

Rolls Royce Scam: Understanding the Politico-Military-Industrial nexus

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Executive Summary

The bureaucracy-money-politics nexus in the defence sector is an old one. Among the countries afflicted by this insidious nexus, India is conspicuously present throughout its post-independence history. Multiple defence scams starting right from its first defence minister, V.K Krishna Menon's tenure to multiple scams during the tenure of its longest serving defence minister AK Antony, the malaise of India's defence sector corruption has only grown. The latest addition to this avoidable list has been the Rolls Royce bribery scam.

The Beginning of the bond: Rolls Royce-HAL

After years of negotiations, a series of deals for Hawk trainer jet and Jaguar fighter aircraft engines was signed between HAL (Hindustan Aeronautics Limited) and Rolls Royce. India struck a \$1.2bn deal to buy 66 Hawks in 2003, of which 42 were to be built at HAL's facility in Bangalore. It is believed that, over the years, Rolls-Royce has developed a close relationship with HAL. The relationship between them got a boost during then Prime Minister David Cameron's first visit to India in July 2010, another deal valued at \$779m was struck with India for a further 57 Hawk trainers. Taking their relationship forward, in 2013, Rolls-Royce and HAL unveiled a \$25m joint production centre to manufacture parts of the British engineering giant's Trent aero engines and compressors for gas turbines.

The Rolls Royce bribery scam is the bad offspring of this growing military-industrial camaraderie.

Rolls Royce: The Bribery Scam

The Rolls Royce bribery scam came to the fore after a preliminary investigation by the chief vigilance official of HAL, which had received a letter from Rolls-Royce. The HAL official found prima facie evidence of violations of contractual provisions and obligations in the letter. The HAL board of directors then referred the case to the MoD, with the recommendation that CBI should look into it.

The receipt of an anonymous letter alleging that the world's second largest aircraft engine maker, Rolls Royce, had paid bribes to the Indian manufacturer Hindustan Aeronautical Limited (HAL) dented the Ministry of Defence's (MoD) image even further. The MoD's reputation was already reeling under a barrage of criticisms over multiple scams unearthed in recent times. Along with this, the MoD's much touted plan of a heavy reliance on indigenisation and creating a formidable Defence Industrial Base (DIB) in the country, also received major setbacks in the face of the bribery scam.

The letter alleged that Rolls-Royce paid bribes to staff at Hindustan Aeronautics Limited (HAL), the state-owned aircraft manufacturer based in Bangalore, to help the company win contracts to supply Hawk advanced jet trainers between 2007 and 2011. In the light of these serious allegations against the famed British company, it is now facing

acorruption inquiry over allegations that it paid bribes to win lucrative contracts to supply Hawk trainer jet engines to an aircraft manufacturer owned by the Indian government, HAL.

Rolls-Royce accepted, in a letter to HAL on December 27, 2013 that it had hired a consultant, Ashok Patni and his Singapore-based firm Aashmore Private Limited, as "commercial advisors" in India till January 2013. According to Rolls-Royce, Aashmore provided it with "sales and logistics support, local business expertise and strategic advice" in its dealings with HAL only in the energy sector. HAL, through its Industrial & Marine Gas Turbine Division, buys and maintains gas turbines for ONGC and GAIL. As a conclusive assessment, Rolls Royce has hinted that the firm Aashmore had no role to play in the defence sector. However, the Defence Minister of India has ordered a Central Bureau of Investigation (CBI) probe into the allegations which have the potential of yet another defence scam.

Apropos the CBI probe ordered by the defence ministry the question that remains unanswered is; did Rolls Royce pay HAL staff members to secure the supply of engines to HAL?

A combination of facts, assertions, hypotheses and historical records of the company put under scrutiny, can lead us to within close proximities of finding an answer to the above question;

The charge against the company, particularly concerning its defence supplies wing, is not a new one. Some of the allegations against Rolls-Royce are more than 10 years old. In fact, Rolls Royce is already under a Serious Fraud Office (SFO) investigation into claims that it bribed officials in Indonesia, China and elsewhere. A serious allegation against the company, is by a whistleblower and former Rolls-Royce employee Dick Taylor that the company handed a \$20m (£12m) bribe and a blue Rolls-Royce car to Tommy Suharto, the youngest son of the late Indonesian dictator, to help win contracts in the 1990s with its national airline, Garuda. Logical assessment would reveal that not all of these allegations can be without basis.

Role of Middlemen in Defence Deals

If the threads, of whatever little evidence one has in this case, are linked, there is at least one conclusion that can be arrived at; there is no denying that there was the role of middlemen in Rolls Royce's dealings with HAL. It is understood that the investigation in this case is focusing on Rolls-Royce's "intermediaries", which are usually local companies/firms which take care of sales, distribution, repair and maintenance in countries where the company does not have enough people on the ground.

