

CHAPTER IV: INDIAN COAST GUARD

4.1 Delay in acquisition of Inshore Patrol Vessels

Acquisition of Inshore Patrol Vessels (IPVs) for Coast Guard on nomination basis for timely replacement of existing 13 IPVs did not fructify due to procedural delays. Resultantly, eight of the thirteen IPVs decommissioned between December 2008 and July 2013 could be replaced after a delay of four to sixty months, while replacement of the remaining five IPVs had not been received, thereby resulting in restricted operational effectiveness of the Coast Guard.

Inshore Patrol Vessels (IPVs) are medium class vessels which are suitable for high speed interception, coastal surveillance and Search / Rescue operations. The Coast Guard (CG) had 13 numbers of IPVs, commissioned between February 1984 and November 1990, which were designed for a life span of 15 years.

In order to replace the aging vessels, Coast Guard Headquarters (CGHQ) initiated (November 2005) a case for acquisition of 16 IPVs (13 for replacement and 3 new). The Department of Defence Production (DDP) recommended (December 2005) to CG, nomination of M/s Garden Reach Shipbuilders and Engineers Ltd. Kolkata (M/s GRSE) and M/s Goa Shipyard Ltd, Goa (M/s GSL) for construction of eight IPVs each. The purpose of nomination of two shipyards was to ensure early delivery of ships and to maintain time line of the year 2009/ 2010 for replacement of the vessels. In its recommendations, DDP stated that M/s GSL was in a position to meet the delivery schedule provided the order was placed within the same financial year i.e. 2005-06.

Acceptance of Necessity (AoN) was accorded by Defence Acquisition Council (DAC) in August 2006 and recommendations of DDP were sought again by

CGHQ in view of lapse of timeline of March 2006 as recommended by DDP. DDP again recommended (October 2006) nomination of M/s GRSE and M/s GSL for construction of 16 IPVs. Thereafter, a commercial Request for Proposal (RFP) was issued (February 2007) to M/s GRSE and M/s GSL for 16 IPVs, after approval by Ministry of Defence (MoD) (February 2007). RFP had a provision for sharing of the order quantities between the two shipyards subject to L-2 shipyard matching the final negotiated cost of L-1.

Bids were received from both the vendors (March 2007) viz., M/s GRSE and M/s GSL. Contract Negotiation Committee (CNC), in March 2007, declared M/s GRSE as L-1 at final negotiated basic price of ₹973.24 crore for 16 IPVs. However, Defence Procurement Board found (June 2007) the negotiated price to be on the higher side as compared to the Last Purchase Price and the matter was referred back to CNC for re-negotiation. Thereafter, CNC conducted prolonged deliberations with M/s GRSE for about 13 months (August 2007 to September 2008) to re-negotiate the basic price of 16 IPVs from ₹973.24 crore to ₹968.33 crore.

While the negotiations were on, M/s GSL withdrew its offer (July 2007) after the expiry of the validity of bids, citing its inability to participate in construction of IPVs due to ongoing pressing commitments leading to a resultant single vendor situation.

Cabinet Committee on Security (CCS) approved the proposal (March 2009) for acquisition of only eight IPVs from M/s GRSE at a total price of ₹532.79 crore, inclusive of spares, with directions to issue multi-vendor RFP for the remaining eight IPVs within three months. The contract was concluded (March 2009) with M/s GRSE for eight IPVs, with first IPV to be delivered in August 2011 and delivery of all the eight IPVs to be completed by May 2013.

In spite of the directions of CCS (March 2009) to issue multi-vendor RFP for the remaining eight IPVs, RFP was issued (November 2009) to only four DPSU/PSU shipyards¹ for which techno-commercial proposals were received (March 2010) from all the four vendors. Subsequently, CNC recommended (November 2010) acquisition of eight IPVs from L1, M/s HSL at a total price of ₹551.12 crore, inclusive of spares. After approval by Competent Financial

¹ (1) M/s Cochin Shipyard Ltd. (CSL, Kochi), (2) M/s Hindustan Shipyard Ltd. (HSL), Visakhapatnam, (3) M/s Garden Reach Shipbuilders & Engineers Ltd. (GRSE), Kolkata and (4) M/s Goa Shipyard Ltd. (GSL), Goa

Authority (CFA) (February 2011), contract was concluded (March 2011) with M/s HSL for eight IPVs, with the first IPV to be delivered in August 2013 and subsequent vessels at intervals of three months.

In this connection, we noticed (May 2013 and April 2015) that:

- CGHQ/MoD took 40 months for conclusion of contract with M/s GRSE as against the stipulated 11-16 months of which 13 months were taken for according of AoN instead of one month as stipulated in DPP. Further, CNC could only achieve a discount of ₹4.91 crore even after negotiating for about 18 months as against 3 to 5 months as per DPP. This resulted in withdrawal of bids by M/s GSL leading to loss of opportunity to negotiate with L-2, i.e. M/s GSL for the remaining IPVs and achieving time advantage.
- IPVs were to be delivered by M/s GRSE from August 2011 to May 2013, but were actually delivered between January 2012 and October 2013 and none of the IPVs had been delivered by M/s HSL due to shipyard's inability to finalise the design/designer for the project. The delivery of the first IPV to be delivered by M/s HSL has been re-scheduled to be delivered in December 2016 after a delay of 40 months.

In response to our observations CGHQ stated (July 2013) that the delay was due to approval of the project in phases and the time consumed by CNC, due to detailed deliberations, aimed at arriving at a reasonable cost. It was also stated that M/s GSL decision to withdraw was based on the ongoing pressing commitments on various projects vis-à-vis construction facilities available with them. Further, in reply to our observations on issuing of RFP to DPSU/PSU shipyards only, CGHQ justified the exclusion of private yards sighting unsatisfactory experience in the ongoing ship construction projects. CGHQ further stated (April 2015) that it had recommended the issuance of RFP to M/s HSL, based on the fact that the shipyard was already involved in ship building projects for Indian Navy. Further, DDP had confirmed that HSL had huge infrastructure which were under-utilised and had the capacity to construct these eight IPVs with delivery on time.

The reply of CGHQ is not tenable due to the following reasons:

- CGHQ/MoD took 40 months for conclusion of contract against stipulated 11 to 16 months. Thus, in spite of the fact that operational

effectiveness of the Coast Guard was being hampered, there was no urgency in processing the case for conclusion of contract for acquisition of IPVs.

- Issue of RFP only to PSU/ DPSU shipyards was not in keeping with the spirit of the CCS sanction for issue of a multi-vendor RFP, thus, adversely affecting the level of competition by limiting the competition to PSU/ DPSU shipyards only.
- HSL's inability to finalise the design of the IPVs leading to delay in delivery, clearly shows that the capacity of M/s HSL was not adequately assessed before conclusion of the contract.

Thus, procedural delays in conclusion of contract resulted in delay of four to sixty months in replacement of eight out of the 13 IPVs which were decommissioned between December 2008 and July 2013, while replacement vessels for the remaining five IPVs were yet (August 2015) to be received, thereby restricting the operational effectiveness of the Coast Guard.