

19

**STANDING COMMITTEE
ON DEFENCE
(2006-07)**

FOURTEENTH LOK SABHA

MINISTRY OF DEFENCE

*[Action Taken by the Government on the Recommendations contained in
the Sixth Report of the Committee (Fourteenth Lok Sabha) on
'Procurement Policy and Procedure']*

NINETEENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

July, 2007/Asadha, 1929 (Saka)

NINETEENTH REPORT

STANDING COMMITTEE ON DEFENCE
(2006-2007)

(FOURTEENTH LOK SABHA)

MINISTRY OF DEFENCE

[Action Taken by the Government on the Recommendations contained in
the Sixth Report of the Committee (Fourteenth Lok Sabha) on
'Procurement Policy and Procedure']

Presented to Lok Sabha on 16.08.2007.

Laid in Rajya Sabha on 16.08.2007.



LOK SABHA SECRETARIAT

NEW DELHI

July 2007, Asadha, 1929 (Saka)

C.O.D. No. 83

Price : Rs. 103.00

© 2007 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Eleventh Edition) and Printed by Jainco Art India, New Delhi-110 005.

CONTENTS

	PAGES
COMPOSITION OF THE COMMITTEE (2006-07)	(iii)
PREFACE	(v)

REPORT

CHAPTER I	Report
CHAPTER II	Recommendations/Observations which have been accepted by the Government
CHAPTER III	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies
CHAPTER IV	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee
CHAPTER V	Recommendations/Observations in respect of which final replies of the Government are still awaited
MINUTES OF THE SITTING	
APPENDIX	Analysis of Action Taken by Government on the Recommendations contained in the Sixth Report of the Standing Committee on Defence (Fourteenth Lok Sabha) on 'Procurement Policy and Procedure'

COMPOSITION OF THE STANDING COMMITTEE
ON DEFENCE (2006-07)

Shri Balasaheb Vikhe Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri S. Bangarappa
3. Shri Milind Murli Deora
4. Shri Santosh Kumar Gangwar
5. Shri Ramesh C. Jigajinagi
6. Shri Suresh Kalmadi
7. Shri C. Kuppusami
8. Dr. K.S. Manoj
9. Ms. Ingrid Mcleod
10. Shri Asaduddin Owaisi
11. Shri Adhalrao Shivaji Patil
12. Shri Shriniwas Patil
13. Shri Rajendrasinh Ghanshyamsinh Rana (Raju Rana)
14. Dr. H.T. Sangliana
15. Shri Arjun Charan Sethi
16. Prof. Mahadeorao Shiwankar
17. Shri Manvendra Singh
18. Shri Balashowry Vallabhaneni
19. Shri Rajesh Verma

Rajya Sabha

20. Dr. Farooq Abdullah
21. Shri Jai Prakash Aggarwal
22. Shri Abu Asim Azmi
23. Smt. Shobhana Bhartia
24. Shri R.K. Dhawan

(iv)

25. Smt. N.P. Durga
26. Shri S.P.M. Syed Khan
27. Shri K.B. Shanappa
28. Shri Arun Shourie
29. Smt. Viplove Thakur

SECRETARIAT

1. Shri S.K. Sharma — *Additional Secretary*
2. Shri P.K. Bhandari — *Joint Secretary*
3. Shri Gopal Singh — *Director*
4. Shri D.R. Shekhar — *Deputy Secretary-II*
5. Smt. Jyochnamayi Sinha — *Under Secretary*

PREFACE

I, the Chairman, Standing Committee on Defence (2006-07) having been authorized by the Committee to submit the Report on their behalf, present this Nineteenth Report on Action Taken by the Government on the recommendations contained in the Sixth Report of the Committee (Fourteenth Lok Sabha) on 'Procurement Policy and Procedure'.

2. The Sixth Report was presented to/laid in Lok Sabha/Rajya Sabha on 12 December 2005. The Government furnished replies indicating action taken on the recommendations contained in the Report on 'Procurement Policy and Procedure'. The Committee took oral evidence of the representatives of Ministry of Defence on 16th January and 19th February, 2007 to have clarifications on certain issues arising out of the action taken replies. The Draft Action Taken Report was considered and adopted by the Committee at their sitting held on 27 June, 2007.

3. An analysis of action taken by the Government on recommendations contained in the Nineteenth Report of the Standing Committee on Defence (Fourteenth Lok Sabha) is given in Appendix.

4. For facility of reference and convenience, the observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
12 July, 2007

21 Asadha, 1929 (Saka)

BALASAHEB VIKHE PATIL,
Chairman,
Standing Committee on Defence.

CHAPTER I

REPORT

The Report of the Standing Committee on Defence deals with action taken by the Government on the recommendations/observations contained in their Sixth Report (Fourteenth Lok Sabha) on 'Procurement Policy and Procedure' which was presented and laid in both the Houses of Parliament on 12.12.2005.

2. In the Sixth Report (Fourteenth Lok Sabha), the Committee had made 28 observations/recommendations on the following aspects:

Sl. No.	Para No.	Subject
1	2	3
1.	1.4 & 1.5	Reduction in stages of Procurement and Curtailment of Lead Time
2.	1.15	Need to build a strong R&D base for Defence Sector
3.	1.16	Upgradation of Technology/Weapon System without Payment of Royalty
4.	1.17	Sharing of Transfer of Technology (ToT) and design among DRDO /OFs/ DPSUs/Private Sectors
5.	1.18	Need for preparing an appropriate Defence Production and Procurement Strategy
6.	1.19	Sharing of Joint Venture with private sector
7.	2.17, 2.19 & 2.20	To make improvement over DPP & DPM-2006
8.	2.18	Formulation of make procedure
9.	2.24	Need for maintaining required force level of Ships
10.	2.25	Upgradation of shipbuilding facilities at MDL

1	2	3
11.	3.5, 3.6 & 3.7	Finalisation of Long Term Perspective Plan and Five Years Defence Plan
12.	4.8 & 4.9	Broad basing SQR
13.	4.10 & 4.11	Involvement of Experts during finalisation of SQR
14.	4.12	Inviting Pre-bid meetings of manufactures to avoid single-vendor situation
15.	5.7	Offset Clause.
16.	6.9	Effective use of the Services of Defence Attaches
17.	6.10	Need to give preference to private sector over foreign suppliers
18.	7.6 & 7.7	To avoid single vendor situation
19.	8.2	Standard contract clause
20.	9.5	Need for prescribing time-frame for the Ministries/Department other than the Ministry of Defence to clear the defence acquisition proposal
21.	9.6, 12.4 & 12.5	Prolonged field trail-cause of delay
22.	10.7	Integrity Pact
23.	11.4	Need to make the guidelines for appointment of authorised Indian agents less cumbersome
24.	11.5	Need to evolve a clear-cut policy for identifying and accepting a person as a representatives of the company
25.	13.8, 13.9, 13.10 & 13.12	Fast Track Procedure
26.	13.11	To update the data bank
27.	14.2	Post contract monitoring
28.	15.4 to 15.7	Revenue Procurement

3. Action Taken Replies have been received from the Government in respect of all the recommendations/observations contained in the Report. The Committee have examined the Action Taken Replies received from the Ministry and the same have been categorized as follows:

- (i) Recommendations/observations which have been accepted by the Government:

Para Nos. (1.4 & 1.5), 1.17, 1.19, (2.17, 2.19 & 2.20), 2.18, 2.25, (4.8 & 4.9), (5.6 & 5.7), 6.10, (7.6 & 7.7), 8.2, 9.5, (9.6 & 12.4 & 12.5), 10.7, 11.5, 13.11 (15.4, 15.5, 15.6 & 15.7)

- (ii) Recommendations/observations which the Committee do not desire to pursue in view of the Government replies.

Para Nos. 14.2

- (iii) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee:

Para Nos. 1.15, 1.16, 1.18, 2.24, (3.5, 3.6 & 3.7), (4.10 & 4.11), 4.12, 6.9 11.4 and (13.8, 13.9, 13.10 & 13.12),

- (iv) Recommendations/observations in respect of which final replies of the Government are still awaited.

Para Nos. Nil

4. The Committee trust that utmost importance will be given to the implementation of the recommendations accepted by the Government. In cases, where it is not possible for any reason to implement the recommendations in letter and spirit, the matter should be reported to the Committee with reasons for non-implementation. The Committee desire that action taken notes on the recommendations/observations contained in Chapter –I and final replies to the recommendations contained in Chapter – V of the Report be furnished to the Committee within six months of the presentation of the Report.

5. The Committee will now deal with the action taken by the Government on some of their recommendations as contained in Chapter – I of this Report.

Reduction in Stages of Procurement and Curtailment of Lead time

Recommendation (Para No.1.4 & 1.5)

6. The Committee were happy to note that the Government had promulgated a new Defence Procurement Procedure-2005 for Capital

procurements; and also, for the first time, Defence Procurement Manual 2005, for Revenue Procurements. The Committee felt that it would bring about greater transparency in defence purchases and make procurements speedier thereby ensuring timely utilisation of funds. This way it could be ensured that our soldiers got timely and quality supply of defence items.

The Committee had desired the Government to examine whether the stages for procurement could be reduced to curtail the time involved. With a view to avoiding delays the Committee also desired that once allocation had been made in the budget for a particular procurement, the same should not be sent again and again for approval to Ministry of Finance.

7. The Ministry, in their Action Taken Reply, have stated that

“DPP-2006 and DPM-2006 are under implementation with effect from 1.09.06. All efforts are being made to ensure that the Armed Forces are supplied with all necessary items to ensure that the security interests of the nation are adequately protected.

