

"Irregularities and overpriced purchase price and the awkwardness Sukhoi Procurement"

By: Indonesia Corruption Watch

A. Background

The Indonesian government has signed contracts to buy Sukhoi fighter 30MK2 6 units of the Russian Federation Government as part of a plan to form a squadron of Sukhoi-based airbase Hasanudin, Makassar. Earlier, Indonesia has 10 units consisting of two Sukhoi Su-27SK type of unit, 3 units of the type Su-27SKM and 2 units of the type Su-30MK, 3 units of the type Su-30 MK2. The total budget is disbursed to the procurement of 6 units of the type Su-30MK2 is U.S. \$ 470 million.

Procurement of Sukhoi above is part of an effort to modernize defense equipment for the period 2010-2014. And the estimated budget of up to Rp 149.78 trillion. Details are for procurement of Rp 87.32 trillion, care / maintenance of defense equipment to Rp 62.46 trillion, which for 2010 is allocated Rp 23.10 trillion, in 2011 amounting to Rp 32.29 trillion in 2012 to Rp 29.66 trillion in 2013 to Rp 32.58 trillion in 2014 to Rp 32.15 trillion (Jurnas Nasional, February 24 th 2010).

According to the letter of the Secretary of Defense No. R/96/M/III/2011 additional filings allocation of foreign loans to Ministry of Defence addressed to the BAPPENAS on March 21, 2011, said that additional foreign loans or commercial loans including for the procurement of 6 units of Sukhoi Su 30 MK-2 and its support of U.S. \$ 470 million. As of this writing, the Government of Indonesia and the Russian Rosoboronexport as the manufacturer Sukhoi still complete some part of the contract is the purchase of six Sukhoi unit.

2. Problems

Against the planned purchase of six Sukhoi aircraft, there are some questionable things to the Government of Indonesia as there are indications of corruption in the process of procurement / purchase of Sukhoi, particularly related to the overpriced, irregularities and discrepancies price of the aircraft that are not small.

There are several questions.

First, why the Government of Indonesia (Ministry of Defence) prefer to use the scheme with funding the purchase of Sukhoi foreign loans or commercial loans, not to use state loan facility provided by the Government of the Russian Federation amounted to U.S. \$ 1 billion?

Secondly, why the purchase price of Sukhoi could reach U.S. \$ 470 million to U.S. \$ 500 million for the six planes, while the procurement in 2010, the value of purchases from the same manufacturer

Sukhoi is only about U.S. \$ 55 million? If the price of the deal is U.S. \$ 500 million for the six Sukhoi, Sukhoi This unity means the price is U.S. \$ 83 million.

last, why in the purchase of six new Sukhoi, there is involvement of a third party or agent who is actually out of the spirit to make the process of purchasing or procurement through G to G?

3. Analysis of Problems

Sources of Funding

On September 6th 2007, it was agreed the extension of credit (state credit) between the Government of the Republic of Indonesia and the Government of the Russian Federation. Earlier, on September 22 th 2005, the Government of Indonesia and Russia have approved a military technical cooperation and assistance to the implementation of the MoU signed by the military technical assistance on December 1, 2006 for the period 2006-2010. In principle, the agreement, the Russian government to provide credit facilities for purchase of defense equipment to the Indonesian government for U.S. \$ 1 billion.

In one clause of the agreement, namely in article 14 that the government of Indonesia agreed to buy some military equipment from the Russian government credit sources, namely:

- A. Helicopter Mi-17V-5
2. Mi-35P helicopter and its supporting
3. Diesel electric submarines
4. Vehicles BMP-3F
5. Sukhoi Su 27 and Su-30MK2 including avionics.

From the above agreements, it is clear that the procurement should be sourced from credit Sukhoi Russian government. This was reinforced by B/1390-03/05/01/Srenaau letter, dated December 8 th, 2010 on the revised procurement plan the Air Force FY 2010 to 2014 of Planning and Budget Assistant Chief of Staff to the Commander of Air Force Military Unit is mentioned that for the procurement of six units and provision of 2 units of Sukhoi jet tankers that original budget is supported from sources borrowing of foreign debt, use the State Credit diverted from the Russian Government.

Transitional funding the purchase of Sukhoi as the letter was part of the efficiency of use foreign debt which was originally at U.S. \$ 5.588 million to U.S. \$ 1.920 million.

But currently, the Government of Indonesia (Ministry of Defence) would propose funding the purchase of six Sukhoi unit sourced from foreign debt. As evidenced by a letter addressed to R/96/M/III/2011 number to BAPPENAS.

