

# MP-IDSA

## *Issue Brief*

# P75 (I) Submarines and Strategic Partnership Model

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## **S***ummary*

The Project 75(I) will provide an opportunity for local manufacture of the state-of-the-art submarines which will enable the Indian Navy to dominate the undersea domain in our area of interest whilst providing the Indian industry an opportunity for long-term partnership in not only submarine construction but also maintenance, logistics and maintenance support.

## Introduction

The Ministry of Defence (MoD) issued an Expression of Interest (EoI) in June 2019 for shortlisting of Indian Strategic Partners (SP) in collaboration with foreign original equipment manufacturers (FOEMs) for construction of six conventional submarines under Project-75(I) of the Indian Navy. The Defence Acquisition Council (DAC) had earlier approved progressing the project under the Strategic Partnership Model (SPM) in January 2019. The Brief places in perspective developments relating to the procurement of the P-75(I) submarines, specifically in the context of the defence procurement/acquisition procedure that sought to build indigenous capacity in the domestic private defence industry through the SPM.

## The P-75(I) Saga

While the most recent DAC approval for the Project 75(I) was in January 2019,<sup>1</sup> the project was envisaged in the year 1999 when the Government of India contemplated indigenous construction of conventional submarines at two Indian shipyards. The project was formally initiated in November 2007 with the granting of the Acceptance of Necessity (AoN). The plan was to induct 12 conventional submarines by 2012 and another 12 by 2030.

To bridge capability gaps in India’s submarine force comprising of just four German HDW and 10 Russian Kilo-class submarines, the contract for six Scorpene submarines (Kalvari-class) worth Rs 18,706 crores was signed in 2005, which later escalated to about Rs 23,000 crore. The first of the Scorpene submarines built at Mazagaon Docks Limited (MDL) was inducted in 2017 and the sixth submarine is set to be inducted this year. The DAC gave approval for three additional Scorpenes in July 2023.

The EoI issued by the MoD for the P-75 (I) in June 2019 noted that while Indian companies would be shortlisted ‘based on their capability for integration of system of systems, expertise in shipbuilding domain and the financial strength’, FOEMs would be shortlisted based on their ‘submarine design meeting the Indian Navy’s Qualitative Requirements and qualifying the Transfer of Technology and Indigenous Content (IC) criteria’.<sup>2</sup>

The DAC in January 2020 shortlisted MDL and private sector ship builder Larsen and Toubro (L&T) to tie up with any of the five foreign submarine builders as strategic

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<sup>1</sup> [“DAC Approval for Indigenous Construction of Six Project 75\(I\) Submarines Under Strategic Partnership Model”](#), Press Information Bureau, Ministry of Defence, Government of India, 31 January 2019.

<sup>2</sup> [“Expression of Interest For Six P 75\(i\) Submarines for Indian Navy”](#), Press Information Bureau, Ministry of Defence, Government of India, 20 June 2019.

partners. These five included Rubin Design Bureau (Russia), Naval Group-DCNS (France), Thyssenkrupp Marine Systems (TKMS) (Germany), Navantia (Spain) and Daewoo (South Korea).<sup>3</sup> The Request for Proposal (RfP) for the nearly Rs 43,000 crore project was issued in July 2021 to the shortlisted two Indian strategic partners, MDL and L&T. The MoD noted that the Project 75(I) envisaged ‘indigenous construction of six modern conventional submarines (including associated shore support, Engineering Support Package, training and spares package) with contemporary equipment, weapons & sensors including sea proven Fuel-Cell based AIP (Air Independent Propulsion Plant), advanced torpedoes, modern missiles (indigenous) and state of the art countermeasure systems’.<sup>4</sup>

The French Naval Group in May 2022 announced that it will not be able to participate in the project, given that the RfP includes a sea proven operational AIP system, which it did not possess.<sup>5</sup> Russian officials in August 2022 also noted that the terms of the project were “unrealistic” and that they preferred a government-to-government agreement for the project.<sup>6</sup> Reports noted that the timeline for submitting bids was extended as a result of the apprehensions expressed by the FOEMs, mainly relating to liability clauses.<sup>7</sup> Hanwha Ocean (which took over Daewoo Shipbuilding and Marine Engineering in May 2023) initially maintained interest in Project 75(I) in collaboration with L&T. It also held talks with MDL. CMD, MDL was however cited as stating in August 2023 that the South Korean company had withdrawn from the tender process.<sup>8</sup>