Following steps have been taken to reduce the time frame of Defence Acquisition:

- (i) Time frame for procurement activities has been stated at Appendix -C of DPP-06 and major deviation would be monitored at the highest level. The time frames as prescribed in DPP-06 would lead to cutting down of internal lead time for procurements as it brings in checks and balances to avoid multi-layered examination on file and following a path of collegiate functioning at all levels. All major decisions as per the procedures in vogue are being taken at the initiation of the case at the highest level in a time bound manner, which is aimed to reduce the overall lead time for procurement. These include:-
 - (a) Acceptance of Necessity
 - (b) Quantities to be procured
 - (c) Categorisation i.e. or ‘BUY’, ‘MAKE’ or ‘BUY & Make’.
 - (d) Single vendor Clearance (if applicable)
 - (e) Offset percentages (if applicable)
 - (f) Detailed scope of trials
 - (g) Nomination of production agency in cases involving Transfer of Technology (ToT).

- (ii) In order to reduce time taken at commercial negotiations and in line with the recommendations of CVC, there would be no negotiations with L1 bidder in multi vendor cases.
- (iii) The financial powers of RM & FM have been enhanced along with delegation of financial powers to SHQRs (upto 10 crores) which would speed up the acquisition process. The time frame given in the DPP-06 is indicative and not prescriptive.
- (iv) No comments can be offered on the issue of forwarding of proposals time and again to the Ministry of Finance."

8. In response to the query of the Committee pertaining to reduction of time frame in DPP 2006, the representatives of the Ministry of Defence, during oral evidence, stated :

"We have not changed the time frame indicated in DPP, 2005. The time frame for capital acquisition indicated in DPP, 2005 is between 2 to 3 years depending on trials to be conducted. Wherever there was requirement of conducting trials, it would take three years; otherwise it would be two years. But as we have submitted to the Committee in our comments that this time frame is indicated. We had arrived at this time frame in consultation with the Services Headquarters. Now that was in 2005, we have not made any change in that time frame in 2006 although we make several improvements on DPP, 2005. Most decisions are now taken in a collegiate manner, a front in the Defence Acquisition Council. These include acceptance of necessity, quantity waiting, inclusion in Annual Action Plan, the extent of the offset provision that has to be there and categorization etc. Several processes that used to be processed on file previously is now being dealt with in a collegiate manner. We expect that this will have a positive impact on the time taken.

Secondly, we have also stipulated on the advice of the CVC, that in a multiple vendor situation, we will not have any negotiation with L-1. Previously what used to happen even upto 2005, even in multiple vendor situation negotiations would be conducted with L-1. Now we will state this upfront in our Request For Proposal (RFP) that there would be no negotiation with L-1 once identified in a multiple vendor situation. We expect that the time frame would be reduced substantially.

One of the very important things which has been done is that the Government has increased the delegation of financial authority to

the RM and the FM. For projects up to Rs. 100 crore, now the competent financial authority is the Raksha Mantri. For projects up to Rs. 200 crore, it is in consultation with the Finance Minister. Only cases over Rs. 200 crore would have to go to the CCS for approval. This also would be another step for cutting down the time frame that is required.

One more important thing, is that for the first time in capital acquisition cases we have made a delegation to the Services Headquarters up to Rs. 10 crores. There were certain delegations which used to be available in the revenue side. In fact, all cases up to Rs. 10 crore are now dealt with in the Services Headquarters. I expect that it would certainly have an impact on the time. This kind of power is given to them for the first time to cut on the number of cases which required reference to the Ministry of Defence and acquisition through the Acquisition Wing of the Ministry of Defence. In quantitative terms, a very large number of cases fall in this category of Rs. 10 crore or lower. These would all get done by the Services themselves.

This has been the experience and these are subject to review every two years. I am talking about the powers on the revenue expenditure side. The last revision was in 2002. Last year, we have very substantially enhanced it and the bulk of the revenue spending is now within their control."

9. When asked to state about the adequacy of delegated powers to the Service Headquarters, the Defence Secretary, during oral evidence, submitted :

"I would like to point out that there was nothing like this earlier. We want more to be delegated. This delegation of Rs. 10 crore has been done in great consultation with the Finance Department. We will definitely delegate it if there is a large possibility."

10. On being asked whether there is a need to review continuously with regard to the delegation of powers instead of waiting for two years, the representatives of the Ministry of Defence, during oral evidence, stated:

"There is no problem in reviewing any specifically-felt need of the three services. If they bring it up, then the Ministry would be quite open to review it and mandate whatever needs to be done. But there is a whole range of issues involved in it. There are certain efficiencies, which have to be brought about at the level of

the command. Delegations are not static in the sense that if we see that there is a good merit, then this two-year ban does not come in the way.”

11. Replying to a query of the Committee pertaining to getting approval of the Ministry of Defence and Ministry of Finance on the proposals which fall within the delegated power of the Service Headquarters, the Ministry of Defence, during oral evidence, stated:

“This is the first time that powers in respect of capital acquisition have been given to the Services. In quantitative terms almost one-third of the cases would not have to come to the Ministry and they are free to do the price negotiation and technical evaluation, conclude the contract, etc. All those stages are saved. It relieves the Ministry of a lot of burden in physical terms because each process, whether the value is Rs. 5 crore or Rs. 500 crore, has to undergo the same kind of rigorous examination. Work to the extent of one-third has been entrusted to them. There is a lot of reduction in the number of cases and more quality time can be devoted by the functionaries in the Ministry in the Acquisition Wing to this focused acquisition.

All cases require Acceptance of Necessity (AON), and AON is given by the Defence Acquisition Council. The rest of the process will be started only after AON is accorded. The necessity has to be established.

I think this concern is extremely valid. There is a tremendous merit in delegation. The hon. Member was questioning as to why the acceptance of necessity approval should be required once the power is delegated. I fully agree with the concern. We are going to examine this. If it is not required, we are going to delegated that also.”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Comments of the Committee

12. The Committee note that the Ministry of Defence have made improvement in Defence Procurement Policy (DPP), 2005 and the revised DPP, 2006 and Defence Procurement Manual (DPM), 2006 are being implemented w.e.f. 01.09.2006. After examining the DPP, 2006, the Committee feel that there is a need for further improvement in the present Defence Procurement Procedure. The Committee are concerned to note that the present limit of financial delegation to

the Service Headquarters is meager and inadequate as the cost of the equipment for the three Services is continuously going up. The Committee, therefore, strongly recommend that the present financial delegation to the Service Headquarters needs to be suitably increased. The Committee desire that Defence Secretary also be delegated appropriate financial powers at par with the Service Headquarters to speed up and facilitate the acquisition process. In this context, the Committee further recommend that the financial power of Defence Minister should be increased upto Rs. 200 crores, if that falls within the Budgetary provision of the Ministry of Defence and there should be no need for concurrence of the Minister of Finance. However, if the demand is over and above the budget of the Ministry of Defence, then the approval of the Minister of Finance be sought at the higher level expeditiously.

The Committee observe that proposals falling within the delegated power of the Service Headquarters and Defence Secretary required acceptance of the necessity by the Defence Acquisition Council. During oral evidence, the representatives of the Ministry of Defence also agreed with the concern of the Committee that once power has been delegated, that should not be subjected to approval of acceptance of necessity by the Acquisition Council or approval from the Ministry of Defence and the matter may be examined with an open mind. Therefore, the Committee strongly recommend that there should not be any need to refer the cases to the Acquisition Council or Ministry of Defence upto Rs. 10 crore or more where the powers have been delegated to the Service Headquarters. This will further minimize delay and ensure accountability.

The Committee note that the Ministry of Defence review the Defence Procurement Procedure in every two years. During oral evidence, the Ministry of Defence admitted that delegation of powers is not static and if they find merit in the proposals of the armed forces, they may review it. Therefore, the Committee recommend that the Ministry of Defence should bring improvements as and when the situation requires instead of waiting for two years to modify the Procurement Procedure.

In regard to the procurement of day-to-day (civil) revenue items, the Committee desire that the Ministry of Defence should follow the procedure being followed by other Ministries in procurement of revenue items.

Need to build a strong R&D base for Defence Sector

Recommendation (Para No.1.15)

13. The Committee had noted that 53.9% of procurements made in 2004-05 were through imports and only 46.1% of procurements were from indigenous sources. In the case of Navy, procurements through imports had increased from 36% to 57.81% during the last 5 years. It showed that even after more than 60 years of Independence, cutting edge technologies had not been developed in the country. This had resulted in the large scale dependence on foreign suppliers for defence procurements which were subjected to various constraints like technology denials, sanctions, higher costs, etc. by the exporting countries. The Committee felt that these constraints could be adequately addressed through sufficient investments in R & D Sector as also through transfer of design, data and technology agreements. The Committee, therefore, were of the strong view that Government should lay stress on building a strong R & D base with accountability so that development of defence equipment within the country was encouraged and dependence on foreign suppliers was minimised.

14. The Ministry, in their Action Taken Reply, have stated that:

“The Navy has been able to increase the indigenous procurement from 40% in 2004-05 to 60% in 2005-06 as a result of the major thrust given to indigenization. The increase in the content of indigenization from 2000-01 to 2005-06 is given in the table below:-

(Rs. in Crore)

Year	Total	Imported (%)	Indigenous (%)
2000-01	3752.52	1706.90 (36)	2045.62 (64)
2001-02	4829	2363 (48.93)	2466 (51.07)
2002-03	3810	1919 (50.36)	1891 (49.64)
2003-04	5175	2985 (57.68)	2190 (42.32)
2004-05	7882.76	4557.11 (57.81)	3324.89 (42.19)
2005-06	8574	3400 (39.65)	5174 (60.35)

A strong R&D base is important for achieving self sufficiency in the Defence area. It may, however, be mentioned that R&D laboratories undertake limited production of equipment developed

by them which leads to problems in providing adequate product support, supply of spares, maintenance of equipment and training, as the R&D laboratories are not geared to undertake such production related activities.

