

# The Republic and National Defense

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Tuesday, April 3rd, 2012

<http://www.thehansindia.info/News/Article.asp?category=1&subCategory=5&ContentId=50158>

**In 2010 the Indian Government ordered 788 vehicles from BEML, which since 1986 has rolled out 7,000 Tatra vehicles till date. Of the `630 cr contract the Defense Ministry made an advance payment of `315.83 cr. Cost per unit is `80 lakhs a piece!**

It began well in 1986 when Bharat Earth Movers Limited (BEML) – A Government of India Undertaking - took up the manufacture of Tatra heavy-duty trucks under a licence agreement (valid till 1997) from Omnipol Foreign Trade Corporation, Czechoslovakia. When Czechoslovakia broke up in 1992 into the Czech Republic and Slovakia, this latest sorry tale – which seems to resemble the still unresolved Bofors scam of Rajiv Gandhi – began.

Tatra's origins date back to 1850. After privatization in the Czech Republic, it was established as Tatra a.s in 1992. Terex Corporation (US) acquired 71% of its shares in 2003 but after 2006, most of its shares were held by Tatra Holdings s.r.o, which is registered in the Czech Republic and is owned jointly by Vectra Limited UK (39%), Sam Eyde Xavier (29%) and KBC Private Equity (20%) and others (12%).

Tatra Holding has a board consisting of William J. Cabaniss, former US Ambassador to Czech Republic as Chairman, Ravinder Kumar Rishi (NRI who controls Vectra Limited), William Louis Shroeger, Floris Maria Cyriel S. Vansina (representing KBC), Jiří Krutílek and Jaroslav Nováček as directors. Tatra Holdings has equity of 200,000 Czech crowns – about US\$ 100,000 or Rs 50 lakhs only.

This structure came into existence on 15th December 2006 when Tatra Holdings paid the Czech Republic US\$ 130 million, which was paid in kind – with 556 military trucks! Pity the Government of India did not buy it up – as a BEML subsidiary we could have made something of it while also helping by placing orders as usual.

Tatra's chairman is Ronald A. Adams (shareholder in Tatra Holdings) and one more director, Duncan Sellars. Tatra has only two subsidiaries - Taforge and Tafonco. So either Gol buys from Tatra or its designated subsidiaries or it buys from a middleman. But BEML entered into an agreement with Tatra Sipox (UK) – which was incorporated in 1994 as a “manufacturer's agent” in Britain. The purchase for defense equipment through “middlemen” or “agents” is forbidden by the Government of India. Yet this went on over years and VRS Natarajan, BEML's CMD says, "You must understand that in Europe no manufacturer exports directly. They all have a marketing company who promotes their product."

Tatra has a truck-building joint venture in India called Tatra Vectra Motors Limited (TVML), formerly called Tatra Trucks India Ltd. It is a joint venture between Tatra and the Vectra Group from England. The manufacturing plant is located in Hosur, Tamil Nadu.

The fully integrated manufacturing facility includes an engine assembly and testing plant, a cabin welding shop, a frame fabrication shop and a test track. But this entity is not the Government of India supplier. Why not? Because it would have to make a competitive bid along with others which BEML does not have to?

As VRS Natarajan, says: "In the last 26 years, from 1986 onwards, BEML assembled manufactured, supplied 7,000 Tatra trucks. All of them have been done on single nomination basis, single inquiry basis... When I am the single vendor and there is no competition, there is no influence required."

In 2010 the Indian Government ordered 788 vehicles from BEML, which since 1986 has rolled out 7,000 Tatra vehicles till date. The order comprises supply of 498 8x8 vehicles, 278 6x6 vehicles without winch and 12 6x6 with winch. Of the Rs 630 crores contract the Defense Ministry made an advance payment of Rs 315.83 crores. Cost per unit is Rs 80 lakhs a piece!

In July 2011, the media revealed that nearly Rs 750 crores over the last 14 years had been siphoned off by commissions and bribes related to BEML purchases of Tatra vehicle components through Tatra Sipox (UK) Ltd -- which was not a subsidiary of Tatra (the original component manufacturer). A BEML shareholder -- a senior advocate -- KS Periyaswamy had made an appeal to the President of India and asked for a CBI inquiry.