TKMS and Navantia remain in the race to bag the prestigious contract along with the Indian partner. Despite initial apprehensions, TKMS signed a teaming agreement with MDL in June 2023 during the visit of German Defence Minister Boris Pistorius to India comprising non-binding and non-financial Memorandum of Understanding (MoU). TKMS agreed to contribute to submarine engineering and design as well as provide consultancy support while MDL would be responsible for constructing and

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<sup>3</sup> [“Defence Acquisition Council, Chaired by Raksha Mantri Shri Rajnath Singh, Approves Several Procurement Proposals to Boost ‘Make in India’”](#), Press Information Bureau, Ministry of Defence, Government of India, 21 January 2020; See also Rajat Pandit, [“Centre Shortlists Two Firms for Rs 50,000 crore Stealth Sub Contract”](#), *The Times of India*, 22 January 2020.

<sup>4</sup> [“MoD Issues RFP for Construction of Six P-75\(I\) Submarines for Indian Navy”](#), Press Information Bureau, Ministry of Defence, Government of India, 20 July 2021.

<sup>5</sup> [“France’s Naval Group Pulls Out of India’s P-75I Submarine Project Ahead of PM Modi’s Visit”](#), *The Hindu*, 4 May 2022.

<sup>6</sup> Dinakar Peri, [“Terms of Indian Navy’s Mega Submarine Deal Unrealistic: Russian Official”](#), *The Hindu*, 15 August 2022.

<sup>7</sup> Mayank Singh, [“Delays Dog Indian Navy’s High-tech Submarine Plan”](#), *The New Indian Express*, 18 December 2022; Manu Pubby, [“Indian Navy’s P75I Submarine Programme in Troubled Waters”](#), *The Times of India*, 2 December 2022.

<sup>8</sup> Raunak Kunde, [“South Korea’s Hanwha Ocean Withdraws from India’s Project 75\(I\) Submarine Tender”](#), Indian Defence Research Wing (IDRW), 14 August 2023; Manish Kumar Jha, [“After Hanwha’s K-9 Vajra, Submarines are the Potential Area to Collaborate with India, Says Kim Dae-Young, EVP”](#), *Financial Express*, 28 June 2023.

delivering the respective submarines.<sup>9</sup> TKMS was offering the HDW Class 214 submarines to meet the Indian Navy’s requirements.<sup>10</sup>

On the occasion of the signing of the MoU with MDL, TKMS noted that the four HDW Class 209 submarines built in the 1980s were a successful example of Indo-German cooperation which continue to be frontline assets of the Indian Navy. Two were built in Kiel while the last two were built at MDL. TKMS and MDL also signed an agreement for the repair and overhaul of the second of the HDW submarines, INS Shankush in July 2023, worth over US\$ 300 million, to be completed by 2026. The Medium Refit Cum Life Certification (MRLC) of the first submarine INS Shishumar was signed in 2018, which extended the service life of sub by another ten years.<sup>11</sup>

German Ambassador to India Philip Ackermann in March 2024 stated that there was clear political will on the part of the German leadership for enhanced defence cooperation with India. He flagged the “huge paradigm shift” in German strategic thinking to “boost cooperation with our strategic partners outside the NATO area” in the aftermath of the Russian invasion of Ukraine and China’s expansionist behavior in the Indo-Pacific in violation of the rules-based international order.<sup>12</sup> Ackermann noted that while the selection process for Project 75(I) was ongoing, there is a “clear willingness and preparedness from the German side to support this Indian project”.<sup>13</sup> He further added that a group of Indian naval officers will be visiting Germany in March 2024 to evaluate the submarines.

Spain’s Navantia, meanwhile, signed a teaming agreement with L&T in July 2023 for submission of techno-commercial bids for the submarine project, a month after the TKMS, MDL MoU. Navantia and L&T had signed a MoU in April 2023. Reports note that the company will be offering its S80 class of submarines.<sup>14</sup> Spanish Secretary of State for Defence Maria-Amparo Valcarce Garcia visited New Delhi on 8 March 2024. During her meeting with Defence Secretary Giridhar Aramane, a number of bilateral defence cooperation issues were discussed, with focus on industrial collaboration.<sup>15</sup> Earlier in February 2024, Spanish Deputy Prime Minister Teresa

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<sup>9</sup> [\*\*“thyssenkrupp Marine Systems and Mazagon Dock Shipbuilders Limited Express their Intention to Build Submarines for and in India”\*\*](#), thyssenkrupp Marine Systems, 7 June 2023.