The Navy's force level accretion plan is mostly based on indigenous construction capability of the PSUs and the Private Sector. To further this cause, Navy has established the Directorate of Indigenisation to provide impetus and direction to the process of indigenisation."

[Ministry of Defence OM No.H-11013/28/2005/D(Parl)
dt. 6.2.2007]

15. When asked to furnish Service-wise information on percentage of indigenous procurement and import since 2000-01, the Ministry of Defence, in their written replies, stated :-

**Expenditure on Capital Acquisition Indigenous
vis-à-vis Foreign payments**

Year	Indigenous	Foreign Payments	Total Cap. Acq.
2000-01	4680.68	5821.23	10501.91
2001-02	7216.99	7212.60	144429.59
2002-03	4961.32	7977.32	12938.64
2003-04	6370.28	8213.48	14583.76
2004-05	11656.86	155551.71	27208.57

16. It has been observed that the Government are spending major chunk of Defence budget for importing Defence equipment and in return getting obsolete equipment. In this context, when asked whether the Ministry of Defence have given any thought to share critical technologies and systems with the private sectors engaged with Defence Projection in order to attain high end technology in different Defence R&D fields, the Ministry of Defence in their written replies furnished to the Committee stated:

"The following provisions have been made in DPP 2006 to encourage joint venture or collaborations of private manufactures with adequate capabilities with OFs/DPSUs relating to Transfer of Technology (ToT):

- (a) Cases where ToT is being sought from appropriate production agency (PA) would be approved by the DAC.

The PA would be selected from any of the public/private firms based on inputs from DDP. In case where the response to the RFP is received from a joint venture company, then assessment of absorption of key technologies as required under the ToT would be carried out by a Committee constituted by DDP (Para 19 DPP-2006)

- (b) The provision of ToT to an Indian Public/Private firm, for providing Maintenance Infrastructure for 'Buy' category cases, where equipment is being brought from foreign vendors has been provided in Para 28 of DPP 2006."

17. On being asked about the efforts made to establish a Directorate of indigenization for Army and Air Force in order to make these Services advance like Navy, the Ministry of Defence informed the Committee that :

"The Directorate of indigenization has been operational in the Indian Air Force since 1994. EME Directorate is concerned with indigenization within Army Head Quarters."

Comments of the Committee

18. **The Committee are distressed to note that even after 60 years of independence, expenditure on capital acquisition from foreign sources is 2/3 of the total expenditure on capital acquisition. This clearly shows that cutting edge technologies have not been developed in the country and our production agencies are not capable enough to deliver the equipment/weapon systems as per the requirements of the Armed Forces.**

The Committee are constrained to note that despite the realization of the fact that a strong R&D base is important for achieving self-sufficiency in the Defence, Government initiative does not seem to be adequate. The Ministry of Defence have admitted that R&D laboratories undertake limited production of equipment developed by them which leads to problems in providing adequate product support, supply of spares, maintenance of equipment and training, as R&D laboratories are not geared to undertake such production related activities. The Committee, in their 14th Report on DRDO, had observed that there was a steady decline in the percentage of R&D budget for DRDO out of the total defence budget. It had gone down from 6.17 per cent in 2002 to 4.87 per cent in 2004. The Committee further found that the percentage spending in R&D activities to the Defence Budget was very low as compared to the

advanced and neighbouring countries. Therefore, the Committee wish to reiterate their earlier recommendation 'to build a strong R&D base with accountability' by putting sufficient investment in R&D sector and by providing adequate world-class infrastructure facilities and congenial working atmosphere to the scientist community. The Committee desire that all out efforts should be made by the Ministry to encourage Joint Ventures or collaborations of private manufactures with DPSUs in cases of Transfer of Technology etc. where equipment is brought from foreign vendors. Similarly, where DRDO laboratories have undertaken limited production of equipment, the private sector firms can be encouraged to undertake the mass production. The Committee also stress for strengthening of R&D base of DPSU, Ordnance Factories and Public Private Partnership in this regard. The Committee feel that this will help to bring self-sufficiency in defence production and minimize dependence on foreign suppliers. The Committee also strongly feel that the Government should ensure efficacious implementation of defence acquisition and product policy in order to considerably reduce capital acquisition from foreign sources in a gradual and time-bound manners.

The main objective of DRDO is the establishment of capability for indigenous production of equipment with a view to attain self-reliance in defence requirements. This mandate of DRDO is accomplished through 50 laboratories/establishments whose activities are organized through specific projects. The Committee in their 14th Report had expressed displeasure to note that one of the reasons for not delivering the desired result as per the mandate of DRDO to achieve self-reliance in defence production was that multifarious responsibilities were being assigned to one authority i.e. the SA to RM who was also the D.G. of Defence Research and Development Organization. In this context, the Committee would like to stress again that one person should not be entrusted with number of responsibilities by making him hold a number of post simultaneously. The Committee therefore strongly recommend that Government should fill all the vacancies urgently so as to make the organization more purposeful and productive.

The Committee note that Navy has got strong R&D base and the indigenisation level is quite high in comparison to Army and Air Force. In this regard, the Committee wish to recommend that the Ministry of Defence must ensure that the Army and Air Force should follow Navy's model for modernisation and indigenisation.

Upgradation of Technology of Weapon System without Payment of Royalty

Recommendation (Para No.1.16)

19. Whenever imports were made, transfer of design, data and technology should also be ensured. During the life of the agreement or a reasonable period to be specified therein, if the weapon system was upgraded, the foreign manufacturer should also transfer the upgraded technology without payment of royalty.

20. The Ministry, in their Action Taken Reply, have stated that:

“It would not be financially prudent to take ToT for all equipment procured from abroad. ToT is taken only in those cases where the requirement of equipment is large. Categorization of the equipment into ‘Buy & Make’ is decided by DAC/DPB.

Provisions have been incorporated at Para 11 of RFP (DPP-06), wherein vendors are supposed to intimate about all upgrades and modifications carried out in the equipment during its lifecycle.”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Comments of the Committee

21. The Committee strongly feel that it should be made compulsory for the vendors to intimate about all upgrades and modifications carried out in the equipment during its life cycle. Therefore, the Committee wish to reiterate their earlier recommendation that relevant para of RFP should ensure to make it compulsory on the part of the vendors to upgrade and modify the equipment during its lifecycle without payment of royalty otherwise there should be penalty clause for seeking compensation from the company for not performing committed responsibility / liability as the per contract.

Need for preparing an appropriate Defence Production and Procurement Strategy

Recommendation (Para No.1.18)

22. The Committee further desired that the private sector, which had grown in its capabilities and resources over the years, should be actively involved in the development/ production/ supply of defence equipment. Instead of large scale dependence on foreign suppliers,

who worked under constraints imposed by their respective Governments, the Committee were of strong view that home-grown technologies should be developed with coordinated and concerted efforts of DRDO, DPSUs, Ordnance Factories and Private Sector. The Committee, therefore, had desired that an appropriate defence production and procurement strategy be chalked out with emphasis on developing indigenous technologies. The Committee further desired that sufficient incentives with financial support be given to promote R&D in both public and private sectors engaged in developing cutting edge technologies. Similarly, in the case of Transfer of Technology (T.O.T.) agreements, private sector should also be allowed to participate in/ take benefit of developing new technologies.

23. The Ministry, in their Action Taken Reply, have stated that:

“Design and development of High Technology Complex systems by RURS/ Indian Industry/DPSUs/OFB/Consortia is being undertaken as per ‘Make’ procedure of DPP-2006. [Para 3(c) Chapter-II of DPP 2006]”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Comments of the Committee

24. **The Committee note that design and development of High Technology Complex Systems by Rakshya Udyog Ratnas/Indian Industry/DPSUs/Ordnance Factory Board/Consortia is being undertaken as per ‘Make Procedure of Defence Procurement Policy (DPP) – 2006. The Committee further note that the R&D laboratories are not geared to provide adequate product support, supply of spares and maintenance’. Therefore, the R&D laboratories undertake limited production of equipment developed by them. The Committee are further concerned to observe that the R&D budget for DRDO out of the total defence budget has been declining since 2002. Further, the percentage spending in R&D activities to the total defence budget is very low as compared to the advanced and neighbouring countries. Therefore, the Committee strongly feel that the “make Procedure”, as enunciated in DPP – 2006, should be supplemented with adequate budgetary support to promote R&D in both public and private sectors engaged in developing cutting edge technologies, thereby promoting indigenisation and self reliance in Defence Sector. The Committee would like to know the details of the cases where design and development of high technology complex systems have been undertaken during the last one year.**

Need for maintaining required force level of Ships**Recommendation (Para No.2.24)**

25. The Committee noted with concern that with the scheduled de-commissioning of the ships, the force level would fall to 132 at the end of Eleventh Plan against DAC's directive to maintain the force level of 140 ships. The Committee, therefore, strongly recommended the government to take urgent steps to expedite acquisition of ships by placing sufficient orders with Defence Shipyards so that the required number of ships might be maintained. The Committee also desired that sufficient funds might be allocated to Defence Shipyards to enable them to undertake upgradation/modernization of their exiting infrastructure and produce ships of latest technology, thereby facilitating the Navy to induct them and to maintain their force level as per perspective plan.

26. The Ministry, in their Action Taken Reply, have stated that:

“Concerted efforts are made to ensure that Navy's force level of 140 ships as directed by DAC is maintained. There are 38 warships and submarines presently being built at Indian shipyards, which are at various stages of construction. Details have been furnished in Annexure.

Cases for acquisition of ten new ships i.e. one Fleet Tanker, one Sail Training Ship (STS) and eight Mine Counter Measure Vessels (MCMVs) are under process.”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Comments of the Committee

27. Keeping in mind the important role the Indian Navy has to play to safeguard the nation on both economic and strategic fronts, the Committee wish to reiterate their earlier recommendation to expedite the matter and also desire that matching allocation should be provided to DPSUs to upgrade/modernize their infrastructural facilities for production of ships to ensure that the required fleet strength is maintained. The Committee also strongly desire that the process of acquisition of ten new ships should also be expedited and in a time-bound manner and the Committee may be apprised about the action taken in this regard.

