

Inside a £13bn dogfight

How have the French outgunned Britain over a huge jet fighter deal with India? We investigate rumours of secret talks and nuclear trade-offs

Nicola Smith in Delhi, Isabel Oakeshott and John Follain Published: 5 February 2012



Nicolas Sarkozy claimed last week that the UK 'had no industry' (Goff Photos)

Like a fighter jet swooping out of the sun, it was an ambush. Last Tuesday officials vying to clinch a huge military deal with India were summoned at short notice to the defence ministry in Delhi.

There were senior representatives from EADS, the lead member of the consortium that builds the Eurofighter Typhoon, and which includes BAE Systems, Britain's biggest defence company. Alongside were representatives of Dassault Aviation, the French firm that builds the Rafale jet fighter. At the same time, ambassadors of the competing nations were called into the grey offices of India's external affairs ministry.

Nobody thought anything was amiss. Business leaders and envoys expected to be asked to clarify points of their complicated bids. Privately, the Eurofighter consortium was confident it would ultimately win because the Eurofighter had impressed the Indian air force on its technical merits. "They went into that meeting expecting to be given an update, with March as the date when preferred bidder status was going to be announced," said a defence industry source. "They were all caught off guard."

Ten minutes into the meeting, a bombshell dropped: the Indians said Dassault had been chosen as their preferred bidder for the £13 billion deal. The British were stunned.

Ministers had believed the programme would bring billions to the UK and safeguard up to 5,000 jobs.

Some had hoped that the £1.2 billion Britain is giving in aid to India over five years would help secure the fighter jet order.

Instead, India had snubbed its donor and former colonial master by favouring Britain's arch-rival the French. It was a bitter blow, coming just after President Nicolas Sarkozy had taunted Britain by accusing it of having "no industry".

The French press crowed. "The biggest arms contract of all time in the subcontinent," boasted *Les Echos*, a financial newspaper. "The top prize, the contract of the century," trumpeted the usually staid *Le Monde*. Sarkozy, infuriated two months ago when Britain vetoed a proposed new European Union treaty, could grin smugly once again.

In the aftermath, rumours swirled about how the French had managed to spring such a surprise. There was much talk of "offsets" — diplomatic language for "You scratch my back and I'll scratch yours". Some said France had offered an unrealistically low price for the Rafale. And late last week both Indian and British sources suggested the French might be willing to trade nuclear technology in return for landing the riches of the fighter contract.

Were there secret deals? Or is France supplanting Britain in importance as a trading partner with India, the second-largest nation on Earth?

In 2009 the Rafale was regarded as so inferior that the Indian air force threatened to disqualify it for failing to comply with technical demands. The plane has been rejected by various other countries, including Holland and Morocco.

Within days the French defence minister had been dispatched to Delhi, and Sarkozy was on the phone to Dassault. Before long Dassault was reinserted into the race to supply India with more than 100 fighters; others in the running were America's F-16 and F/A-18, Sweden's Gripen, Russia's MiG and the Eurofighter Typhoon.

By July 2010, when David Cameron chose India as his first prominent foreign tour, Britain had growing hopes that the Eurofighter could win the deal.

Accompanied by six cabinet ministers and 39 business leaders, including senior BAE executives,

Cameron generated positive headlines across India.

After a speech to Indian IT workers in Bangalore, Cameron moved on to Hindustan Aeronautics, the pride of India's manufacturing industry.

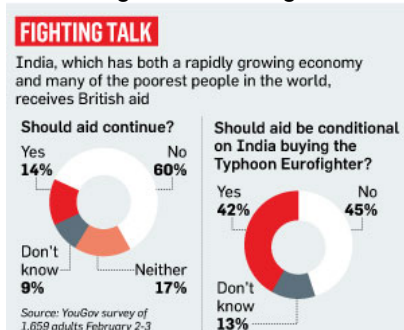
There he signed a deal for BAE to supply 57 Hawk jet trainers. Rolls-Royce would make the engines, and the planes would be assembled in Bangalore. It seemed like a good omen for the bigger hope of India buying 126 Typhoon multi-role combat aircraft.

A year later, however, a hint emerged of how shadowy the world of defence deals can be. At the 2011 Bangalore airshow, which attracted about 700 exhibitors from 45 countries, a minor scandal about alleged bribery arose.

An Indian official was caught accepting a bribe for giving Dassault planes a favourable spot in the exhibition; the local Dassault manager apparently reported that he had been asked for the bribe.

"The complaint is that he was asked for a bribe and he paid the money, which was photographed," said an Indian defence ministry spokesman at the time. Dassault denied any wrongdoing and said its manager had merely been a witness in the case.

Two months later the Rafale was selected for India's final shortlist of planes it might buy; the other was the Eurofighter, knocking the stunned Americans out of the race.



Though the full commercial offers of all the companies had by then been delivered in sealed envelopes, Sarkozy attempted to reopen the French bid to submit a better-priced offer. His requests were denied and on November 4 last year senior executives gathered at the Indian defence ministry where the bids were unsealed. According to industry sources, the Eurofighter consortium was surprised to see the French bid looked like a "booklet" next to their own reams of detailed specifications.