<sup>10</sup> Ritu Sharma, [\*\*“Germany Offers ‘Bigger’ 214 Version of HDW-Class Submarines to Indian Navy to Counter Pakistan, China”\*\*](#), *The Eurasian Times*, 19 November 2023.

<sup>11</sup> [\*\*“thyssenkrupp Marine Systems and Mazagon Dock Shipbuilders Limited Sign Contract for Overhaul and Modernization of Indian Submarine INS Shankush”\*\*](#), thyssenkrupp Marine Systems, 27 July 2023.

<sup>12</sup> Rajat Pandit, [\*\*“Clear Political Will in Berlin Now to Boost Defence Ties with India: German Envoy”\*\*](#), *The Times of India*, 4 March 2024.

<sup>13</sup> Ibid.

<sup>14</sup> Ajai Shukla, [\*\*“L&T, Navantia Sign Teaming Deal for Project 75\(I\) Submarines at Rs 43K cr”\*\*](#), *Business Standard*, 10 July 2023.

<sup>15</sup> [\*\*“Defence Secretary & Spanish Secretary of State for Defence Meet in New Delhi; Focus on Defence Industrial Cooperation”\*\*](#), Press Information Bureau, Ministry of Defence, Government of India, 8 March 2024.

Ribera visited India. She asserted that Navantia was developing the most modern submarines though she added that “we need to be quite respectful about decisions being made by each country on how to [meet] defence requirements”.<sup>16</sup>

## The SPM Policy at Crossroads

The Strategic Partnership Model (SPM) as a capital acquisition policy is, therefore, at a significant crossroads. The procedure was first promulgated in May 2017, following its inclusion as Chapter VII of the Defence Procurement Procedure (DPP) 2016. This followed the December 2015 report of a task force headed by V.K. Aatre, former scientific adviser to the defence minister, which laid down criteria for selecting Strategic Partners (SPs) from the private defence industry for executing high-value, defence projects.<sup>17</sup>

The SPM eventually envisaged developing domestic capabilities in the four segments of fighter aircraft, submarines, helicopters and armoured fighting vehicles/main battle tanks. The SPM is part of the MoD’s efforts relating to defence procurement to develop long-term indigenous defence industrial capabilities. Other categories of capital acquisition as listed in the Defence Acquisition Procedure (DAP) 2020 include ‘Buy’, ‘Buy and Make’, ‘Leasing’, ‘Design and Development’. Under the ‘Buy’ scheme, procurements are categorised in order of priority based on their relative importance towards indigenisation as ‘Buy (Indian – Indigenous Designed, Developed and Manufactured)’, ‘Buy (Indian)’, and ‘Buy (Global)’. Under the ‘Buy and Make’ scheme, the procurements are categorised in order of priority as ‘Buy and Make (Indian)’ and Buy (Global - Manufacture in India).

It is pertinent to note that the Indigenous Content (IC) requirements for most ‘Buy’ categories of capital procurement are more than 50 per cent. The IC requirements for SPM projects are lower than for those under the ‘Buy’ category of capital procurement. The Project 75(I) EoI stipulates IC as a minimum of 45 per cent on cost as per commercial bid basis with 60 per cent to be achieved for the last submarine with incentives for achieving higher IC content. Such provisions were included to ensure greater willingness on the part of the FOEM to partner with Indian SPs to execute high-value defence projects. It is pertinent to highlight that a higher IC content is envisaged for Project-75 (I) given that majority of weapons on the submarine are likely to be indigenous.

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<sup>16</sup> Rezaul H. Laskar, “[India a Very Relevant Player for Indo-Pacific Security: Spain’s Teresa Ribera](#)”, *Hindustan Times*, 8 February 2024.

<sup>17</sup> “[Report of the Task Force on Selecting Strategic Partners](#)”, Ministry of Defence, Government of India, December 2015.

Despite such provisions, however, the policy has not seen success so far. Some of the issues highlighted by analysts as regards the SPM policy included the restrictions on FDI limits. This was especially so in the aftermath of the government allowing FDI limit in defence to 74 per cent in May 2020, from the earlier limit of 49 per cent.<sup>18</sup> The DAP 2020 notes that the strategic partner of the FOEM has to be an Indian company ‘owned and controlled by resident Indian citizens’ and the maximum permitted foreign direct investment (FDI) shall be 49 per cent.<sup>19</sup> Officials of the Swedish defence company SAAB were cited as seeking clarification if the SPM policy also allowed for 74 per cent FDI, after the government raised the limit.<sup>20</sup> As regards the Project 75(I) specifically, previous sections highlighted apprehensions of Russian and French defence majors as regards ToT and liability clauses, among others.

