



Indian Electrical & Electronics Manufacturer's Association
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Director General

SEC/REP/S/082

12th April 2021

Dear Shri Singh,

Subject: IEEMA request to Incorporate and Consistent use Price Variation Clauses in Existing as well as Future Contracts

Indian Electrical & Electronics Manufacturers' Association (IEEMA), is the apex representative body of Indian electrical industry. IEEMA covers a wide range of electrical, industrial electronics and allied products, encompassing the entire value chain of the sector from power generation, transmission, distribution and downstream to the point of consumption of electricity; thereby covering finished products, parts and components, systems and services.

Uniform Price Variation in contracts is a well-accepted and trusted principle, practiced over 4 decades by all large public sector procurement agencies like PGCIL, NTPC, Railways etc., as well as, for major projects in transmission and distribution tendered by State Utilities.

Basis/Fundamentals of using Uniform Price Variation

Prices of input raw material always move erratically depending upon the market fluctuations, geopolitical issues, government policies etc. Fluctuations in the raw material prices cannot be controlled by supplier and the buyer. The supplier quoting on the basis of firm price for a short-term contracts faces considerable difficulty while bidding since it has to predict the future variation in raw materials and quote accordingly. In such a scenario, the supplier either grossly over quotes to be on the safer side or gambles and under quotes in a highly competitive market.

However, in both the cases there is a disadvantage in some respect to both the suppliers and purchasers. In the first case, the purchaser gets the goods or services at a higher cost, where as in the second case, there is always a tendency of the supplier to delay the supply till the favourable period, resulting in clear disadvantage to the purchaser.

As against this, if the purchaser provides price variation clause even for a shorter period (up to 3 months also) the supplier is not required to speculate on the prices of inputs and therefore bases its quotation on the ruling prices of inputs at the time of quoting. This eliminates not only the speculation and pseudo pricing, but also provide reasonably fair price variation to either purchaser or the supplier, as well as, it helps the supplier to maintain a proper delivery schedule.

For most of the electrical equipment used in power transmission and distribution, the total delivery period from the date of quotation varies from 3 months to 3 years. Therefore, all these contracts are ideally to be covered for procurement using price variation clause.



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In a nutshell, consistent use of uniform price variation clauses provide relief to both the buyer and the supplier to mitigate the risk arising out of fluctuations in raw materials prices and other costs like labour etc.

IEEMA evolves and operates equitable and uniform Price Variation Clauses (PVCs) by circulating applicable monthly raw material prices and indices to members and other stakeholders. A list of Price Variation Clauses for the various products, issued by IEEMA, is attached. Following is the link to download the same for reference:

<https://ieema.org/about-ieema/services/pv-clauses-prices-indices/>

The electrical equipment manufacturing industry is passing through difficult times and unprecedented circumstances, due to unusual rise in the prices of basic raw materials, such as, Steel, Aluminium, Copper, Transformer Oil, Insulating materials etc. over past one year in the range of 10-25%.

Unfortunately, most of the supplies made by this industry to the Central and State Utilities; especially in distribution segment having deliveries less than a year, are under fixed price contracts. Suppliers who are already hit hard by the Covid-19 Pandemic with a capacity utilization of below 50%, coupled with severe internal and external competition, had no choice but to accept the terms of contract.

However, with substantial price fluctuations of raw materials in recent period, it is now very difficult to execute the supplies resulting in huge loss. Already the industry is leading to severe financial crunch, due to limited liquidity and cash flows. Many of these manufacturers are MSMEs, which are on the verge of closure.

In view of the above, IEEMA request your organisation to issue directives for incorporation and consistent use Price Variation Clauses, in existing as well as future contracts, to safeguard the interests of both buyer and supplier.

Your above support in larger perspective would make the supplier healthy and keep the interest of the principle in the long run.

We look forward to your support and kind consideration of our above request.

With Best Regards,

Yours sincerely,

Sunil Misra

Shri Sanjeev Singh
Managing Director
Odisha Power Transmission Corporation Limited