Finalisation of Long Term Perspective Plan and Five Years Defence Plan

Recommendation (Para No.3.5, 3.6 and 3.7)

28. The Committee noted that acquisition of capital assets flowed out from the defence procurement planning process which covers 15 year long Perspective Plan, 5-year Service Capital Acquisition Plan and Annual Acquisition Plan. It was, therefore, imperative that the above plans were formulated in time and timely approval was given by Government with firm indication of available funds so that procurement process could progress smoothly.

The Committee were constrained to note that there had been abnormal delay in formulation and approval of LTIPP covering the period 2002-2017 and since 3 years of the plan had elapsed, the Ministry had now revised the period of LTIPP to 2007-2022. Even the 10th Defence Five Year Plan (2002-2007), which was in the fourth year, had not yet been approved with firm indication of funds till now and was now an academic exercise only. It showed the casual approach of the Government in formulation of such an important plan as also adhocism in decision making, adversely affected the modernization plan of the services. The Committee need not emphasize that in the long term procurements, lead time was required for creating futuristic forces, making it necessary to have long term defence planning. The Committee, therefore, recommended that the Government should urgently finalize the long term Perspective Plan and also initiate steps for finalization of the 11th defence plan so that there was a clear direction of procurements to be made. The Committee desired that the exercise be completed in a time-bound manner preferably within a year. The Committee further desired that the 11th Plan Approach Paper might be made available to the Committee at the time of examination of Demand for Grants 2006-07.

The early finalization of the LTIPP would also help in projecting the financial requirements to Ministry of finance (MOF) well in advance, so as to enable them to plan for the required funds accordingly. This planning would also help the Ministry of Defence (MOD) in identifying the requirements of the Services and initiating the procurement process, well in time, thereby reducing the time lag. This would also help in determining the broad based qualitative requirements by the services and ensuring that the GSQRs were not frequently changed and single vendor situations were avoided. The Ordnance Factories and public and private sectors could also plan their investments accordingly.

29. The Ministry, in their Action Taken Reply, have stated that:

“Broad approval to LTIPP 2002-17 was given by DAC in its meeting held on 19th June, 2006. Annual Acquisition Plan (AAP) of the three Services and Coast Guard pertaining to Financial Year 2006-07 has been approved by DPB on 11-4-2006 in respect of three Services and on 5-10-2006 in respect of Coast Guard.”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

30. On being asked whether the Long Term Integrated Plan and Five Year Defence Plan is being shared with the production agencies, the representatives of the Ministry of Defence, during oral evidence, stated:

“There has been some consultation with the production agencies, but it is not so formally structured. First of all, we formulate a plan and then get into the manner in which it has to be acquired. We fully agree that this is the need of the hour. Firstly, all the annual acquisition plans come out of the five-year plan, and the five-year plan is a part of long-term integrated plan. Now, when an item is to be procured, the CISC organizes the meeting. In this meeting it is decided whether that item is to be bought. If it is to be bought, then they discuss whether it should be bought from Indian firms or from abroad. So, ‘buy and make’ and ‘make’ decisions are first taken, and then we go for procurement.”

Comments of the Committee

31. The Committee note that broad approval to Long Term Integrated Prospective Plan (LTIPP) 2002-2017 has been given by Defence Acquisition Council in June 2006. During the examination of Demands for Grants (2007-08) the Committee had observed that the period of LTIPP 2002-17 has now been revised to 2007-22 keeping in view the likely availability of funds during the 11th Plan. The Committee note that this revised LTIPP will be approved by the Defence Acquisition Council by 31st October 2009 and the 11th Plan is yet to be finally cleared by the Ministry of Finance. The Committee are deeply concerned to note that continued delay in preparing LTIPP and Five Years Defence Plan hamper defence modernisation and upgradation programme. Therefore, the Committee strongly recommend that Ministry of Defence should take up this matter at the highest level to get its 11th Plan cleared by the Ministry of Finance. The Ministry should finalise LTIPP at the earliest in order to make a correct assessment of the procurement based on threat

perception, changing security scenario and rapid scientific and technological innovation to meet the requirements of the forces. The Committee hope and trust that annual plan of the Ministry of Defence for the year 2007-08 are based on the projections/targets fixed for the Eleventh Plan and will be synchronized timely with it.

The Committee further recommend that the Armed Forces/ Ministry of Defence should make available their Long Term Perspective Plan to the Production agencies and involve the users directly throughout the process to prepare a realistic and growth-oriented perspective plan of the production agencies. This will further facilitate the production agencies to produce the latest equipment as per the technological changes so as to meet the requirements of the Armed Forces and encourage them for more investment and ensure hundred percent capacity utilisation.

Involvement of Experts during finalisation of Service Qualitative Requirements

Recommendation Para No. 4.10 & 4.11

32. The Committee, however, desired that SQRs should be laid down after careful evaluation of the equipment, if already in use, during the trials and exercises. The Committee felt that for laying down SQRs, experts from OFB / DRDO and outside must be consulted so that deficiencies in the equipment were identified and technical parameters, after rectifying the known deficiencies, were correctly laid down for the procurement of that equipment in future.

Similarly, if the equipment to be procured was not in use, the service requirements should be clearly identified first by the user and thereafter SQR might be laid down after consulting experts from DRDO, OFB and reputed private Organisations having relevant expertise. This would help in avoiding changes in SQR again and again.

Reply of the Government

Formulation of SQRs have been addressed in DPP 2006 (Para 13 to 16).

33. SQRs are formulated by the User Directorate at SHQ and circulated to all concerned for obtaining their views/comments including other possible user directorates, maintenance directorate, HQ

IDS, DRDO, Department of Defence Production (DDP), Director General of Quality Assurance (DGQA)/Director General of Aeronautical Quality Assurance (DGAQA), Directorate of Standardisation, Technical Managers and any other department, as deemed necessary. (Para 13 to 16 of DPP 2006).

Reputed private organizations having relevant experience are being consulted before finalizing the SQR.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Formulation of SQR has been addressed in DPP-2006.

34. On being asked whether the reputed private organisations having relevant expertise are being appointed as a consultant, the representatives of the Ministry of Defence, during oral evidence, stated:

“As far as trials are concerned, they are conducted only on vendors who are short listed. No private sector would be involved in that. The service headquarters are the users. They decide what is the requirement. They are the best judges to see whether a particular equipment meets the requirement or not. These equipments are tried out in various climatic conditions. In the conduct of the trials, if, for particular equipment, they feel that they need to consult somebody, they are free to do that. If the service headquarters feel that they need a particular consultant, they could certainly write to us and we will permit that.”

Comments of the Committee

35. **The Committee are concerned to note that during the trial of a particular equipment, the private sector, having relevant expertise, are not being consulted regularly to identify deficiencies in the equipment and other technical parameters before finalizing Service Qualitative Requirement (SQR). However, the Ministry of Defence permit the Service Headquarters, if they desire, to appoint any proven and experienced private consultant. The Committee feel that for careful and correct evaluation of the equipment and other technical parameters, the Ministry of Defence should insert a provision in the Defence Procurement Policy (DPP) so that the Service Headquarters or the production agencies if need be can avail the services of private consultants/experts, wherever they have relevant expertise, before finalizing SQR.**

Inviting pre-bid meetings of manufactures to avoid single-vendor situation

Recommendation Para No. 4.12

36. The Committee had suggested that, in order to avoid single vendor situations a new methodology could be adopted which should comprise inviting pre-bid meetings of the various manufacturers to discuss technical specifications of the desired product after floating global enquiries. Then the respective service headquarters could prepare their own technical specifications from the above discussion by involving the technical experts from the user service, DRDO, OFB, DGQA and reputed private organisations having relevant expertise, before inviting the manufacturers to submit the technical and financial bids according to the specifications. This would be helpful in avoiding manipulation and single vendor situations as many manufacturers would participate in final bidding and accountability would be there. The Committee would like to emphasize that the system should be foolproof so that there was no room for accusation of corruption and illegal transaction.

37. The Ministry, in their action taken reply, have stated:

“Formulation of SQRs has been addressed in para 13 to 16 of DPP 2006. The QRs shall be prescribed in clear-cut terms and they should not vague or ambiguous. Prior to according approval to the SQRs, the Staff Equipment Policy Committee (SEPC) should assess that it would result in a multi vendor situation. If a single vendor situation is likely, then the reasons for formulation of such SQRs are to be recorded. Such cases would be debated in the SCAPCHC meeting while seeking AoN and approved by DAC. SHQ may issue ‘Request For Information (RFIs)’, where they are not certain of the specification of a system, in order to formulate realistic SQRs (Para 14 of DPP 2006).

The issue of pre-bid meeting of all the vendors has been addressed in DPP-2006. (Para 31)

SQRs are based on operational requirements. Meeting with vendors to discuss the technical specifications prior to formulation of SQRs is not warranted as it may lead to dilution of operational requirements or SQRs being vendor specific which is not warranted. However, it is made sure that SQRs are broad based to lead to multi-vendor situation in all cases. This has been addressed at Para 13-16 of DPP 2006.

Reputed private organizations having relevant experience are being consulted before finalizing the SQR wherever required.”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Comments of the Committee

38. The Committee are not satisfied with the vague replies. The provision of Defence Procurement Policy 2006 i.e. “prior to according approval to the SQRs, the Staff Equipment Policy Committee (SEPC) should assess that it would result in a multi- vendor situation” does not spell out clear cut measures to avoid single-vendor situation. Therefore, the Committee desire to reiterate their earlier recommendation that the Ministry of Defence must take concerted efforts to amend the provision of DPP-2006 and specifically mention the methodology for inviting pre-bid meetings of various manufacturers to discuss technical specification of the desired product after floating global enquiries. Then the respective service headquarters can prepare their own technical specifications from the above discussion by involving the technical experts from the user service, DRDO, OFB, DGQA and reputed private organisations having relevant expertise, before inviting the manufacturers to submit the technical and financial bids according to the specifications. This will bring uniformity and minimize delay in finalisation of tender.

