

**GUIDELINES FOR ORGANISING PRODUCTION OF SPARES  
AND COMPONENTS IN INDIA FOR IMPLEMENTATION OF  
INTERGOVERNMENTAL AGREEMENT ON JOINT  
MANUFACTURING OF SPARES, COMPONENTS, AGGREGATES  
AND OTHER MATERIAL RELATED TO RUSSIAN ORIGIN  
ARMS AND DEFENCE EQUIPMENT**

1. **Introduction.**

- 1.1 An Inter Governmental Agreement (IGA) on “Mutual Cooperation in Joint manufacturing of Spares, Components, Aggregates and other material related to Russian/ Soviet origin Arms and Defence Equipment” was signed during the 20<sup>th</sup> India-Russia Bilateral Summit held at Vladivostok on 4<sup>th</sup> Sep 19. The objective of the IGA is to enhance the After Sales Support and operational availability of Russian origin equipment currently in service in Indian Armed Forces by organizing production of spares and components in the territory of India by Indian Industry by way of creation of Joint Ventures / Partnership with Russian Original Equipment Manufacturers (OEMs) under the framework of the “Make in India” initiative.
- 1.2 This guideline document stipulates the processes to be followed by various stake holders towards facilitating setting up of manufacturing facilities in India by Indian Companies in collaboration with Russian OEMs for implementation of the IGA viz. from the initiation stage of ‘Identification of parts/material’ to the stage of ‘Implementation of contracts’. The indigenous production of spare parts / components will result in timely availability of spares and will thus improve the after sales support and increased availability of the Russian origin defence equipment for operational use.
- 1.3 The following commandments as laid down in the IGA shall be strictly observed while setting up of the manufacturing units in India.

- (a) Reduction in cost.
- (b) Reduction in time frame for supplies
- (c) To ensure progressive indigenization of product in India.

1.4 The steps involved in the process are enumerated in the succeeding paragraphs.

## 2. **Identification of Equipment Parts/Material**

2.1 The first step in the process is to identify the Equipment spare parts/material required by Field Units/Equipment manufacturer viz. DPSU/OFB to support the Russian origin equipment. Service HQs/ DPSU/OFB would be responsible to consolidate the requirements and compile a final list of spares/material identified for manufacturing. In doing so, the broad criteria for selection of equipment/spare parts/material will be as follows:-

- (a) Equipment that are standardized and have higher population in the Service
- (b) Equipment with balance service life of at least 7-10 years
- (c) Spare parts that are of high value and presently being imported from Russian OEM
- (d) Parts/materials that are propriety items of Russian OEMs and not available as COTS or through local industry sources
- (e) Parts/materials that are regularly consumed during exploitation or parts that require replacement based on running hours/ during overhaul and repairs
- (f) Sub systems and parts that could be utilized for modernization and upgrade programs of the equipment
- (g) Any other reasons to be justified

2.2 The Russian OEM may also propose items for joint production in India on the basis of the OEM's assessment. The items could include design and development for upgradation /obsolescence management requirements of sub systems of the existing equipment.

2.3 The list of spare parts/materials identified for joint production would be compiled by SHQ/OFB/DPSU in the following format:-

Sl No	Platform	Equip Name	Russian OEM	Item Desc	Part No	Qty Req per year	No. of years	Remarks

### **3 Justification of Necessity.**

The compiled list of parts as per format at para 5 above, would require to be approved by the Competent Authority within the SHQ/OFB/DPSU for quantity vetting and justification of necessity within 15 days of receipt of lists from the field units.

### **4 Commonality of Requirements.**

The list of equipment/spares shortlisted for joint manufacturing would also be circulated within the Services for ascertaining commonality of parts. Towards this, each SHQ/ OFB/DPSU would nominate a Single Point of Contact (SPOC) for coordinating the commonality of requirements. In cases where commonality is established, the consolidated requirements of all the Services would be compiled by the Lead Service and be forwarded to MoD within three months.

## **5. Forwarding List of Parts to Russian and Indian Authorised Bodies.**

5.1 The approved list of parts would be forwarded by SHQ/DPSU/OFB to the MoD for onward forwarding to the following agencies:-

- (a) Russian authorized body FSMTC – for concurrence of list of items and nomination of OEM
- (b) Indian Industry Bodies ( FICCI, SIDM, ASSOCHAM and PHDCC) - for identifying competent Indian Industry including DPSUs/OFB. On receipt of the shortlisted Indian companies recommended by Indian Industry bodies, the same would be forwarded to FSMTC

5.2 The Indian Industry Bodies while identifying suitable Indian industry shall provide equal opportunity to interested and competent parties. Towards this, the Indian industry bodies are to submit the criteria for identifying the competent industry to the MoD. The list of shortlisted Indian industries would be forwarded by the Industry body within 45 days of the receipt of list of spares from the MoD.

5.3 On receipt of a concurred list of spares from FSMTC along with the nomination of the Russian OEM, the same would be forwarded to the Indian Industry Bodies for further coordination and collaboration between Indian company and Russian OEM.

## **6. Creation of Joint Ventures/Partnership.**

6.1 The creation of Joint Ventures/ Partnerships would be an independent activity between two entities viz. Russian OEM and Indian industry and Indian MoD or SHQ would not intervene in the matter. The JV/ partnership already created for manufacture of spares would also be governed by this Guidelines.