The role of middlemen in defence deals is as common a problem throughout the world, as it is an old one. In the Rolls Royce bribery case, the politico-industrial nexus earlier referred to, runs deep. The arrest of Sudhir Choudhrie and his son, Bhanu, who were arrested in connection with investigation into allegations of bribery by Rolls-Royce, is the most glaring example of the same. Nick Clegg, the British Deputy Prime Minister and his wife hosted family charity of Sudhir Choudhrie and his son. The Choudhrie family is supposed to have given the Liberal Democrats (the British political party to which Nick Clegg belongs) more than £1 million in recent years. Clearly, the company's connection to the highest in the power-politics ladder cannot be ruled out. Consequently, there is

little to prevent one from thinking that Rolls Royce might have used its politico-bureaucratic reaches to secure the sale of its engines with HAL.

Fallouts on other defence deals

A series of defence scams of late has had cascading effects on defence deals in India. In January, India cancelled a helicopter deal with Italian defence giant Finmeccanica after allegations of corruption. This had serious implications for the chopper fleet in India and related services.

Much like Finmeccanica, Rolls-Royce is also involved in a series of defence projects in India. Delay in signing maintenance, overhaul and spares contracts for many of the engines and gas turbines supplied by it may not pose a problem in the short term but will have serious operational repercussions in the long term.

As a result of the bribery allegations against Rolls Royce, the MoD has gone ahead and stalled the deal. The Press Trust of India (PTI) reported that with effect from the 3rd of March, 2014 India's defence ministry had put on hold all "existing and future" contracts with Rolls-Royce until the results of an investigation by the country's Central Bureau of Investigation (CBI) into the purchase of jet fighter engines in a deal worth \$1.6bn (£960m) came out. At stake, are Rolls-Royce contracts worth nearly Rs. 10,000 crore for the supply of aircraft engines to HAL for its trainer aircraft during 2007-2011. As per one estimate, over 50 contracts were signed with Rolls-Royce in the 2007-2011 timeframe.

IAF and Navy have till now inducted only 75 of the twin-seat AJTs, which are manufactured by BAE Systems but have the Adour Mk.871 engines of Rolls-Royce. While the first 24 Hawks were supplied directly by BAE Systems, the rest are being licensed manufactured by HAL under an overall project cost upwards of Rs 25,000 crore.

Currently Rolls-Royce engines power Indian Jaguar fighters, Avro planes, VVIP Embraer Legacy jets, C-130J 'Super Hercules' and Kiran trainers as well as naval and Coast Guard helicopters and fast-patrol vessels. All these projects are likely to get affected in some way or the other due to the present allegations and the ensuing probe. The stalling of the Rolls-Royce deal could also have an immediate impact on the ongoing induction of 143 Hawk advanced jet trainers (AJTs) for new pilots.

Pilot Training affected?

India's basic training of its IAF pilots has been one of its most serious problems that has been hitherto ignored. India's air force history has been chequered by aircraft crashes, most of them while training or when on sorties. The lack of training aircraft is a serious concern for the Indian Air Force (IAF). The clear divide between indigenisation and import of basic trainer aircraft in the IAF within the armed forces dispensation has dealt severe blows to the IAF's training programme. Both, the training programme of the IAF and the import of its basic trainer aircraft have been delayed due to a lack of clarity and bureaucratic bottlenecks. The Rolls Royce scam further complicates the IAF's training dilemma.

As the AJTs are powered by a Rolls Royce engine the moratorium out of the Rolls Royce scam will have its direct the impact on the ongoing induction of 143 Hawk advanced jet trainers (AJTs). This in turn will affect the training of rookie pilots in the IAF.

Conclusion

The Rolls Royce bribery scam has the potential to once again derail the modernisation of the armed forces. Two reasons to believe that this will happen are; stalling of the Rolls Royce deal and the substantial number of other deals that get affected due to the freezing of this deal. This is not without history in India. In the past foreign companies and firms like Singapore Technology Kinetics, Rheinmetall and Israel Military Industries (IMI) etc have been blacklisted over the last few years and India's dream of defence sector modernisation got shelved, so much so that we are still scrambling with the idea of defence sector modernisation and the eventual dream of having a robust Defence Industrial Base (DIB).

There is an immense amount of anger and frustration both inside and outside the defence sector due to an unending saga of scams during the incumbent defence minister's tenure. The anger also stems from the fact that cases like the Rolls Royce bribery scam fizzle out after initial bouts of intense media coverage, especially because corruption allegations are not one-of-a-kind. In the past, reputed companies like the BAE Systems have also faced corruption charges but not much has happened on the accountability on the part of the alleged companies. The fear is that this will be repeated in the Rolls Royce scam too.

There has been an overdose both in the quantity and quality of scams in the Indian defence sector. The incumbent defence minister of India began with a "Mr. Clean" image and has almost ended his tenure by having become the defence minister who has "has left Indian Navy headless and caused "irreparable damage" to armed forces." The glimmer of hope lies in the expectation that with the change in guard both at the Centre and the Ministry of Defence in the post election phase in India, the Rolls Royce bribery scam will prove to be the last straw that broke the camel's back, in retrospect.

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