

**GOVERNMENT OF INDIA
DEFENCE
LOK SABHA**

UNSTARRED QUESTION NO:2123
ANSWERED ON:27.08.2007
NEW DEFENCE PROCUREMENT POLICY
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Will the Minister of DEFENCE be pleased to state:

- (a) whether Private Sector has failed to exploit the provisions of New Defence Procurement Policy as reported in the Indian Express dated July 16, 2007;
- (b) if so, the details thereof and factors attributed to such a state of affairs; and
- (c) the salient features of the New Defence Procurement Policy for the private sector?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF DEFENCE PRODUCTION (RAO INDERJIT SINGH)

(a) & (b): Though the defence sector was opened up for investment for private industries since 2001, not many new units have come up. This could be because of the capital intensive nature of defence industry, substantial investment required for research and development as well as infrastructure and the lack of an assured market. A number of initiatives have been taken as part of defence procurement policy such as 'Offset' Procedure, new 'Make' Procedure, provision of a level playing field for the private sector etc. However, significant developments can be expected only in the long term.

(c) The salient features of Defence Procurement Procedure - 2006 for the Indian Industry including private sector are annexed.

ANNEXURE REFERRED TO IN REPLY GIVEN IN PART (c) OF LOK SABHA UNSTARRED QUESTION NO. 2123 FOR ANSWER ON 27.08.2007

Salient Features of Defence Procurement Procedure – 2006 for the Indian Industry including Private Sector

(i) 'Make' Procedure: A procedure for the development of systems based on indigenous research and design, categorized as 'Make', has been formulated and notified as part of DPP- 2006. The aim of the procedure is to undertake indigenous research, design & development and production by Indian defence industries. Projects under this category would involve design and development of High Technology Complex Systems indigenously and would be undertaken by the Indian industry, public/private sector, on a level playing field. This procedure would also be adopted for all upgrades categorized as 'Make'.

(ii) Transfer of Technology for Maintenance Infrastructure: In all 'Buy' category cases where equipment is being brought from foreign vendors the provision of Transfer of Technology to an Indian public/private firm, for providing Maintenance Infrastructure would be applicable. In such cases, the foreign vendor would have to identify an Indian firm which would be responsible for providing base repairs and the requisite spares for the entire life cycle of the equipment.

(iii) Offsets: Offset provision is applicable for all procurement proposals where the indicative cost is Rs.300 crore or more involving the outright purchase from foreign/Indian vendors and purchases from foreign vendor followed by licensed production. These offset obligations shall be discharged directly by the direct purchase of, or executing export orders for, defence products and components manufactured or services provided by Indian defence industries. These offset obligations may also be discharged by foreign investment in Indian defence industries, and in Indian organisations engaged in research in Defence R&D.

(iv) Level Playing Field: For 'Buy (Global)' cases, a level playing field for the Indian industry has been ensured in DPP-2006 by incorporating the following guidelines to neutralize the impact of taxes and duties by Indian industry while carrying out evaluation of bids to determine L-1 vendor, without making any changes in the tax structure:-

- (a) In case of foreign supplier, the basic cost (CIF) quoted should be the basis for the purpose of comparison of various tenders;
- (b) In case of indigenous suppliers, excise duty on fully formed equipment would be offloaded.
- (c) Sales tax and other local levies, i.e., Octroi, entry tax etc. would be ignored in case of indigenous suppliers including Defence Public Sector Undertakings (DPSUs)/ Ordnance Factories (OFs).
- (d) The payment conditions should be similar for domestic private suppliers, Defence PSUs/Ordnance Factories and the foreign suppliers.