of India
2. Ms. Rekha Gupta — Dy. CAG Report Central (R.C.)
3. Shri R.B. Sinha — Director General (Report Central)

### Representatives of the Ministry of Defence

- |                           |   |                                |
|---------------------------|---|--------------------------------|
| 1. Shri Pradeep Kumar     | — | Defence Secretary              |
| 2. Shri R.K. Singh        | — | Secretary (Defence Production) |
| 3. Smt. Indu Liberhan     | — | Secretary (Defence Finance)    |
| 4. Vice Adml. D.K. Dewan  | — | VCNS                           |
| 5. Shri S.K. Sharma       | — | DG (Acquisition)               |
| 6. Shri Ajoy Acharya      | — | Additional Secretary (DP)      |
| 7. Shri S. Chandrasekaran | — | FA (Acquisition)               |
| 8. Smt. Preeti Sudan      | — | JS & AM (MS)                   |
| 9. Shri Gyanesh Kumar     | — | JS (SY)                        |

2. At the outset, the Chairman welcomed the Members, the Comptroller and Auditor General of India and the representatives of the Ministry of Defence to the sitting of the Committee. The Chairman then, drew the attention of the representatives of the Ministry to the provisions of *Direction 58* of the **Directions by the Speaker** regarding confidentiality of proceedings.

3. The Committee, there after, took up the subject "**Undue favour to vendor in acquisition of submarines**" for further examination. The Chairman gave an overview of the concerns of the Committee on the subject. Members also raised various queries related to the subject and the Defence Secretary and other representatives of the Ministry responded to the same.

4. The Chairman thanked the representatives of the Ministry for appearing before the Committee and for furnishing information that the Committee desired in connection with the examination of the subject.

*The witnesses then withdrew.*

A copy of the verbatim proceedings of the sitting has been kept on record.

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|--------|-----|-----|
| 5. *** | *** | *** |
| 6. *** | *** | *** |

*The Committee then adjourned.*

### APPENDIX III

#### MINUTES OF THE EIGHTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2009-10) HELD ON 28TH JANUARY, 2010

The Committee sat on Thursday, the 28th January, 2010 from 1130 hrs. to 1415 hrs. in Committee Room 'C', Parliament House Annexe, New Delhi.

#### PRESENT

Shri Gopinath Munde—*Chairman*

#### *Lok Sabha*

2. Shri Anandrao Vithoba Adsul
3. Dr. Baliram
4. Shri Khagen Das
5. Shri Naveen Jindal
6. Shri Satpal Maharaj
7. Shri Bhartruhari Mahtab
8. Kunwar Rewati Raman Singh
9. Shri Yashwant Sinha
10. Shri K. Sudhakaran
11. Shri Aruna Kumar Vundavalli

#### *Rajya Sabha*

12. Shri Prasanta Chatterjee
13. Shri Sharad Anantrao Joshi
14. Dr. K. Malaisamy
15. Prof. Saif-ud-Din Soz

#### SECRETARIAT

- |                            |   |                            |
|----------------------------|---|----------------------------|
| 1. Shri Ashok Sarin        | — | <i>Joint Secretary</i>     |
| 2. Shri Raj Shekhar Sharma | — | <i>Director</i>            |
| 3. Shri M.K. Madhusudhan   | — | <i>Additional Director</i> |
| 4. Shri Sanjeev Sharma     | — | <i>Deputy Secretary</i>    |
| 5. Shri D.R. Mohanty       | — | <i>Under Secretary</i>     |

### Representatives of the Office of the Comptroller and Auditor General of India

- |                        |   |   |
|------------------------|---|---|
| 1. Shri Vinod Rai      | — | Comptroller & Auditor General of India                |
| 2. Ms. Rekha Gupta     | — | Dy. C&AG (Report Central)                             |
| 3. Shri H. Pradeep Rao | — | Director General of Audit (Central Expenditure)       |
| 4. Shri P.K. Kataria   | — | Pr. Director (Report Central)                         |
| 5. Shri K.R. Sriram    | — | Pr. Director of Audit (Economic & Service Ministries) |

### Representatives of the Ministry of Health and Family Welfare (Department of Health and Family Welfare)

- |                          |   |                                       |
|--------------------------|---|---------------------------------------|
| 1. Ms. K. Sujatha Rao    | — | Secretary (Health and Family Welfare) |
| 2. Shri P.K. Srivastava  | — | DGHS                                  |
| 3. Shri Naved Masood     | — | Additional Secretary (Finance)        |
| 4. Shri V. Venkatachalam | — | Additional Secretary                  |
| 5. Shri B.K. Prasad      | — | Joint Secretary                       |
| 6. Shri Vineet Chawdhary | — | Joint Secretary                       |
| 7. Ms. Shakuntala Gamlin | — | Joint Secretary                       |
| 8. Dr. H.C. Goel         | — | Addl DG DGHS                          |

2. \*\*\* \*\*\* \*\*

3. \*\*\* \*\*\* \*\*

4. A copy of the verbatim proceedings of the sitting has been kept on record.

*The representatives of the Ministry then withdrew.*

5. Thereafter, the Committee took up for consideration the following Draft Reports:

(i) \*\*\* \*\*\* \*\*

(ii) \*\*\* \*\*\* \*\*

(iii) Para 2.2 Chapter II of C&AG's Report No. CA-18 (2008-09) Union Government (Defence Services—Air Force and Navy) relating to "**Undue Favour to Vendor in Acquisition of Submarines**".

6. After some deliberations, the Committee adopted the Draft Reports with some modifications/changes and authorized the Chairman to finalise these Reports in the light of suggestions made by the Members and the consequential changes arising out of factual verification by the Audit and the Ministry of Defence and present the same to the Parliament.

7. \*\*\* \*\*\* \*\*

*The Committee then adjourned.*

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\*\*\*Matters not related to this Report.

GMGIPMARND—1440LS(S-3)—08.04.2010.