EADS was convinced it had a more attractive all-round bid, not only on long-term costs, but because of its offer to transfer certain technology to India. However, British diplomatic sources said there was some surprise when, despite the complicated nature of the bids, the Indians asked no follow-up questions. An MoD source pointed out that the Typhoon bid was led by Germany with a highly detailed approach that may have been offputting.

Were other factors at play? The role of "agents" in negotiating and influencing big defence deals has been an open secret in Delhi for several years, with several local families known to be key brokers within the corridors of power.

Although it is unclear whether any of these families have been involved in the fighter jet deal, industry insiders claim that Bernard Baiocco, a veteran French consultant, took part in background negotiations. Baiocco, a former employee of the Thales defence firm, allegedly met a senior and influential official in the administration.

Last week Thales, which contributes radar and electronic systems to the Rafale, said Baiocco was not working on its behalf. However, a Paris defence industry source said Baiocco was part of a team set up by the consortium GIE Rafale, a group of 500 companies involved in making the plane.

In Delhi one prominent source suggested that Baiocco's role was influential. "I was told that the Eurofighter had won and then this changed," said Subramanian Swamy, an Indian MP. "Baiocco was here and he went around, and everything changed after that."

Last week Baiocco could not be reached for comment and Dassault declined to answer questions about his alleged meeting with the senior official. The French insist they have become the preferred bidder on pure value for money.

"What swung it was the Rafale's technical capacities and the price," said a French industry source. "The Indians did very thorough testing, and worked out the cost not just of the purchase but also of operating the planes for 40 years."

However, Indian sources suggest other factors were involved, particularly the transfer of nuclear technology. Last year Alain Juppe, the French foreign minister, highlighted his nation's eagerness to help both India's nuclear industry and to develop "our co-operation in the defence sector". Last week The Hindu newspaper, in an editorial about the decision to buy the Rafale, noted: "Of particular interest to New Delhi, is the question of [nuclear] enrichment and reprocessing [ENR] equipment transfers".

The Nuclear Suppliers Group, a set of nations that helps non-proliferation of nuclear technology, had previously banned the transfer of ENR equipment to India. But, said the paper, "France — a key member of the nuclear cartel — has said it will not be bound by the new restrictions. The French must now be held to their word."

Lindsay Hoyle, the Labour MP for Chorley and a deputy Speaker in the Commons, said: "My worry is that the French may be offering assistance on nuclear programmes and technology in order to gain this much needed contract with an inferior aircraft."

Another Westminster source said that after allegations of corruption surrounding the huge Al-Yamamah arms deal with Saudi Arabia, BAE had been at pains to play by the rules. "They are absolutely terrified about doing anything that could even be construed as not cricket," said the insider. "I'm not sure some of their competitors play by the same rules."



Ian Waddell, the national officer for aerospace at the union Unite, said the failure to win the Indian fighter jet deal would blow a hole in BAE's planned work programme from 2014 onward. It could lead to further job cuts at BAE's UK factories, including its main fighter jet plant at Warton in Lancashire, which is responsible for the final assembly of the Typhoon.

One senior British defence industry executive predicted that Warton would eventually become nothing more than "a heritage site".

However, the dogfight with France is not yet over. Cameron has vowed to help the EADS bid win. "I will do everything I can, as I have already, to encourage the Indians to look at Typhoon, because it is such a good aircraft," he said after the Indians had announced Dassault as the preferred bidder.

Cameron insisted the French had not yet won the contract and that the Rafale was an inferior fighter jet to the Typhoon.

"We must go on making the case that this [the Typhoon] is a superb aircraft with far better capabilities than Rafale, and we will try to encourage the Indians to take that view."

 TYPHOON (UK)	HOW THEY MEASURE UP	 RAFALE (FRA)
Mach 2 or 1,550mph	MAX SPEED	Mach 1.8 or 1,323mph
65,000ft	MAX ALTITUDE	50,000ft
40,000lb	THRUST	34,000lb
62,000ft per minute	MAX RATE OF CLIMB	60,000ft per minute
52ft, 2in	LENGTH	50ft, 2in
35ft, 9in	WINGSPAN	35ft, 9in
13	MISSILES	13
27mm revolver cannon	GUN	30mm auto cannon
approx £90m	COST	approx £70m

Although a French government spokeswoman said France was confident it could sign and seal a final deal "within six to nine months", Gérard Longuet, the French defence minister, estimated Paris's chances of nailing the lucrative contract at 80%.

He may have been mindful that in 2009 Sarkozy announced a sale of Rafales to Brazil — only to see the South American country's decision later put into abeyance.

Sources close to the negotiations also say that Dassault has priced its bid on the assumption that the company will sell at least 60 of its planes to the United Arab Emirates. Yet the Gulf state recently called France's terms for upgrading Rafales "uncompetitive and unworkable".

The insider said: "This is another reason why people are saying it's not over yet."

Additional reporting: Mark Hookham, Karl West and John Follain in Paris