Off-set Clause

Recommendation (Para Nos. 5.6 & 5.7)

39. The Committee had noted that the provision of offset clause which had been introduced in the new procedure and was being followed in many countries. The Committee had been informed about the benefits of offset clause which had helped build up indigenous defence industries in some countries. Since the Indian import of defence equipment was very large, the Committee felt that the provision should be utilized to ensure the development of indigenous defence industry. There should be a national policy for utilisation of offset clause for defence procurement. The Committee desired that efforts should be made to ensure participation of private sector defence industries and some of the benefits of this clause should be passed on to them also. The Committee, therefore, strongly recommended that the modalities for implementation of offset contracts should be carefully worked out so that foreign technology could be adequately imbibed by the Indian industrial sector. A Committee of experts from industry and other relevant fields be constituted which should examine each offset and

suggest as to how maximum advantage could be derived there from and also to monitor implementation of the offset clause. The Committee would again like to stress that no royalty should be given for subsequent upgradation / modifications of the technology by the foreign supplier during the contract period.

The Committee also expressed their apprehension that this clause would be utilized for trade accounts only. The Committee felt that maximum benefit should be extracted from this clause. Private sector along with the OFs/DPSUs should be permitted to participate in the scheme envisaged under offset clause and allowed to enter into joint ventures with foreign manufacturers for defence production under technology transfer. The Committee also desired that there should be a joint public and private sector venture to implement the benefits of offset clause. This would be helpful in achieving self-reliance. A specific time frame should be determined by the Government so that the offset clause could make India self-sufficient in defence production.

40. The Ministry, in their action taken reply, have stated:

“The recommendations of the committee has been included wherein defence off-set guidelines have been incorporated in Para 22 of DPP 2006”.

41. Pertaining to the present status of offset clause, the representative of Ministry of Defence, during oral evidence stated :

“It is submitted that the provision for offset was indicated in the DPP 2005. We started indicating and asking in our RFP, and we said that offset would be required. The offset proposals are evaluated concurrently with our main proposals that are received in response to the RFP. All these things are being implemented, but it takes a little time to actually sign the offset contract. It is all in the process, and they are in the pipeline. First few offset cases are almost reaching finalization, and we expect that shortly they should come up. It is being implemented from DPP 2005. Subsequently, we have included detailed guidelines for offset, in DPP 2006. This is an improvement that we made from DPP 2005. These are all being implemented, and everything is in the pipeline.”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Comments of the Committee

42. The Committee note that the Ministry of Defence has incorporated detailed offset guidelines in DPP – 2006. In regard to

the implementation status of off-set provision, the Committee observe that off-set provisions have been indicated while issuing Request for Proposals. The Government is examining the proposals received under RFP along with the offset provisions. The Government is going to finalise these provisions. In this perspective, the Committee desire that the Ministry should make earnest efforts to finalise at the earliest and ensure to utilise the off-set proposals for development of defence R&D at the first instances and in case of non-utilisation, the same may be utilized for industrial infrastructure for services, co-development, joint venture and co-production of Defence production instead of diversifying it for some other purposes.

Effective use of the Services of Defence Attaches

Recommendation Para No. 6.9

43. The Committee had been informed that the Ministry maintain data bank of prospective vendors who were suppliers of defence equipment. Defence Attaches posted in various countries were also involved in the identification of vendors. The Committee were of the view that Defence Attaches should be given a meaningful role in identifying technology and defence equipment available with foreign suppliers and they should regularly and adequately apprise the Ministry of the various advancements made and agencies involved in the development of defence equipment in the country of their posting. They should also provide data and evaluation of such equipment and its tentative cost, etc. The Ministry of Defence should have sufficient data bank with them based on such information.

44. The Ministry, in their action taken reply, have stated:

“Provision has been made in DPP 2006 to generate maximum vendor response through vendor’s registration through internet, case specific advertisement on the internet, expression of interest and advertisement through newspaper (Para 24).”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Comments of the Committee

45. The Committee observe that a provision has been made in Defence Procurement Policy (DPP) 2006 to generate maximum vendor response through vendor’s registration through internet, case specific advertisement on the internet, expression of interest and advertisement through newspaper. However, the Committee are

deeply concerned to note that their recommendation to fully utilize the services of the Defence Attaches posted in various countries in the identification of vendors have not been duly reflected in the DPP-2006. Therefore, the Committee wish to reiterate their earlier recommendation to fully utilise the services of Defence Attaches in the identification of vendors, technology and defence equipment available with the foreign suppliers, etc. and desire that specific provision in this regard may be suitably incorporated in the DPP-2006.

Prolonged Field Trail- Cause of delay

Recommendation (Para No. 9.6, 12.4 & 12.5)

46. The Committee noted that another reason for delay in procurement of a major equipment which was to be introduced for the first time, was that it had to be tried out during winter, summer, at high altitude, in desert, forest and plains and, therefore it did take time. The Committee desired that efforts should be made to reduce the time taken in the trials of the equipment in all the different situations.

The Committee, also stressed that all required trials should be done in a time bound manner in conformity with the planned schedule.

47. The Committee noted that field evaluation/computer simulation of a new weapon system was normally done in all conditions where the equipment was required to be deployed. The Committee were, however, of the view that though field evaluation/computer simulation of new equipment was very essential, this should be completed in a time-bound manner so that the procurement process was completed in the prescribed period.

48. The Committee further desire that in the field evaluation of new equipment, the user and technical experts of Ordnance Factories, DRDO and reputed private organization having relevant expertise, should invariably be involved so that they may help in proper evaluation of the equipment particularly in case involving integration of different systems and sensitive equipment.

The Committee also desire that a floor level Committee should be constituted for evaluating the field trials. The Committee should comprise of the field level service officers, technical experts from DRDO, OFs/DPSUs and reputed private organization having relevant expertise and also the manufacturer. This will help in assessing the quality of equipment more objectively.

49. The Ministry of Defence in their Action Taken Reply, submitted as under:-

“Due to the complexities involved in the procurement of defence equipments, it has invariably been seen that maximum time is devoted in conduct of field trials by the user in various terrains and its subsequent evaluation at SHQ. The equipment offered by the foreign vendors are not specifically developed for Indian conditions and there are number of short falls. The equipment is to be trial evaluated as per our GSQR parameters. Prolonged trials take place till the time all the parameters are validated.”

“The trials are carried out by the user who is going to operate the equipment/weapon system in field conditions. The trials are also witnessed by representatives of higher formations; service HQs and even Technical Managers. The trials report is processed through the chain of command where the commanders in chain give their comments. While conducting trials, representatives of DRDO, DPSUs and other agencies are also involved on case to case basis.”

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Comments of the Committee

50. The Committee do understand that complexities are involved in the procurement of defence equipments and the maximum time is devoted in conduct of field trials by the user in various terrains as the equipment offered by the foreign vendors are not specifically developed for Indian conditions. The Committee, however, are concerned to observe that long field trial of equipment is major cause for delay in procurement of equipments. The Committee understand that computer simulation and other new methods are available world wide to try the new equipment in all conditions. The Committee hope that these methods should be meticulously used to avoid delays in field trials and complete the procurement in the prescribed period of time. The Committee, therefore, recommend that each stage of field trial should scrupulously & scientifically be studied by the expert Committee, in order to assess and report, how the long process of field trial can be minimized, in order to reduce significant delay in capital procurement. The Committee may be informed about the steps taken by the Government in this regard.

The Committee note that same amount of time is taken by Armed Forces in making evaluation trails even in case of equipments produced indigenously. The Committee desire in such cases trials

should be completed in a time-bound manner. The Ministry of Defence should monitor and try to improve the situation.

Need to make the guidelines for appointment of authorised Indian agents less cumbersome

Recommendation (Para No. 11.4)

51. The Committee noted with concern that despite the guidelines issued by the Ministry for appointment of authorized Indian representative/agents of foreign suppliers, nobody had registered himself as an authorized Agent. The Committee were of the view that representatives of the suppliers in the country could play a useful role in After Sale Service and in sorting out problems during the warrantee period etc. The committee, therefore, strongly recommended that the Ministry might analyse the reason for non-registration of authorized representatives with the Ministry and take remedial steps to make the procedures less cumbersome and simple so as to encourage the authorized representatives to come forward and register themselves.

The Committee also felt that registration of agents should be encouraged so that the allegation of kickbacks might be minimized and these agents might also facilitate better coordination between the MoD and the supplier during trials, etc. This would also help in reducing the time and cost overruns.

52. The Ministry of Defence in their reply stated as under:

“On the basis of Ministry of Finance’s instructions issued on 31st January, 1989 relating to Indian Agents of foreign suppliers for all the Ministries/Departments under the Government of India, supplementary instructions were issued by the Ministry of Defence in April, 1989 and in November, 2001 to regulate authorized Indian representatives/agents of foreign suppliers. The instructions provide for the regulation of representational arrangements through a system of registration, categorical and open declaration by the foreign suppliers of the services to be rendered by their authorized representative/agents and the remuneration payable to them by way of fees, commission or any other method. So far no authorized Indian Representative/Agent has been registered by the Ministry of Defence in terms of these instructions.”