The Project-75(I) was the second project to be pursued under the SPM policy of defence procurement. The first project under the SPM policy related to the procurement of naval utility helicopters (NUH) worth more than Rs 21,000 crore, an EoI for which was issued in February 2019 after the DAC approved the project in August 2018. Sixteen NUH were planned to be bought in a flyaway condition from a foreign military contractor, while the remaining 95 were to be built in the country in partnership with an Indian firm. Three foreign firms, Airbus, Sikorsky Aircraft Corporation (part of Lockheed Martin) and Kamov (Russian firm) submitted technical bids while Indian firms that were in the reckoning as SPs were Tata Aerospace and Defence, Mahindra Defence, Reliance Defence, Adani Defence, HAL, Bharat Forge and Lakshmi Machine Works.

This project, however, did not fructify as planned due to a plethora of reasons, including interest shown by the state-owned Hindustan Aeronautics Limited (HAL) in the project, which was opposed by the domestic private defence industry on the grounds that the SPM policy was specifically promulgated to build capacities in the private defence industry.<sup>21</sup> There were also changes in specifications relating to maximum take-off weight. The NUH was eventually placed on the positive indigenisation list (PIL) which was issued in April 2022, barring the import of such platforms.<sup>22</sup>

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<sup>18</sup> Prasanna Karthik, [“India’s Strategic Partnership Policy is Counter-productive in its Current Form”](#), Observer Research Foundation, 8 June 2020.

<sup>19</sup> [“Defence Acquisition Procedure 2020”](#), Ministry of Defence, Government of India, p. 481.

<sup>20</sup> Dinakar Peri, [“SAAB Seeks Clarity on Strategic Partnership Model”](#), *The Hindu*, 23 September 2020.

<sup>21</sup> Manu Pubby, [“Keep Hindustan Aeronautics Ltd Out of Naval Helicopter Plan, Private Companies Tell Govt”](#), *The Economic Times*, 14 July 2020.

<sup>22</sup> Snehash Alex Philip, [“Naval Utility Chopper, Light Tanks on 3rd List of Items India Will Stop Importing”](#), *The Print*, 7 April 2022.



## Way Ahead

On the occasion of the DAC granting approval for the Project 75(I) in January 2019, the Ministry of Defence noted that it will ‘provide a major boost to the existing submarine design and manufacturing ecosystem in India through transfer of design and equipment technology as well as necessary skill sets’.<sup>23</sup> The delivery of the first sub is expected not later than eight years after the signing of the contract. Given the reality of extant Indian submarine strength, the acquisition by Pakistan of eight 039 Yuan class submarines from China with AIP capability by 2028 and the increasing forays of Chinese submarines in the waters of the Indian Ocean, it is essential that there is faster forward movement on the Project 75(I) with early contract conclusion for a submarine with proven combat capabilities which will provide the Indian Navy a true combat edge.

The success of the strategic partnership model policy therefore is essential to convince FOEMs to be partners with the Indian domestic defence industry in taking forward the vision of building capacities in niche technological platforms like submarines. Moreover, given that the SP will not only need to commit to a plan for indigenisation in terms of value of production but also formulate a research and development roadmap to achieve self-reliance, the SPM policy will only aid in enhancing domestic capacities in the Indian defence industry.

The Project 75(I) will provide an opportunity for local manufacture of the state-of-the-art submarines which will enable the Indian Navy to dominate the undersea domain in our area of interest whilst parallelly providing the Indian industry an opportunity for long-term partnership in not only submarine construction but also maintenance, logistics and maintenance support. This project will form the basis for development of fully indigenous next generation submarine design and technology for use by the Indian Navy with potential for export to interested partner nations. The Project 75(I) will be the acid test for *atmanirbharta* in India in the true sense through the SPM Model which will help realise the vision of the Government of India in the defence manufacturing space and should, therefore, be taken to its natural conclusion.

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<sup>23</sup> [“DAC Approval for Indigenous Construction of Six Project 75\(I\) Submarines Under Strategic Partnership model”](#), no. 1.

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