

RM180bil defence bill: Little bang for the buck
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SPECIAL REPORT Over the last 23 years, Malaysia's defence spending has taken a whopping RM180 billion from the national coffers.

azlanThe average annual defence spending each year is close to 2.5 percent of the nation's GDP from 1987-2004, which should turn Malaysia into a country with decent defence capability, according to a defence analyst.

However, Malaysia's defence forces is in a sorry state which can only deal with 'military operations other than war' (MOOTW).

This is not surprising as allegations of corruption and mismanagement relating to defence procurement continually crop up.

Defence expenditure has been the second-largest item in the national budget until the global financial crisis hit Malaysia in 2008, resulting in other items overtaking it in the 2009 budget.

Defence Ministry expenditure has grown more than five times, from RM2.09 billion in 1987 to RM11.013 billion in 2010.

The total expenditure during this period was RM178.989 billion - the equivalent of building six Putrajayas or 60,000 primary schools.

The defence allocation ranges from 1.6-3.2 percent of the nation's GDP. According to Lam Choong Wah, editor of defence portal KL Security Review, this is moderate compared to the international average of 2 percent.

He pointed out that this level of spending should give Malaysia an appropriate level of military capacity but the reality shows the opposite.

But with so many obsolete weapons and equipment in hand, the defence system can only face low levels of military conflict and perform MOOTW such as peacekeeping, he said.

azlanJustifying this disturbing fact with the lavish military spending begs questions.

Expenditure on big-ticket items should always come with strict monitoring and high accountability. Unfortunately doubtful defence procurement, sometimes reaching scandalous proportions, is said to be a common phenomenon in the Defence Ministry.

In this three-part special report, Malaysiakini attempts to uncover the root causes of suspicious procurements and ways to enhance the current check-and-balance mechanism.

It begins with a list of questionable defence deals in recent years, compiled from media reports. These involved RM26.8 billion and were completed under the watch of Najib Abdul Razak who helmed the Defence Ministry from 2000-2009.

Questions raised about most of the transactions have been left unanswered. Although some were investigated and elements of corruption and mismanagement were found, no senior official has ever been held accountable.

Submarines in global spotlight

The Defence Ministry signed a contract with France's DCNS and Spain's Navantia in 2002 to purchase

two Scorpene submarines. The deal is expected to cost RM7.3 billion including maintenance and other services.

What has raised eyebrows is the payment of 114 million euros (RM510 million) to a local company called Perimekar. The sum was alleged to be a commission but the ministry has insisted it was for 'coordination and support services' involving the submarine deal.

abdul razak baginda najib altantuya murder 201108Perimekar is wholly owned by another company, KS Ombak Laut Sdn Bhd, which in turn is controlled by Abdul Razak Baginda, a close confidante of Najib.

The deal turned into a scandal when Abdul Razak was charged with abetting two of Najib's bodyguards in the murder of Mongolian interpreter Altantuya Shaariibuu, who was shot in the head on Oct 19, 2006, and then blown up with C4 explosives available only to the military.

According to testimony revealed in court, Altantuya was apparently blackmailing her then-lover Abdul Razak for US\$500,000 for reasons unknown. She accompanied Abdul Razak to Paris when the ministry was negotiating the submarine deal.

The case attracted international attention when judges in the Paris Prosecution Office prompted a preliminary police inquiry after two French lawyers filed the case on behalf of Malaysia's human rights organisation Suaram.

The scandal escalated when private detective P Balasubramaniam, hired by Abdul Razak to protect him from a furious Altantuya, filed a statutory declaration after the trial indicating that Najib had actually been the victim's lover and had passed her on to Abdul Razak.

azlanHowever he retracted the allegations the next day and went into hiding before taking up residence in India.

He later claimed that he had been offered RM5 million by a businessman close to Najib's wife to retract the allegations and leave the country.

He further alleged that he had met Najib's younger brother Nazim regarding the case.