In the appendix the letter, additional foreign debt for military procurement. 2011-2014 amounted to U.S. \$ 695 million of which U.S. \$ 470 million of them for the procurement of the Sukhoi Su 30 MK-2 and its support. Meanwhile, for the procurement requirements for the same period of the Russian

government source of credit for a total of U.S. \$ 1 billion just filed a U.S. \$ 362.4 million. Surprisingly, from the Russian government credit sources, Ministry of Defence filed Simulator purchase Sukhoi Su-avionics and Sucas 27SK and Su-30MK.

Additional details of the proposed allocation for the procurement Alutsista PHLN TNI TA. 2011-2014:

Additional Loan and Grant Abroad / Commercial Credit		
No	Item	Amount (USD)
1	Sukhoi Su-30 MK 2 and the support	470 million
2	Supply PSU (step II)	100 million
3	Procurement Cluster 3 PSU	20 million
4	Spatial Disorientation Trainer	10 million
5	Repair / Sucas Scorpion	10 million
6	Arhanud Cluster	10 million
7	Heli AKS	75 million
	Total	695 Million
The Russian government source of State Credit		
1	helicopter Mi-17 V5 and support	219.360.528
2	Amphibious Tank BMP-3F	60 million
3	Sucas Tank Amfibi BMP-3F	3 million
4	Sukhoi Simulator	45 million
5	Sucas Avionics Su 27/30	25 million
6	Sucas Helicopter	10 million
	Total	362.360.528

The consequences of the use of funds from the Commercial Credit is a payback period is relatively short, ie 2-5 years and the imposition of bank charges, high interest loans based on market rate. Conversely, if Ministry of Defence using Russian government credit facilities, repayment term of 15 years can be achieved with a lower interest rate, which is about 5 percent. Another advantage, using credit from the Russian government, its cooperation scheme is G to G, so there should be no involvement of any third party or agent. With the involvement of a third party or agency, the alleged price game will be much easier, not calculated fee payable to a third party or agen range up to 15-20 percent of total procurement.

Indications overpriced, the morbidity and clumsiness Price

Very likely, an indication of overpriced, the morbidity and irregularities in the procurement of Sukhoi price can not be separated from strategy to buy Sukhoi Ministry of Defence through the mechanism

of foreign debt. Again, the mechanism of foreign debt, the involvement of a third party or agent becomes unavoidable.

As explained above, in 2010 the government of Indonesia to buy Sukhoi for U.S. \$ 55 million for one unit. However, the purchase of six Sukhoi contracts in 2011-2012, why the price of one unit could rise to U.S. \$ 83 million? By comparing the two rates, then there is a price difference of U.S. \$ 28 million for each unit.

Meanwhile, when compared with the published official price per August 2011 Rosoboronexport, Sukhoi Su 30 MK price is U.S. \$ 60-70 million per unit. Thus, compared to the price of the manufacturer Sukhoi officially released and even then, the price used by the Government of Indonesia is still very expensive. There is minimal difference of up to U.S. \$ 13 million for each unit. If the Government of Indonesia to buy 6 units, then the difference in price expensiveness, irregularities and discrepancies price is U.S. \$ 78 million

Indication of involvement of Agents or Third Party

Since the beginning of the procurement process has to be expected that the purchase of six Sukhoi using foreign debt mechanism, it is strengthened by the involvement of agents or third parties. As noted in the official announcement made by the Air Force Headquarters Office of Procurement Peng/13/X/2011/Disadaau numbered, October 21 th 2011, signed by First Secretary, Head of the Procurement Committee, noted that the Headquarters Procurement Office will carry out a direct appointment to the procurement program Sukhoi 30-MK2 and backed its support of the Export Credit Facility for 2011.

Furthermore, the announcement said, to the prospective provider of goods or services that are designated, the "Rosoboronexport JSC" Russia is mediated by PT Trimarga Rekatama to immediately sign up and take a pre-qualification documents. In fact, Russia's Rosoboronexport has a representative office in Jakarta. Supposedly, Headquarters Air Force does not need to invite an agent for a manufacturer Sukhoi has a representative office in Jakarta.

It is strong and clear evidence of the involvement of agents, so the trick that led to allegations of irregularities and discrepancies in price.

4. Conclusions

a. Conclusion

There are mechanisms that the purchase of six Sukhoi awkward, and the attempt to bring order to the procurement of Sukhoi-funded by the Export Credit Facility, instead of the Russian Government Credit Facilities are available.

There are indications overpriced, irregularities and discrepancies at a great price on the purchase of six Sukhoi over up to U.S. \$ 78 million.

There is involvement of agents or third parties in the supply of six Sukhoi potentially devastating the country and breaking mechanism of procurement services.