6.2 The Russian OEM may consider partnership with the shortlisted Indian industry forwarded by MoD or with any other industry partner as considered suitable. The Russian OEMs/shortlisted Indian Industry would however be provided a period of 06 months to establish their partnerships. If they are not able to arrive at a partnership within this period, a fresh list of Indian industry partners would be sought from the Indian Industry Bodies. In such cases, the SHQ would re-ascertain the necessity of parts.

**7. Reporting of creation of JV/Partnership to Authorized Bodies.**

The formation of Joint Venture/Partnership between Russian OEM and Indian industry, would be reported to the authorized bodies from both sides viz. MoD and FSMTC. A data base on such JVs would be maintained in the MoD for future reference. The reporting of partnership would be the basis for SHQ to commence interaction with the JV/partnership.

**8. Submission of Techno-Commercial (Budgetary) offer for Manufacturing of Parts.**

The SHQ/DPSU/OFB would seek a Technical and Budgetary offer from the JV/partnership firm. The technical compliance would be established through the Technical Offer and the Budgetary Offer would be utilized to identify annual estimated expenditure for the specified quantity of spares. This would be the basis for SHQ to identify the CFA for progressing the case as the extant process stipulated in cases of rate contract wherein the CFA is determined on the basis of annual estimated expenditure. The maximum financial powers stipulated in Delegation of Financial Powers in MoD-2015 (DFPM-2015) and/ or Delegation of Financial Powers to Defence Services-2016 (DFPDS-2016) for PAC cases would be considered for determining the CFA (powers of single tendering would not be applicable)

**9. Issuance of RFP to JV/Partner on Single Vendor.**

Based on determination of CFA as per para 14 above, a case for procurement of spares would be initiated as per the extant procedures ie. AIP of CFA, issuance of RFP etc. The RFP would specify requirements of delivery period, transportation, quality, warranty, claims, bank guarantees in addition to standard clauses of contract and commercial aspects. The RFP would be issued on single vendor (PAC) basis to the JV/Partnership.

**10. Negotiations with the JV/Partnership Firm.**

10.1 The CNC for negotiations of terms, conditions and prices would be constituted in accordance with the extant regulations. The composition of CNC would include representatives from Finance, QA and other members as per standard constitution specified in DPM. CNC would benchmark prices for manufacturing of spares (as per annual quantity stipulated for period of 5 years) and establish compliance to following major aspects:-

- (a) Acceptance of items after manufacturing (PDI/FATs/JRI)
- (b) Compliance to QA standards as per QAP
- (c) Delivery Period of spares
- (d) Terms of payments wrt advance, stage payments
- (e) Modality of payments wrt documents to be submitted and paying authority
- (f) Plan for progressive indigenization of items

10.2 The CNC would then negotiate the prices with the JV/partnership. If the price of production in India is lower than 75% of the import price ( which will be taken as Landing Price inclusive of transportation, insurance etc), the CNC may consider not to conduct any commercial negotiations. The decision on doing away with the holding of commercial negotiations will be taken on case to case basis. In other

cases, CNC would conduct negotiations to ensure reduction in prices compared to the benchmark price derived from the available references ( Last Purchase Price, Budgetary Quote, Professional Officer's Valuation) as per the extant regulations. The conclusion of negotiations and signing of contract should be completed within three months of the constitution of CNC.

10.3 While finalizing the contracts, the CNC is to ensure the following objectives are met as stipulated in the IGA:-

- (a) Reduction of price as compare to the import prices
- (b) Reduction in delivery period of spares
- (c) Progressive indigenization of products in India

## **11 Signing of Contract/ Issuance of Purchase Orders.**

The CNC would submit its recommendations to CFA for approval and seek sanction for signing of the contract in accordance with the extant regulations. On accord of sanction, the contract for manufacturing and delivery of parts for assured annual quantity for period of 5 years or more, as is the case, would be signed. This contract would be the framework contract which would include format of Purchase Order (PO) to be issued every year for the contracted quantity. In cases additional quantity is required, the same can be included in the PO post approval of CFA. The Purchase Order would be the binding document based on which the delivery period for supply of spares and other contractual milestones like submission of bank guarantees, claim reports, warranties and release of payments etc would be implemented.

**12** DPSU/OFB would follow their respective established procurements procedures and delegation of powers for processing the cases to meet their respective requirements.

### **13 Review/Consultative Mechanism.**

A “Consultative/Review Committee” under chairmanship of Secretary (Defence Production) would internally review progress of creation of JVs/Partnership and manufacturing of parts by them every six months. The concerned departments of SHQ/DPSUs/OFB would report progress to the Department of Defence production on creation of partnerships and realization of production activities every six months. A joint Consultative / Review Mechanism to monitor the progress of activities under the IGA would be established between the Indian and Russian Counterparts from the Department of Defence Production and the FSMTC respectively, to review the progress every six months or as per the frequency decided upon mutually.

### **14 Conclusion.**

The Guideline document is the basis for stake holders (MoD, SHQ, DPSU, OFB and Indian Industry) to progress various activities towards realization of contracts under the IGA on manufacturing of spares, components, aggregates and other material related to Russian origin Arms and Defence Equipment. The reference manuals (DPM, DFPS, DFPDS) and their amendments issued from time to time as mentioned in this document would have to be adhered.

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