Balasubramaniam recently met French investigators, and also delivered written replies on July 22 to questions from the Malaysian Anti-Corruption Commission which is investigating his allegations.

In a twist to the sorry tale, the first submarine KD Tunku Abdul Rahman, which arrived in Malaysia last September, could not dive due to technical problems, but repairs left it fully operational in February this year.

Meanwhile, DCNS faces other allegations relating to submarine sales in Taiwan and Pakistan.

Jet engines 'fly' to Uruguay

Two Northrop F-5E jet engines from the Royal Malaysian Air Force (RMAF) were found to be missing in May 2008, sparking allegations of the involvement of corrupt officials.

The engines were reportedly taken from a military air base in 2007 and sold on the black market to a South American company. The authority later traced the engines to Uruguay and brought these back in June this year.

Defence Minister Ahmad Zahid Hamidi initially said the engines cost RM50 million each but later clarified that the correct figure is RM303,570.

The ministry claimed that no senior air force officers were involved in the theft. The same answer was

given by Parliament's Public Accounts Committee (PAC) after investigations.

Former RMAF sergeant N Tharmendran, 42, has been charged with a company director in relation to the case. They have claimed trial in the Petaling Jaya Sessions Court.

Tharmendran has since revealed that he had been tortured by military intelligence officers into confessing while under detention during an internal probe.

No testing of Eurocopter

In October 2008, two letters from Capt (rtd) Zahar Hashim, chairperson of Mentari Services Sdn Bhd - a local company representing a foreign defence company - alleged that the Defence Ministry had overpaid RM1.419 billion to buy 12 Eurocopter Cougar EC 725 helicopters to replace the armed forces' aging and accident-prone fleet of Nuri choppers.

helicopter military eurocopter cougar ec 725 troop transporterHe claimed that the ministry intended to pay RM2.317 billion for the deal although another company had offered RM898 million for similar choppers.

The letters, written to Najib, outlined several other discrepancies while also accusing him of hastily signing the Letter of Intent dated Sept 15, two days before he moved on to Finance Ministry.

The allegations sparked an uproar and led to the investigation by the PAC, which eventually found 'no procedural abuse' in the tender process.

However, the PAC confirmed that there had been no physical examination of the 12 helicopters prior to purchase.

The ministry finally sealed the deal on March 8 this year at a cost of RM1.542 billion.

Sukhoi jet deal

The Defence Ministry paid RM3.2 billion to buy 18 Sukhoi-30MKM jets from Russian state-owned company Rosboronexport in May 2003. This was to replace 14 US-made F-5Es, which have been in service for two decades.

military malaysia fighter plane sukhoi su 30 mkm 290507 02The deal was made through local agent IMT Defence Sdn Bhd, owned by former Umno minister and Malacca chief minister Mohd Adib Adam.

Controversy broke in 2005 when Mohamad Zainuri Mohamad Idrus, a former director of IMT Defence, lodged a police report and filed a legal suit against Mohd Adib.

He claimed that Mohd Adib had secretly registered a new company in Labuan with a name similar to IMT Defence, in order to channel the RM380 million in commission from the deal to the new company. No action has been taken against Mohd Adib.

The ministry defended the purchase, saying that Rosboronexport had wanted to make the deal with the aid of a local firm.

Naval patrol boats scandal

The Auditor-General's (AG) Report 2006 tabled in Parliament on Sept 7, 2007 revealed that a contract given to PSC-Naval Dockyard, owned by an Umno associate Amin Shah Omar Shah, to build six naval vessels for the navy had ballooned from RM5.35 billion to RM6.75 billion and was a near failure.

amin shah omar sshah and malaysia naval shipsThe company was contracted to deliver the patrol boats in 2004 and to complete delivery by April 2008. However only two patrol boats had been delivered by

mid-2006, and these could not be fully optimised due to defects.

In all, 298 complaints were lodged on the operation of the vessels. One boat was also found to have 100 incomplete works, while the other had 383.