Comments of the Committee

53. The Committee are concerned to note that inspite of instructions issued by the Ministry of Finance on 31st January 1989

relating to Indian Agents of foreign suppliers for all the Ministries/ Departments under the Government of India and supplementary instructions issued by the Ministry of Defence in April 1989 and Nov 2001 to regulate authorized Indian representatives/agents of foreign suppliers, no authorized Indian representative/agent has been registered by the Ministry of Defence in terms of these instructions. The Committee take a serious note of the fact that no registration of any Indian Agents/Representative since 1989 has not been done so far. Moreover the Ministry of Defence has not given any reason thereon. The Committee feel that there must be some regulations which are deterring the authorised Indian representatives to get themselves registered with the Ministry. The Committee strongly recommend that there is an urgent need to review the guidelines/ procedure relating to registration and authorized Indian representatives by the Ministry of Defence and to take necessary remedial steps urgently to make the procedure less cumbersome and simple in this regard.

Fast Track Procedure

Recommendation (Para Nos. 13.8, 13.9, 13.10 & 13.12)

54. The Committee noted that the fast tract procedure promulgated in December, 2002 to facilitate speedier acquisition of defence equipment in an emergent situation had completely failed to meet its objectives. A study of the cases taken up under FTP revealed that it took more than 12 months to sign the contracts defeating the very purpose for which it was established i.e. to meet certain unforeseen eventualities. Actual delivery of the equipment would have taken some more time. The Committee were informed that there was mix up in the implementation of the Fast Track Procedure, and the government was in the process of reviewing it. As an efficient Fast Tract Procedure could play a vital role in emergent situations, the Committee recommended that the Ministry should carefully analyse the shortcomings of FTP and establish a procedure for emergent purchases which was truly fast tract and quick.

55. The Committee felt that the conditionality of starting procurement process after the approval of RM only, in itself was time consuming in an emergent situation where time was of great essence. The Committee desired that the requirements of emergent nature after having been certified at the level of GOC-in-C in Army and equivalent level in other forces and routed through Chief of Staff should be considered emergent to start the process. Approval of RM could be taken when the proposal was put up to him for financial sanction.

56. However, to check that every other case was not put under FTP, the Ministry should lay down norms / guidelines which a procurement case would have to meet to qualify for Fast Track Procurement. A certificate to this effect could be furnished by GoC-in-C approving the case.

57. The Committee also felt that 12 months time taken under FTP to sign a contract would negate the very purpose of the procedure particularly when something was 'imminent' or there was an operational emergency. The Committee felt that there might be a need for separate procedure under FTP for SOS supplies. The Committee desired that the Government should examine this aspect also and check how far present FTP could handle such a situation. The Committee might be informed of the analysis made.

58. The Ministry in their action taken replies have stated:

"A revamped Fast Track Procedure 2006 has been included in Chapter -IV of DPP 2006.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Comments of the Committee

59. The Committee noted that the aim and objective of this procedure was to ensure expeditious procurement of urgent operational requirements foreseen as imminent or for a situation in which a crisis emerges without prior warning. However, the Committee are distressed to note that the period prescribed under the Fast Track Procedure i.e. twelve months to sign the contracts defeat the very purpose for which it was established. From an in-depth study of the Fast Track Procedure, the Committee observe that the Ministry have not made any provision to purchase equipment in an urgent operational requirements. Therefore, the Committee wish to reiterate their earlier recommendation and desire that suitable provision may be inserted in the DPP-2006 to enable the Service Headquarters to purchase the desired equipment within a month's time with the approval of Raksha Mantri. In this way the Fast Track Procedure will serve meaningful purpose to meet the emergent operational requirements.

The Committee further note that in the Fast Track Procedure - 2006, the Ministry of Defence have prescribed twelve months time frame to complete the acquisition procedure. This prescribed time frame will be followed in case of "procurement of equipment already

inducted into the Services" as well as "procurement of new equipment". The Committee strongly feel that the Ministry of Defence should not take the same time for procurement of equipment already inducted into the Services, because they are already well versed with the supplying agencies, price and quality of the equipment and trial etc. Therefore, the Committee, desire that the Ministry of Defence must modify the Fast Track Procedure – 2006 and make clear cut distinction in regard to time period and procedures followed for procurement of equipment which are already inducted into services and procurement of new equipment. The committee also desire that improvements made in Fast Track Procedure from time to time may be intimated to the Committee.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1.4 & 1.5)

The Committee are happy to note that the Government has promulgated a new Defence Procurement Procedure-2005 for Capital procurements; and also, for the first time, Defence Procurement Manual 2005, for Revenue Procurements. The Committee feel that it will bring about greater transparency in defence purchases and make procurements speedier thereby ensuring timely utilisation of funds. This way it can be ensured that our soldiers get timely and quality supply of defence items.

The Committee desire the Government to examine whether the stages for procurement can be reduced to curtail the time involved. With a view to avoiding delays the Committee also desire that once allocation has been made in the budget for a particular procurement, the same should not be sent again and again for approval to Ministry of Finance.

Reply of the Government

DPP-2006 and DPM-2006 are under implementation with effect from 1.09.06. All efforts are being made to ensure that the Armed Forces are supplied with all necessary items to ensure that the security interests of the nation are adequately protected.

Following steps have been taken to reduce the time frame of Defence Acquisition:

- (i) Time frame for procurement activities has been stated at Appendix -C of DPP-06 and major deviation would be monitored at the highest level. The time frames as prescribed in DPP-06 would lead to cutting down of internal lead time for procurements as it brings in checks and balances to avoid multi-layered examination on file and following a path of collegiate functioning at all levels. All major decisions as per the procedures in vogue are being taken at the initiation of the case at the highest level in a time bound manner,

which is aimed to reduce the overall lead time for procurement. These include:-

- (a) Acceptance of Necessity
 - (b) Quantities to be procured
 - (c) Categorisation i.e. or 'BUY', 'MAKE' or 'BUY & Make'.
 - (d) Single vendor Clearance (if applicable)
 - (e) Offset percentages (if applicable)
 - (f) Detailed scope of trials
 - (g) Nomination of production agency in cases involving Transfer of Technology (ToT).
- (ii) In order to reduce time taken at commercial negotiations and in line with the recommendations of CVC, there would be no negotiations with L1 bidder in multi vendor cases.
 - (iii) The financial powers of RM & FM have been enhanced along with delegation of financial powers to SHQRs (upto 10 crores) which would speed up the acquisition process. The time frame given in the DPP-06 is indicative and not prescriptive.
 - (iv) No comments can be offered on the issue of forwarding of proposals time and again to the Ministry of Finance.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Comments of the Committee

(Please see Para 12 of Chapter – 1)

Recommendation (Sl. No. 1.17)

The technology design and other related information transferred may be passed on to the DRDO/OFs/DPSUs/Private Sector engaged in defence production for further modernization and upgradation of the existing technology and development of new technology. In this way, defence weapons and other equipment can be constantly upgraded indigenously throughout their service life.

Reply of the Government

Categorization of the equipment into 'Buy & Make' is dealt by the Categorization Committee of HQIDS and approved by DAC/DPB. The appropriate production agency for absorption of technology would be

approved by the DAC based on the recommendations of the Categorization Committee. The production agency could be selected from any of the Public/Private firms based on the inputs from the Department of Defence Production.

In case of the upgrades, Public/Private firms and DRDO would be involved in the programme.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 1.19)

In case of procurement from foreign vendors with the transfer of technology, the joint ventures may not be restricted to the OFs/DPSUs only. Private manufacturers with adequate capabilities should also be considered and encouraged to enter into such joint ventures. The Committee also feel that joint ventures or collaborations of the OFs/DPSUs with private entrepreneurs/foreign vendors should also be encouraged.

Reply of the Government

The following provisions have been made in DPP-06 to encourage joint venture/collaboration with the private sector:

- (a) Cases where ToT is being sought, an appropriate Production Agency (PA) is approved by the Defence Acquisition Council (DAC). The PA is selected from any of the public/private firms based on inputs from Department of Defence Production (DDP). In cases where the response to the Request for Proposal (RFP) is received from a joint venture company, assessment of absorption of key technologies as required under the ToT is carried out by a Committee constituted by DDP as per Para 19 of DPP-06).
- (b) The provision of ToT to an Indian Public/Private firm for providing Maintenance Infrastructure for 'Buy' category cases where equipment is being brought from foreign vendors has been provided in Para 28 of DPP-06.
- (c) The criteria for selection of Champions of Industry in the Private Sector named as Raksha Udyog Ratnas (RURs) have been laid down in Para 22, Chapter-II of DPP-06.
- (d) High Technology Complex Systems as per 'Make' procedure of DPP-06 would be undertaken by RURs/Indian Industry/DPSUs/ OFB/Consortia on a level playing field as per Para 3(c) of Chapter II of DPP-06.

In accordance with the above provisions the Army has involved the private sector in the production of equipment like Pinaka system.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 2.17, 2.19 & 2.20)

The Committee are happy to note that the Government has promulgated a new Defence Procurement Procedure (DPP) – 2005 for Capital Procurements and Defence Procurement Manual 2005 for Revenue Procurements incorporating the suggestions of Central Vigilance Commission and Comptroller & Auditor General and Ministry of Finance. The Committee hope that the procedure and manual will effectively address the shortcomings of the earlier procedure and make the procurement process more transparent and faster.

The Committee note that for the first time the Ministry has released a separate Manual for Revenue Procurement which accounts for nearly 55%[^] of the total revenue expenditure of the Ministry of Defence. The committee feel it will help in cutting down delays in procurement of day-to-day requirements. The committee desire that the manual may be constantly reviewed and updated by incorporating various suggestions and experience of the Ministry of Defence so that it may become more effective.

As the new DPP has become effective only from 1.7.2005, the Committee do not have the benefit of Government's experience in working the new procedure. However, the Committee have made an in-depth study of the new procedure and manual in conjunction with the earlier procedures and have given their recommendations in the succeeding paragraphs on some of the important stages involved in the procurement procedure.

