

ISAS Brief

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The Rafale Saga: Indian Air Force's Never-Ending Wait for a Medium Multi-Role Combat Jet

The visit to India by the President of France in January 2016 culminated in an Inter-Governmental Agreement (IGA) pertaining to the delivery of 36 Rafale jets in flyaway condition. An IGA is essentially a high-level expression of intent. Indeed, the issues that held the deal up following India's Prime Minister Narendra Modi's earlier announcement in Paris in this regard – and even before that – still persist.

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French President Francois Hollande's second visit to India saw him attend the 67th Republic Day celebrations in New Delhi as the Chief Guest. It marked the fifth time that a French head of state had graced the occasion – making France the most-invited nation to the ceremony. This distinction reflects, more than anything else, the degree of comfort that New Delhi has in its relations with Paris. France was the first Western power to establish a strategic partnership with India in 1998. That France chose to go ahead with the strategic partnership immediately after India conducted nuclear tests in 1998 says something about the relationship. Both countries also cooperate closely on defence, space and civil-nuclear issues. Significantly, France was

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once again the first nation to enter into a civil-nuclear energy agreement with India after it had obtained a NSG waiver in 2008.²

In the days and weeks leading up to the visit media chatter was predominantly focused on the deadlock in the Medium Multi-Role Combat Aircraft (MMRCA) deal. Billed as the “mother of all defence contracts” at one point, the deal has become a bag of woes for both establishments.

126 to 36

The proposal to acquire 126 medium multi-role combat jets was first mooted by the Indian Air Force (IAF) in 2001. At the time it was believed that the MMRCA programme would help replace India’s ageing fleet of MiG-21 and MiG-27 fighters which were already approaching the end of their life-cycle. The MMRCA programme would supplement India’s indigenously developed Light Combat Aircraft (LCA)³ programme and would ensure that the IAF had a combat strength of 42 squadrons – which was necessary to engage in a two-front war with Pakistan and China.⁴

After a series of back-and-forth between the IAF and the Ministry of Defence, the government in 2007 finally issued a Request for Proposal (RFP) at an estimated cost of Rs 46,000 crores or US\$ 10 billion.⁵ In response to the RFP, US majors Boeing and Lockheed Martin, Russia’s

² The Joint Statement issued by India and France following President Hollande’s visit gives a complete account of Indo-French strategic cooperation. Available at: <http://www.thehindu.com/news/resources/full-text-of-joint-statement-issued-by-india-france/article8151255.ece>

³ For more on the Light Combat Aircraft programme read ‘India’s Light Combat Aircraft Programme: a Costly Delay’, 19 November 2015. Available at: <http://www.isas.nus.edu.sg/ISAS%20Reports/ISAS%20Insights%20No.%20298.%20India%E2%80%99s%20Light%20Combat%20Aircraft%20Programme.%20a%20Costly%20Delay.pdf>

⁴ Yet in the years that followed both acquisition programmes have faced lengthy delays and have led to the depletion of the IAF’s combat fleet. Against a sanctioned strength of 42 squadrons, the IAF’s combat strength was down to 32 squadron in 2015.

⁵ It was essentially during this period that the Indian defence market began generating interest globally. Bilateral relations between India and the US had undergone a positive transformation under the Bush presidency and sanctions against Indian defence entities were lifted and high technology export controls were slowly eased. With foreign firms given expanded access to the Indian market, it was a huge opportunity for them to take advantage of India’s ambitious military modernisation programme.

United Aircraft Corporation, France's Dassault, European consortium EADS and Sweden's SAAB submitted bids. What followed was the most exhaustive and complex flight-and-weapons evaluation trial in the history of the industry – each platform was evaluated on the basis of 643 parameters.

In 2011, the MoD shortlisted Dassault and EADS for price discussions and then finally awarded the contract to Dassault in 2012 as it had submitted the lowest bid. According to the RFP, Dassault was contractually obligated to supply 18 jets in fly-away condition within 36 months and produce 108 jets in India through transfer of technology.

After entering into exclusive negotiations with Dassault in January 2012 talks stalled over two key issues. The French company was unwilling to give quality guarantees over the 108 Rafale aircraft that would be produced locally in India through transfer of technology with Hindustan Aeronautics Limited. They wanted separate contracts for the French made and the “Indian made” Rafale jets. The contract was also delayed because of difficulties arising out of offset provisions wherein Dassault had to reinvest 50% of the deal back into India’s defence sector. They argued that sourcing through localized facilities (an offset provision) would increase the minimum cost price of the aircraft.

