

Audit of the procurement of reconnaissance drone system 15 armasuisse

Key facts

In September 2016, the Swiss Federal Audit Office (SFAO) conducted a procurement audit at armasuisse (ar). Parliament approved CHF 250 million for the proposed purchase under the 2015 Armament Program 2015 (AP 2015). The intention is to replace the now obsolete ADS 95 reconnaissance drone system, which dates back to the 1980s, with six Hermes® 900 Heavy Fuel Engine (HFE) UAVs supplied by the Israeli company Elbit Systems Ltd (Elbit).

Procurement project in the media spotlight

The ADS 15 reconnaissance drone system has come under fire in the media. The technical challenges posed by the “sense and avoid” (SAA) system and performance enhancements to the UAVs have been described as involving unnecessary risks and unwarranted “Swissness”. Reports on the German Euro Hawk drone system have also fuelled concerns about allowing access to airspace without an escort aircraft. In addition, concerns have been expressed about the timeline for troop deployment, which is scheduled to start in 2021. At present, there is no certified SAA system in operation for UAVs either at national or international level. However, the results from SAA test flights to date have been positive. The SFAO believes it is possible to achieve full certification for ADS 15. Thanks to advanced avionics, it will also be possible to scale back the escort aircraft required for ADS 15 UAVs without using SAA. As the prime contractor, Elbit has overall responsibility for the system. The manufacturer performs technical upgrades and product enhancements as part of an ongoing process to improve system and flight performance. Elbit’s Hermes® 900 HFE is a state-of-the-art drone system that is highly standardised, which means that the allegations of unwarranted “Swissness” are baseless.

Proven need with clear specifications and a fair procurement process

ADS 15 will retain the existing air reconnaissance capability of the armed forces, harnessing state-of-the-art technology. Civilian users, e.g. the Swiss Border Guard and police force, have also provided input on their requirements for air reconnaissance services. Thanks to clearly defined performance specifications (compliance with internationally accepted aviation standards, relevant procedures and evidence of compliance with standards and time schedules), an established optimum conditions for comparing bids, preparing contracts and, ultimately, achieving certification of airworthiness. Although ADS 15 qualifies as a procurement of defence equipment and, as such, is not governed by the Swiss Public Procurement Act, the procedure selected by ar still required competition between bidders. Elbit was selected from among 17 systems and 14 global suppliers and awarded a contract to supply the Hermes® 900 HFE system. In conducting the multi-stage evaluation procedure, ar adhered to the rules laid down in the public procurement legislation.

The prime contractor has taken out risk-based liability insurance cover. The value insured is 80% of the contract amount. Any payments made by ar other than for tangible consideration are covered by a bank guarantee or guarantee in respect of increases. The two-year warranty period for the ADS 15 is also covered by a bank guarantee. The guarantee validity periods expire and commence on the date on which the system is delivered. Any delays in the delivery schedule will not result in



automatic extension of the periods of validity. SFAO recommends extending the guarantees by six months. Any further material delays should only be permitted if guarantee periods are extended and approved by the bank.

The SFAO expects a clear statement of costs in the Armed Forces Dispatch

The SFAO takes the view that the Dispatch on the AP 2015 should have provided more precise information. The tax costs need to be clearly presented for each purchase proposed under an Armament Program. For example, the SFAO estimates that somewhere between CHF 9.5 and 17 million in value added tax (VAT) and transport costs will be incurred on imports. However, the exact figure will not become clear until the end of the project. The CHF 250 million in total guarantee credit is based on a hypothetical exchange rate, as set out in the Dispatch for the AP 2015. Hedging was carried out at a higher exchange rate than the hypothetical rate in the Dispatch, which created CHF 13.5 million in additional costs due to movements in the exchange rates. If these higher costs cannot be covered within the project or by reallocating credit lines, the Federal Council will call on Parliament to approve additional credit. The SFAO recommends that any additional amounts that may be required due to exchange rate movements, utilised project reserves and any reallocated credit lines should be set out clearly in the Federal Council Dispatch. Explanations must also be provided as to why the total additional expenditure cannot be covered by project reserves or by reallocating credit facilities.

Need to amend the terms of future contracts with RUAG

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██ In particular, the waiver of a penalty clause for reasons relating to the owner should be reconsidered. The SFAO recommends making the National Armaments Director responsible for any waivers of contractual penalty clauses in relation to RUAG and that, in future, such terms should only not be agreed by way of exception. RUAG, which is a company limited by shares, with the Swiss Confederation as the sole shareholder, does not need any additional terms designed to regulate the market.

Although risks are present, the organisation of the project is commensurate with its complexity

All the authorities and roles required for project organisation have been established and defined. Risk management (R) and quality management (Q) procedures are in place. From a technical standpoint, there is a clear direct reporting line to ar as project manager (PM). With a view to maintaining independence, the SFAO recommends that the parties responsible for Q and R report directly to the project sponsor. The availability of specialist human resources and ambitious timelines continue to be a challenge. With both of ar's SAA development partners directly responsible for management, risks are shifted risk back onto the Swiss Confederation. The chief benefits of this model are the ability to exert direct influence and overall control.

Clear rules are laid down restricting the use of trade secrets. Nevertheless, facts and information that are only accessible to insiders have been leaked to the media. The SFAO is aware that there is a difference between confidential professional information relating to the armed forces and confidential project information. It recommends that all civilian and military personnel working on the



project, as well as industry partners, provide statements as to independence and enter into confidentiality and non-disclosure agreements. Serious loss or damage suffered through a breach of confidence may give rise to substantial claims for damages and cause reputational damage.

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