Reply of the Government

Defence Procurement Procedure (DPP) 2006 and Defence Procurement Manual (DPM) 2006 are under implementation with effect from 01.09.06. The changes made in the DPP and DPM were based on the experience gained over a period of time to make it transparent and reduce the time frame of procurement.

Defence Procurement Manual (DPM) 2006 is being constantly reviewed and after the promulgation of DPM 2006, two amendments have been issued based on the experience gained while implementing this procedure.

The recommendations of the Committee have been addressed in DPP – 2006 as indicated below :

Recomn. No.	Recommendation	Remarks/Updated position
1	2	3
2.18	<p>The Committee note that DPP-2005 caters only to Buy/Buy & Make categories and the Government is in the process of formulating a separate procedure for defence acquisition in respect of 'Make' category of projects. The Committee desire that a clear-cut policy and procedure for the same should be formulated at the earliest, which should duly involve the private sector to exploit their capabilities. Efforts should be made to synergise the capabilities of public and private sectors and DRDO to pave the way for attaining self-reliance in defence production.</p>	<p>'Make' procedure has been made a part of DPP 2006 [Chapter II of DPP 2006]. The aim of the 'Make' procedure is to ensure Indigenous Research, Design, Development and Production of capabilities sought by the Armed Forces in prescribed timeframe while optimally utilising the potential of Indian Industry. In addition, it would also achieve self reliance in Defence Equipment. The 'Make' procedure will cover all capital acquisitions of High Technology Complex Systems and upgrades undertaken by Indigenous Research, Design and Development. These would be undertaken by Ordnance Factory Board (OFB), Defence Public Undertakings (DPSUs) and Indian Industry/Raksha Udyog Ratna (RUR)/ Consortia on a level playing field on shared development cost.</p>

1	2	3
4.9	The Committee fully endorse the amendment in new procedure of not granting any waiver to SQR amendment parameters after issue of RFPs. The Committee feel that it will improve transparency and would be fair and impartial to the vendors.	This has been addressed at Para 17 of DPP 2006. Waiver / amendment to parameters of GSQRs may be obtained by SHQ concerned before issue of RFP. Thereafter, no waiver of parameters would be granted.
4.10	The Committee, however, desire that SQRs should be laid down after careful evaluation of the equipment, if already in use, during the trials and exercises. The Committee feel that for laying down SQRs, experts from OFB / DRDO and outside must be consulted so that deficiencies in the equipment are identified and technical parameters, after rectifying the known deficiencies, are correctly laid down for the procurement of that equipment in future.	Formulation of SQRs have been addressed in DPP 2006 (Para 13 to 16). SQRs are formulated by the User Directorate at SHQ and circulated to all concerned for obtaining their views/ comments including other possible user directorates, maintenance directorate, HQ IDS, DRDO, Department of Defence Production (DDP), Director General of Quality Assurance (DGQA) / Director General of Aeronautical Quality Assurance (DGAQA), Directorate of Standardisation, Technical Managers and any other department, as deemed necessary. (Para 13 to 16 of DPP 2006).

1	2	3
4.12.	<p>The Committee suggest that, in order to avoid single vendor situations a new methodology be adopted which should comprise inviting pre-bid meetings of the various manufacturers to discuss technical specifications of the desired product after floating global enquiries. Then the respective service headquarters can prepare their own technical specifications from the above discussion by involving the technical experts from the user service, DRDO, OFB, DGQA and reputed private organisations having relevant expertise, before inviting the manufacturers to submit the technical and financial bids according to the specifications. This will be helpful in avoiding manipulation and single vendor situations as many manufacturers will participate in final bidding and accountability will be there. The Committee would like to emphasize that the system should be foolproof so that there is no room for accusation of corruption and illegal transaction.</p>	<p>Reputed private organizations having relevant experience are being consulted before finalizing the SQR.</p> <p>Formulation of SQRs has been addressed in para 13 to 16 of DPP 2006. The QRs shall be prescribed in clear-cut terms and they should not vague or ambiguous. Prior to according approval to the SQRs, the Staff Equipment Policy Committee (SEPC) should assess that it would result in a multi vendor situation. If a single vendor situation is likely, then the reasons for formulation of such SQRs are to be recorded. Such cases would be debated in the SCAPCHC meeting while seeking AoN and approved by DAC. SHQ may issue 'Request For Information (RFIs)', where they are not certain of the specification of a system, in order to formulate realistic SQRs (Para 14 of DPP 2006). The issue of pre-bid meeting of all the</p>

1	2	3
		<p>vendors has been addressed in DPP-2006. (Para 31)</p> <p>SQRs are based on operational requirements. Meeting with vendors to discuss the technical specifications prior to formulation of SQRs is not warranted as it may lead to dilution of operational requirements or SQRs being vendor specific which is not warranted. However, it is made sure that SQRs are broad based to lead to multi-vendor situation in all cases. This has been addressed at Para 13-16 of DPP 2006.</p> <p>Reputed private organizations having relevant experience are being consulted before finalizing the SQR wherever required.</p>
5.6	<p>The Committee note the provision of offset clause which has been introduced in the new procedure and is being followed in many countries. The Committee have been informed about the benefits of offset clause which has helped build up indigenous defence industries in some countries. Since the Indian import of defence equipment is very large, the Committee feel that the provision should be utilized to</p>	<p>Defence off-set guidelines have been incorporated in Para 22 of DPP 2006.</p>

1	2	3
	<p>ensure the development of indigenous defence industry. There should be a national policy for utilisation of offset clause for defence procurement. The Committee desire that efforts should be made to ensure participation of private sector defence industries and some of the benefits of this clause should be passed on to them also. The Committee, therefore, strongly recommend that the modalities for implementation of offset contracts should be carefully worked out so that foreign technology could be adequately imbibed by the Indian industrial sector. A Committee of experts from industry and other relevant fields be constituted which should examine each offset and suggest as to how maximum advantage can be derived therefrom and also to monitor implementation of the offset clause. The Committee would again like to stress that no royalty should be given for subsequent upgradation / modifications of the technology by the foreign supplier during the contract period.</p>	
6.9	<p>The Committee have been informed that the Ministry maintain data bank of prospective vendors who are suppliers of defence equipment. Defence Attaches posted in various countries are also involved in the identification of vendors. The Committee are of the view that</p>	<p>Provision has been made in DPP 2006 to generate maximum vendor response through vendor's registration through internet, case specific advertisement on the</p>

1	2	3
	<p>Defence Attaches should be given a meaningful role in identifying technology and defence equipment available with foreign suppliers and they should regularly and adequately apprise the Ministry of the various advancements made and agencies involved in the development of defence equipment in the country of their posting. They should also provide data and evaluation of such equipment and its tentative cost, etc. The Ministry of Defence should have sufficient data bank with them based on such information.</p>	<p>internet, expression of interest and advertisement through newspaper (Para 24).</p>
7.6	<p>The Committee are happy to note the various steps taken by the Government to avoid single vendor situation including the flexibility from case to case based on merit. The Committee further note that procurement of state of the art equipment on single vendor basis is to be deliberated by DAC and approval has to be given depending on merit of the case. The Committee desire that such cases should be debated by DAC after proper technology scan is carried out in consultation with the DRDO technical experts and users to ensure that the same meets the requirement of the user. The committee feel that single vendor situation should be applicable in exceptional circumstance and for exclusive weapon systems/items produced by single manufacturer after DAC is satisfied by the justification that these systems and items are required for operational exigencies.</p>	<p>As per Para 69 of DPP 2006, if certain state-of-the-art equipment being manufactured by only one vendor is to be procured to get qualitative edge over our adversary then such case should be debated by the DAC after proper technology scan is carried out by HQ IDS in consultation with the DRDO. Para 70 of DPP 2006 has addressed Cases Note Falling Under 'Single Vendor' Situation.</p>

1	2	3
7.7	<p>The Committee have noted the explanation furnished by the Ministry about the single vendor situation which can be a public sector undertaking involved in development of a product under ToT etc. The Committee desire that such a situation need not be treated as a single vendor situation and orders may be directly placed with that undertaking.</p>	<p>Para 70 of DPP 2006 has provided for Cases Not Falling Under Single Vendor Situation. As per Para 70 (b) of DPP 2006, cases which are undertaken by DRDO/Defence PSUs/ OFB/ RURs, as a design and development projects, would not fall in the category of 'single vendor' cases. However, approval of DAC for carrying out the design and development need to be sought prior to commencing the design and development process.</p>
10.7	<p>The Committee note that with a view to preventing corruption and to bring transparency in defence procurements, Integrity Pact clause has been introduced in the new procedure for defence purchases above Rs. 300 crore. In view of allegations of kickbacks made from time to time, the Committee feel that provision of Integrity Pact is appreciable in the new procedure. The Committee are of the view that this will work effectively only when there is more transparency in such dealings. The Committee hope that with the introduction of this clause, the people of the country would have more confidence in the process. The Committee are, however, unable</p>	<p>As per Para 61 of DPP 2006, an 'Integrity Pact' would be signed between Govt department and the bidders for all procurement schemes over Rs.100 Crores. The pre-contract 'Integrity Pact' document has been included in the Annexure-I to Appendix-H of Schedule-I (RFP format) of DPP 2006.</p>

to understand the rationale behind signing of Integrity pact only for purchases above Rs. 300 crore. Corruption in the purchase of defence equipment costing less than Rs. 300 crore cannot be ruled out. Therefore, the Committee desire that the Ministry may amend the provisions of DPP 2005 to bring all kinds of defence deals upto Rs.100 crore under Integrity Pact.

- 13.8 The Committee note that the fast tract procedure promulgated in December, 2002 to facilitate speedier acquisition of defence equipment in an emergent situation has completely failed to meet its objectives. A study of the cases taken up under FTP revealed that it took more than 12 months to sign the contracts defeating the very purpose for which it was established i.e. to meet certain unforeseen eventualities. Actual delivery of the equipment would have taken some more time. The Committee were informed that there was mix up in the implementation of the Fast Track Procedure, and the government is in the process of reviewing it. As an efficient Fast Tract Procedure can play a vital role in emergent situations, the Committee recommend that the Ministry should carefully analyse the shortcomings of FTP and establish a procedure for emergent purchases which is truly fast tract and quick.

