

## Avro Replacement Programme: Alive and Kicking

Amit Cowshish

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The last date for submission of bids in response to the Request for Proposal (RFP) in the Avro-replacement programme of the Indian Air Force (IAF) is reported to have been extended a second time for another three months beyond December 8, 2013. It may be disappointing for the prospective bidders and their Indian partners but it should not dishearten them.

The specific reason for this second extension is not known but in this particular case it could be because of one or more of the following reasons. It is possible that one of the prospective bidders has asked for further extension to be able to tie up with an Indian partner or for some other reason. Two, the Ministry of Defence (MoD) might have felt that the response is likely to be poor unless some more time is given to the bidders to respond. Three, possibly MoD does not want to go ahead unless the concerns raised about the Hindustan Aeronautics Limited (HAL) being kept out of the programme as a possible Indian Production Partner (IPP) are resolved.

This programme was a sincere effort by the MoD to walk the talk on participation of the private industry in defence manufacturing. The success or failure of this programme will have a long lasting effect on MoD's efforts to strengthen the defence industrial base in the country. Viewed in this perspective, it is essential to tread cautiously and make sure that the programme does not fall through, which is what is likely to happen if there are no bidders or if the competition is very restricted. If, therefore, extension was sought by any vendor or the MoD felt that it was necessary to give more time to ensure response from a larger number of bidders, it did the right thing by extending the last date for submission of bids by another three months. It gives that much more breathing time to the prospective bidders and their Indian partners.

This action actually makes greater sense if the date has been extended because of the concerns raised about exclusion of HAL from the programme as a possible IPP. These concerns are being examined by the MoD. There are only two possible outcomes: the procurement process will continue as originally envisaged or the RFP will be withdrawn. If the process goes ahead after these concerns are put at rest, it has better chances of moving without any further roadblocks.

It is also possible that at the end of the on-going examination of the issues, MoD decides to withdraw the RFP. The thought is disheartening but it would be less embarrassing to withdraw the RFP at this stage rather than doing so after receiving the bids.

Assuming that the requirement for the new aircraft to replace the existing fleet of the ageing Hawker Siddley (HS) AVRO 748 transport aircraft will not magically vanish, what will be the options before the MoD? Following the hierarchy of procurement categories, mandated by the Defence Procurement Procedure (DPP) 2013, MoD will have to first consider the 'Buy (Indian)' category for acquisition of the aircraft. Under this category, the RFP can be issued only to the Indian vendors and the product should have a minimum of 30 per cent indigenous content on cost basis. Apart from the overall indigenous content being not less than 30 per cent, a minimum of 30 per cent indigenous content is also required in the (a) basic cost of the equipment, (b) cost of the Manufacturers' Recommended List of Spares (MRLS), and (c) cost of Special Maintenance Tools and Special Test Equipment (SMT/STE). This is a tall order but if there is an Indian vendor who can meet this requirement, it is inexplicable why the MoD has not already withdrawn the RFP.

The second category in the hierarchical order is 'Buy and Make (Indian)'. Products under this category are required to be purchased from the Indian vendors (including Indian companies forming joint ventures or establishing production arrangement with foreign vendors). The products must have a minimum of 50 per cent indigenous content on cost basis (sum total of the basic cost of the product, MRLS and SMT/STE). In addition, such cases require a minimum of 30 per cent indigenous content in the first basic equipment made/assembled in India and in subsequent deliveries thereof but no minimum indigenous content is required for the 'Buy' portion of the contract in case a 'Buy' portion had been approved at the Acceptance of Necessity (AoN) stage. That is rather complex, to say the least.

The possibility of categorising the proposal as 'Buy and Make (Indian)' was also considered when the present proposal was in the pipeline. But after due consideration it was considered infeasible to adopt this category because of the difficulty in identifying the vendors to whom RFP could be issued. Since there are no established aircraft manufacturers in India, selection of vendors could always be questioned by those who did not make it to the short list. The procedure for categorization of proposals as 'Buy and Make (Indian)' under DPP 2013 is supposed to be simpler than the earlier procedure. If that is indeed so and the MoD is of the view that it is now possible to identify the Indian vendors who will qualify for receiving the RFP, as and when issued again, it will be justified in withdrawing the present RFP. However, even in this scenario, the question whether the RFP should be issued to HAL also will still remain. It will be a rather one-sided competition if it is between the private sector entities on the one hand and the HAL on the other. The problems which prevented this categorization earlier will again come in the way of categorizing it as 'Buy and Make (Indian)'.

If the MoD does not find it feasible to categorise the proposal as 'Buy and Make ((Indian)', it will have to consider the next category in the hierarchical order, which is the 'Make' category. However, considering that the 'Make' procedure is under review and no project undertaken under the earlier 'Make' procedure has made any perceptible progress, this categorization rules itself out. It also needs to be kept in view that this category is meant for design and development programmes and, therefore, involve a long lead time, which is unlikely to be acceptable. Most importantly, it will make little sense to re-invent the wheel,

given the fact that the kind of transport aircraft required by the IAF does not have to be designed and developed de novo.

This brings us to the next category of 'Buy and Make', which is the one under which the present RFP was issued. It will indeed be odd if the present RFP is withdrawn and a new one is issued under the same category, albeit with removal of restriction on HAL as a possible IPP. Under the existing procedure, a Production Agency (PA) has to be selected from any of the public/private firms, including a joint venture company, as the IPP. How will this be done? There are no guidelines for selection of an entity from the private sector. It was precisely for this reason that the present RFP allows the foreign vendors to select the IPP on their own. This decision was taken after several rounds of discussions in the MoD and after the issue was examined by two committees, one headed by the Scientific Advisor to the Raksha Mantri and the other by the Additional Secretary in the Department of Defence Production. The only viable option would be to nominate HAL as the PA (IPP), putting paid to all the talk about encouraging the private industry.

The last option would be to categorize the proposal as 'Buy (Global)'. That was indeed the initial proposal considering the limited number of aircraft required by the IAF and the urgency of procurement. It was with a view to promoting the Indian industry that IAF had agreed to 'Buy and Make' category with permission to the foreign vendor to select the Indian partner. The accommodation shown by the IAF would go in waste if the proposal is back to square one after more than two years of its initiation.

Speaking at an awards function on November 25, 2013, the *Raksha Mantri* said that there is tremendous scope for both the public and the private sector to grow and play a meaningful role in manufacturing defence equipment and platform for the armed forces. He also said that even if both the public and private sector work to their full potential, they would not be able to fulfil all the requirements of the services in the near future. <sup>1</sup>

This gives the hope that the collective wisdom of the MoD which was behind the decision to issue the present RFP will ultimately prevail – intended, as it is, to promote private industry in aircraft manufacturing sector which has tremendous potential for growth.

*Views expressed are of the author and do not necessarily reflect the views of the IDSA or of the Government of India.*

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<sup>1</sup> MoD Press Release November 25, 2013 available at <http://pib.nic.in/newsite/erelease.aspx>