He says: "At least 15% of the money sanctioned for the purchase of Tatra trucks is siphoned off as commission. Everyone from top to bottom gets their share. In my capacity as shareholder, I had highlighted this issue in the 2002 annual general meeting, but it wasn't taken up." But in 2003 BEML signed another ten-year agreement with Tatra Sipox (UK) Limited!

BEMEL and Ministry of Defense say that Tatra Sipox (UK) is a fully owned subsidiary of Tatra Sipox, a Slovakian (not Czech) company. They do not say it has anything to do with the manufacturer Tatra ! But Defense Ministry claims that when they approached Tatra they were directed to Tatra Sipox (UK) Limited!

In August 2009, Dr D Hunumanthappa wrote to the Congress President Sonia Gandhi on this violation and enclosed a submission of an assistant general manager of BEML's Truck Division on this issue.

Sonia Gandhi forwarded her copy -- not to the Defense Minister - but to the Minister of Health, Ghulam Nabi Azad ! Azad then wrote to the Defense Minister A K Antony forwarding the letter on Sonia Gandhi's behalf! Antony then marked the letter to Secretary Defence Production. Besides Antony, even Law Minister Veerappa Moily was apprised of the scam. Replying to a similar letter from Dr Hanumanthappa dated September 2, 2009, Moily said: "I am taking up the matter with the ministry concerned".

Now readers are expected to imagine why all this letter writing, submission of affidavits, VRS Natarajan, Sonia Gandhi, Azad, Antony, Secretary Defense Production all of them seem to have kept very quiet. It took the Army Chief of Staff to blow the whistle on the whole matter.

The General says that the BEML cost per vehicle (Rs 80 lakhs) is twice the cost of the same vehicle offered by Tatra in Europe. So who is making the extra cash? Tatra Sipox (UK) is certainly making it but to whom is it going from there.

This is only the tip of the iceberg as India buys 10% of armaments sold worldwide. Then Antony -- who all along knew about the matter -- had the cheek to tell the media and the nation that the General should have taken action when he was approached with a bribe offer to approve the latest Tatra-BEML order. And Antony is a contender to be Commander in Chief of Indian Armed Forces in April 2012!

What is more extraordinary is that Antony now says the Government has full confidence in the three Defense Chiefs. The question really is: Do the three Chiefs have confidence in the Government?

And, moreover, can anyone have confidence that between the Chiefs and the Government, they will be able to defend this Republic -- which is rapidly taking the shape of a banana. Do we have to wait for a Second Republic for the defense of the nation to become first priority?

PS: Meanwhile, in the Czech Republic, the Indian truck deal had already started unraveling a year ago. In April 2011, the Czechposition.com reported that Václav Láska, a former high-ranking police investigator, lawyer and one-time head of the local branch of watchdog Transparency International, has filed a criminal complaint against Ravi Rishi.

He says: "The transactions have been conducted through British-registered intermediary firm Vectra Limited, which, according to the charges, has frequently purchased the CKD kits at below production cost, thus causing losses to the Czech company running into millions of crowns...."

The Tatra company sells kits to the British company Vectra Limited without a profit margin, and even at prices lower than the cost of manufacturing. All margins from this business, i.e. all profits from these transactions, go only to the accounts of the British company. The fact that the representatives of Tatra allow these transactions clearly contradicts the principles of sound economic governance."

Láska claims that between 2005 and 2010 Tatra lost around Kč 270 million (US\$ 13.50 million) in potential profit. The calculation is based on a profit margin of 10 percent per kit, which he says the management intentionally forfeited in order to sell the goods to Vectra Limited at a knock-down price. Láska also says that through the transactions the company also avoided paying tens of millions of crowns in tax.

"By transferring the considerable profits to the British company, the Tatra company reduced its income tax payments by tens of millions of crowns," Láska said.

Tatra's Adams claims that: "It's the Indian deliveries which helped keep production going and cover Tatra's basic fixed costs."

Tatra is also the subject of an on-going police investigation into a delivery of trucks to the Czech Ministry of Defense in 2006 worth Kč 2.7 billion (US\$ 135 million). Tatra won the contract without a public tender being held.

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