Ultimately, a series of differences over quality guarantees, time lines and life-cycle costs severely delayed the contract negotiations. After more than two years of talks between the Contract Negotiations Committee (CNC) and Dassault, the UPA-II government decided to suspend a final decision on the deal till after the general elections. It thereafter emerged that the final cost for the Rafale deal had ballooned over the ensuing decade and was approximately 100% more than what was originally envisaged.⁶ Worried over rising costs and the fact that the Rafale deal would exhaust the capital acquisitions budget for several budget cycles, the new NDA regime was unable to fiscally sanction the deal. However, the NDA administration did factor in the IAF’s reservations regarding its depleting combat strength and stopped short of completely abandoning the MMRCA deal.⁷ In a final twist, India’s Prime Minister Narendra

⁶ According to Bharat Karnad, the price escalation for the deal between 2009 and 2014 went from US\$ 10 billion to US\$ 22 billion. See: <http://bharatkarnad.com/2014/07/25/why-rafale-is-a-big-mistake/>

⁷ Gautam Dutt, ‘Air force chief expresses concerns for delay in modernisation’, *India Today*, 5 October 2014. Available at: <http://indiatoday.intoday.in/story/air-force-chief-expresses-concerns-for-delay-in-modernisation/1/394217.html>

Modi announced during his visit to France in April 2015 that India would buy 36 Rafale jets in flyaway condition, citing critical operational needs of the IAF. Thus the MMRCA contract went from augmenting the Mirage fleet, to buying 126 multi-role aircrafts and then downsizing the contract to 36 aircraft; with the whole process taking nearly a decade and a half.⁸

Financial Wrangling

But if the IAF thought the end was in sight, they were once again left disappointed. President Hollande's Republic Day visit to India culminated in an Inter-Governmental Agreement (IGA) between France and India pertaining to the delivery of 36 Rafale jets in flyaway condition. While on the face of it everything looks settled and agreed upon, an IGA is just a high-level expression of intent that is not contractually enforceable. The issues that held the deal up following Prime Minister Modi's announcement in Paris – and indeed even before that – still endure. According to the IGA (which was signed with the French Government and not Dassault), the per-piece cost of each jet should be on more favourable terms than what Dassault offered in its original MMRCA contract. Yet Dassault's quote of US\$ 9 billion is no different from what was offered in April last year,⁹ the Indian government has therefore decided to press for more add-ons (serviceability, tenure of serviceability for 5/10 years, infrastructure at the airbases) within the same price bracket.¹⁰ Meanwhile the MOD's insistence that Dassault plough back 50% of the deal into India's defence industry and source components locally could increase costs and further complicate an already difficult negotiation. All in all, the prospect of concluding the financial negotiations within this fiscal remains exceedingly unlikely.

⁸ Back in 2000 the IAF had originally intended to procure 50 Mirage-2000 jets to sure up its combat fleet before the MOD altered the tender into a 126 jet MMRCA contract.

⁹ At US\$ 9 billion the unit price of each jet is approximately US\$ 200 million, making the Rafale the most expensive aircraft in the IAF's inventory. For that price (US\$ 200 million), the IAF could buy 5 Sulhoi-30MKI or 10 Tejas LCA.

¹⁰ Pranav Kulkarni, 'Rafale Deal: India Wants More Add-Ons', *Indian Express*, 26 January 2016. Available at: <http://indianexpress.com/article/india/india-news-india/rafale-deal-india-wants-more-add-ons/>

Broader Strategic Outlook

There is no one more eager to see a conclusion to the MMRCA saga than the IAF. In the 1990s and the early-2000s the IAF had a strategic vision to transform itself from a tactical support role to air dominance. Yet its strategic vision has been stymied by the severe delays in the LCA and MMRCA procurement programmes. This downturn in foreign acquisitions and the absence of indigenous alternatives has forced the IAF to operate platforms nearly half a century old that are well beyond their shelf-life.

If and when we see a conclusion to the Rafale deal,¹¹ there will be a lead time of at least 24 months before we see the first set of deliveries. Which means there is still some time before the IAF's fleet strength begins to improve. Furthermore, with only 36 aircrafts being procured – as opposed to the original 126 – the IAF will have to make up the difference through indigenous acquisitions. This will put stress on the LCA programme and other indigenous and joint-development programmes that are in the pipeline – which is a potential silver lining for 'Make in India'. It will also result in the IAF operating 7 different platforms including the Rafale, Sukhoi-30MKI, MiG-29, Mirage 2000, Jaguar, Tejas LCA, PAK-FA by 2025; this will pose its own set of maintenance and logistics challenges. Although the obstacles are many, they are not insurmountable. It is clear, however, that if it wants to become a 21st century air power, the IAF has its work cut out.

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¹¹ According to the French Ambassador, the deal “should take no more than four weeks”. Read ‘French envoy promises a cheaper Rafale’, *The Hindu*, 3 February 2016. Available at: <http://www.thehindu.com/news/national/french-ambassador-francois-richier-promises-a-cheaper-rafale/article8184908.ece>