

A murky arms deal haunts Modi

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Corruption in India is pervasive, omnipresent and multifarious, especially in the nexus between politics and business. As India heads toward its general election, expected to be held in April and May, Prime Minister Narendra Modi finds himself embroiled in controversy around one of the country's largest arms purchase contracts: a murky 7.8 billion euro weapons deal to purchase 36 Rafale fighter planes from France.

The Indian opposition, led by Rahul Gandhi, the president of the Congress Party, is on a vigorous offensive, charging Mr. Modi with bypassing institutions and procedures for defense acquisitions, causing a huge loss of public funds, compromising national security, using the multibillion arms deal to offer a lucrative contract to a billionaire ally and covering up corruption by refusing to disclose the pricing details.

In 2014, Mr. Modi came to power after pillorizing Mr. Gandhi's dynastic Congress party, painting it as corrupt and offering himself and his Bharatiya Janata Party as the clean, corruption-free alternative.

Now Mr. Gandhi is returning the favor, and his efforts to frame the arms deal as the grand corruption scandal of Mr. Modi's tenure are gaining traction. Mr. Modi's party has been on the defensive, and independent journalistic investigations are resulting in damaging revelations.

The controversy originated after the Indian prime minister during a 2015 visit to Paris announced a surprise decision to purchase 36 supersonic

Rafale fighter planes, manufactured by Dassault Aviation, from the French.

India had been negotiating the sale of the Rafale fighter planes since 2007. Mr. Modi undercut the old acquisitions process and made a new deal. India's defense procurement rules involve an offset clause, according to which a foreign company, in return for selling India weapons, would invest 30 percent of the deal's value back in India to promote domestic defense production.

Dassault Aviation agreed to invest 50 percent of the 7.8 billion euro Rafale contract in India to manufacture airplane components with offset partners, chief among whom would be the Indian billionaire Anil Ambani's Reliance Defence. The deal is expected to help generate up to 1.9 billion euros in new revenues for Mr. Ambani — the younger and much less successful brother of Mukesh Ambani, India's richest man — who has no experience in manufacturing fighter jets.

For almost two decades, the Indian Air Force has been concerned about its declining fleet strength with the retirement of obsolete combat aircraft. In 2007, the Indian government led by the Congress party invited bids from six aircraft manufacturers for the supply of 126 fighter planes. Dassault's Rafale and the Eurofighter Typhoon, made by a consortium of European companies,

were found to be fully compliant with the Indian Air Force's requirements.

In 2012, after Dassault Aviation was determined to be the lowest bidder, the Indian government started negotiations with the company to buy 126 Rafale fighter planes: 18 fighter planes were to be supplied in flyaway condition and 108 aircraft were to be made in India under a technology transfer agreement, by Hindustan Aeronautics Limited, a public sector company experienced in manufacturing military aircraft. But the deal stalled for three years on account of differences between Indian government and Dassault.

Mr. Modi's government renewed the negotiations for the Rafale fighters with the French government instead of Dassault Aviation. The purchase order was reduced from 126 fighters to a mere 36 planes, and it has invited the political charge of letting down the Indian Air Force and compromising national security.

None of these planes will be manufactured in India, and Mr. Modi has not explained how and when the deficit will be made good. Mr. Modi has also failed to explain how jettisoning Hindustan Aeronautics Limited sits with his "Make in India" project to boost manufacturing in India and his promise of ensuring technology transfer in defense manufacturing.

Serious questions have been raised about Mr. Modi approving the purchase of Rafale fighters at an exorbitant cost. The whole package, including maintenance, spares and weapons, was valued at 7.8 billion euros. Experts at India's defense ministry had estimated that the deal should cost 5.2 billion euros.

A seven-member federal team of

military and civilian defense officials was mandated to negotiate weapons prices, delivery schedules, maintenance and other terms of the Rafale deal. Three financial experts on the team supported the lower price benchmark but were outvoted, their objection was ignored, and a higher level body increased the benchmark. The final higher price was ratified by the Cabinet Committee for Security, led by Mr. Modi.

In my reporting, I also found that Mr. Modi's arbitrary decision to reduce the number of Rafale planes purchased to 36 from 126 raised the price of each plane by 41 percent over the price quoted by Dassault in 2007 and 14 percent over the 2011 price that factored in escalation costs.

Dassault Aviation sought an exorbitant fixed cost of 1.3 billion euros for "design and development" of 13 India-specific enhancements of the Rafale fighters. Despite objections from three members of the team, the Indian government accepted the demand and the consequent inflation in the cost of the Rafale fighters.

In July 2014, the Eurofighter Typhoon Consortium, which had lost the original bid, made a new offer with a 20 percent discount. The dissenting experts wanted Mr. Modi's government to consider it, but the prime minister had already spoken his mind and the idea was discarded.

Had Mr. Modi heeded the dissenters, India could have saved about 2.6 billion euros — a sum that is significant for a country where tens of millions are deprived of a living wage, nutrition, schooling and health care. Saving even two billion euros on a weapons deal could easily go toward building several thousand schools and hospitals in India's villages.

The Rafale affair has been compared with the scandal over India's purchase of howitzer artillery guns for 1.2 billion euros from Sweden's Bofors in 1986 under Prime Minister Rajiv Gandhi. The scandal played a major part in the defeat of the Congress party in elections that followed.

India has not heard the last of the Rafale deal, which has failed to meet the air force's minimum requirements, substantially increased the price of each fighter plane and created uncertainty about the suitability of the offset arrangements and the benefits they can provide to the defense sector and to the economy. Mr. Modi's arms deal has undermined trust in institutions and procedures for defense procurement, just as the Bofors scandal did in the 1980s.

The devastating effects of Mr. Modi's demonetization on the working poor and small and medium businesses and widespread distress in rural India could do more damage to his electoral prospects, but a credible corruption narrative, backed even with incomplete evidence, can bring focus and emotional power to the electoral campaign.

It can be a catalyst for change. The election is coming.

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ADNAN ABIDI/REUTERS

Protesters calling for the resignation of Prime Minister Narendra Modi of India in September over allegations of corruption.