The report found that the ministry had paid out RM4.26 billion to PSC up to December 2006 although only RM2.87 billion of work had been done, an overpayment of RM1.39 billion.

It said the government had released a big proportion of the RM4.26 billion upon 'confirmation of order' for equipment and systems, rather than upon delivery.

Another shocking revelation was that 14 progress payments amounting to RM943.46 million to the company between December 1999 and January 2002 could not be audited as the payment vouchers and supporting documents were missing from the Defence Ministry's records.

The AG further estimated that the government could claim at least RM214 million in penalties for the late delivery but the cabinet decided to waive payment at the request of the shipyard.

The report noted the abnormally generous payment of RM1.07 billion as deposit, which amounts to 20 percent of the contract price upon signing the agreement.

najib first sixth pm speech 040409The AG was also dissatisfied with the quality of monitoring by the project steering committee - led by Najib.

He urged both the finance and defence ministries to give "serious concern" to implementation in order to avoid the weaknesses being repeated in the remaining vessels, and urged that a joint committee comprising both ministries be set up.

The company was later bought over by Boustead Holdings Bhd which revived the project and Amin Shah, once touted as 'Malaysia's Onassis' was declared bankrupt in October 2007.

Poser over RM8 billion APCs

In April this year, DAP Petaling Jaya Utara MP Tony Pua accused the Defence Ministry of intending to buy 257 armoured personnel carriers (APC) for a total of RM8 billion - which he claimed was far above the market price.

azlanIt was reported that ministry had signed a Letter of Intent worth RM8 billion with Deftech Sdn Bhd for the APCs, during the Defence Service Asia 2010 exhibition in Kuala Lumpur.

However the ministry responded that the decision on the pricing of APCs had not been made. It also defended the planned purchase as a necessity to developing the defence system to international standards.

But the ministry confirmed that a Letter of Intent had been sent to Deftec for thorough study of the APCs to see if these conform to the ministry's standards.

15-year lease of ACMI

In January this year, blogger Raja Petra Kamarudin claimed on his website Malaysia Today that Najib, while he was the defence minister in 2007, had approved the lease of the Aircraft Combat Manoeuvring Instrument from Aerotree Sdn Bhd at a cost of RM21 million per year, for 15 years.

The lease was to provide training for RMAF personnel. Formerly the training was done in Korat, Thailand, at a cost of RM2 million per year. Hence the cost of the lease was alleged to be more than 10 times what the RMAF had been paying.

Raja Petra furnished apparently official documents that indicate Najib had approved the contract based on direct negotiation without open tender. He claimed that the negotiated contract was not conducted according to procedure.

Sub-standard combat uniforms

The 2006 Auditor-General's Report released in September 2007 found that combat uniforms, leather boots and ballistic helmets worth RM101.75 million supplied from 2004-2006 did not meet the army's specifications.

military malaysia army tentera 131106 trainingAmong others, the report revealed that 5,000 units of ballistic helmets - costing from RM481 to RM484 each - were found to have serious "delamination and trauma effects", but had still been distributed to the army.

The helmets were supplied by Seri Mukali Sdn Bhd which had been given a RM19.83 million contract from 2004-2006.

Other items that failed to meet the specifications were combat uniforms, webbing sets and leather boots.

The report also pointed out that four suppliers, who were late with delivery, were not fined despite a provision for this in the contract.

Police reports against Airod

Three police reports on alleged corruption were lodged in 2005 against Ahmad Johan, president of Airod Sdn Bhd, which held major contracts with the air force.

airodHe was alleged to have set up a company, Quality Ranch, with his son Edron Hayata to siphon RM5.7 million of commission.

The payments were said to for 'consultancy work' involving extensions on two C130 aircraft owned by the air force and contracted out to Airod.

However PKR deputy president Syed Husin Ali, who lodged the report, claimed that the actual consultancy work was carried out by United States-based Lockheed Martin.

He added that the consultancy contract was given to Quality Ranch even though the company did not have any experience in the field of aviation.

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