The Committee feel that the conditionality of starting

1

2

3

procurement process after the approval of RM only, in itself seems to be time consuming in an emergent situation where time is of great essence. The Committee desire that the requirements of emergent nature after having been certified at the level of GOC-in-C in Army and equivalent level in other forces and routed through Chief of Staff should be considered emergent to start the process. Approval of RM can be taken when the proposal is put up to him for financial sanction.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 2.18)

The Committee note that DPP-2005 caters only to Buy/Buy & Make categories and the Government is in the process of formulating a separate procedure for defence acquisition in respect of 'Make' category of projects. The Committee desire that a clear-cut policy and procedure for the same should be formulated at the earliest, which should duly involve the private sector to exploit their capabilities. Efforts should be made to synergise the capabilities of public and private sectors and DRDO to pave the way for attaining self-reliance in defence production.

Reply of the Government

'Make' procedure has been made a part of DPP 2006 (Chapter II of DPP 2006).

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt

Recommendation (Sl. No. 2.25)

The Committee note that there is a shortfall in acquisition of submarines by the Navy. This is to be viewed in the context that submarine building facility at MDL has been lying idle for more than eleven years as no order was given to them. The Committee have been informed that a decision has now been taken to manufacture Scorpene class submarine with French technology and French parts at

MDL. Since the acquisition of submarines has been long delayed, the Committee desire the Ministry to take urgent steps to upgrade the submarine building facilities at MDL in a time-bound manner with adequate allocation of funds and induction of technical manpower so that any further delay in manufacturing of submarines may be avoided.

Reply of the Government

After receiving the requisite approval, Government signed the contract for the indigenous construction of six Scorpene submarines at MDL, Mumbai under transfer of technology from M/s Armaris, France under Project 75. The first submarine is scheduled for induction in 2012 and the remaining five submarines at the interval of one year thereafter. An amount of Rs.206 crore has been earmarked in the total cost of project for the development of infrastructure at M/s MDL, Mumbai.

Updated information on submarine construction has been indicated in reply to para 2.24.

Min. of Defence OM No. H-11013/28/2005/D(Parl) dated 6.2.2007

Recommendation (Sl. No. 4.8 & 4.9)

The Committee note that the new procedure provides that SQRs should be made broad-based so as not to restrict the technical choice of equipment and that would help in avoiding single vendor situation. While appreciating the intention, the Committee would like to caution that by broadbasing SQRs, the Ministry should not compromise with the quality of the equipment and the specialized requirements of the Defence forces.

The Committee fully endorse the amendment in new procedure of not granting any waiver to SQR amendment parameters after issue of RFPs. The Committee feel that it will improve transparency and would be fair and impartial to the vendors.

Reply of the Government

Formulation of SQRs have been addressed in DPP 2006 (Para 13 to 16).

SQRs are formulated by the User Directorate at SHQ and circulated to all concerned for obtaining their views/comments including other possible user directorates, maintenance directorate, HQ IDS, DRDO, Department of Defence Production (DDP), Director General of Quality

Assurance (DGQA)/Director General of Aeronautical Quality Assurance (DGAQA), Directorate of Standardization, Technical Managers and any other department, as deemed necessary. (Para 13 to 16 of DPP 2006).

DPP-06 vide para 14 and 15 authorises the Service HQs to seek information from public as well private organizations to provide inputs for finalizing SQRs.

Reputed private organizations having relevant experience are being consulted before finalizing the SQRs wherever required.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 5.6 & 5.7)

The Committee note the provision of offset clause which has been introduced in the new procedure and is being followed in many countries. The Committee have been informed about the benefits of offset clause which has helped build up indigenous defence industries in some countries. Since the Indian import of defence equipment is very large, the Committee feel that the provision should be utilized to ensure the development of indigenous defence industry. There should be a national policy for utilisation of offset clause for defence procurement. The Committee desire that efforts should be made to ensure participation of private sector defence industries and some of the benefits of this clause should be passed on to them also. The Committee, therefore, strongly recommend that the modalities for implementation of offset contracts should be carefully worked out so that foreign technology could be adequately imbibed by the carefully worked out so that foreign technology could be adequately imbibed by the Indian industrial sector. A Committee of experts from industry and other relevant fields be constituted which should examine each offset and suggest as to how maximum advantage can be derived therefrom and also to monitor implementation of the offset clause. The Committee would again like to stress that no royalty should be given for subsequent upgradation / modifications of the technology by the foreign supplier during the contract period.

The Committee also express their apprehension that this clause will be utilized for trade accounts only. The Committee feel that maximum benefit should be extracted from this clause. Private sector along with the OFs/DPSUs should be permitted to participate in the scheme envisaged under offset clause and allowed to enter into joint ventures with foreign manufacturers for defence production under technology transfer. The Committee also desire that there should be a

joint public and private sector venture to implement the benefits of offset clause. This will be helpful in achieving self-reliance. A specific time frame should be determined by the Government so that the offset clause can make India self-sufficient in defence production.

Reply of the Government

The recommendations of the committee has been included wherein defence off-set guidelines have been incorporated in Para 22 of DPP 2006.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Comments of the Committee

(Please see Para 42 of Chapter – 1)

Recommendation (Sl. No. 6.10)

Over the years private sector has grown in capacity and capabilities. The committee are therefore of the view that maximum possible RFPs should be sent to private sector. The Committee desire that private sector in India should be given preference over foreign suppliers and only in situations when there is no public and private sector company meeting the desired requirements, foreign suppliers may be considered. As already stated in earlier chapters, the Committee desire that in case of 'off-set' clause provision, the private sector companies may be given due preference while implementing that clause.

Reply of the Government

Participation of private industry for procurement of Defence equipment is being encouraged. RFPs are being issued to private firms who have been granted Industrial Licence for defence related products.

The Offset procedure being implemented *inter-alia* provides that the vendor will be free to select the Indian Offset partner for implementing the Offset requirement.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt

Recommendation (Sl. No. 7.6 & 7.7)

The Committee are happy to note the various steps taken by the Government to avoid single vendor situation including the flexibility from case to case based on merit. The Committee further note that

procurement of state of the art equipment on single vendor basis is to be deliberated by DAC and approval has to be given depending on merit of the case. The Committee desire that such cases should be debated by DAC after proper technology scan is carried out in consultation with the DRDO technical experts and users to ensure that the same meets the requirement of the user. The committee feel that single vendor situation should be applicable in exceptional circumstance and for exclusive weapon systems/items produced by single manufacturer after DAC is satisfied by the justification that these systems and items are required for operational exigencies.

The Committee have noted the explanation furnished by the Ministry about the single vendor situation which can be a public sector undertaking involved in development of a product under ToT etc. The Committee desire that such a situation need not be treated as a single vendor situation and orders may be directly placed with that undertaking.

Reply of the Government

As per Para 69 of DPP 2006, if certain state-of-the-art equipment being manufactured by only one vendor is to be procured to get qualitative edge over our adversary then such case should be debated by the DAC after proper technology scan is carried out by HQ IDS in consultation with the DRDO. Para 70 of DPP 2006 has addressed Cases Note Falling Under 'Single Vendor' Situation.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 8.2)

The Committee appreciate that standard contract clause has been included in DPP-2005. The Committee are hopeful that this will make the procedure transparent and curtail delays. The Committee desire that this should now be strictly enforced.

Reply of the Government

Standard contract clauses provided in Appendix 'H' of DPP-2006 is being followed in all cases of defence procurement under capital head wherever possible.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 9.5)

The Committee are of the view that broad time frame of 2-3 years that has been prescribed for acquisition of defence equipment is very much on the higher side and there is a need to curtail the time limit at each level. The Committee are perturbed to note that though there is an accountability for delay on Ministry of Defence, there is no accountability on the part of other concerned Government of India departments, including CNC, CFA or Ministry of Finance in the matter of adherence to a prescribed time frame and as a result, prolonged delays occur in the acquisition of defence equipment. In the present world scenario, the technology of the Defence equipment and systems is changing fast. Delay in procurement will result not only in acquisition of weapon systems with obsolete technologies, but also cost escalation. Keeping in view the fact that the defence deals have direct bearing on the defence preparedness and security of the country, the Government should lay down a time frame for disposal of these cases by the Ministry of Finance and other authorities. This would ensure expeditious procurement of the approved requirements of the Armed Forces. In this connection, the Committee desire that a Committee consisting of representatives of MoD, Ministry of Finance and other concerned authorities be constituted who can take decisions together so as to expedite decision making process and curtail inordinate delay.

Reply of the Government

Following steps have been taken to reduce time frame of acquisitions:

- (i) Financial powers of RM has been enhanced from Rs. 50 Crores to Rs. 100 Crores and that of FM from Rs. 100 Crores to Rs. 200 Crores. This would further expedite the Acquisition process. Delegation of financial power to the Services in respect of Capital schemes/projects costing upto Rs.10 Crores has been issued by MoD on 26-7-2006.
- (ii) DPP-2006 has combined several acquisition process including AoN (above Rs.40 crores), Categorisation, Qty. vetting, , percentage of offset requirement, single vendor clearance as per DPP 2006 (Para 18 -20, 22, Para 69 of DPP 2006) to be approved by DAC.
- (iii) As per guidelines issued by CVC, DPP- 2006 provides that there would be no negotiations with L-1 vendors in multi vendor cases. However, negotiations would be carried out only with L1 vendor in exceptional circumstance where valid logical reasons exists.(Para 51 of DPP 2006).

The procurement process of defence acquisition involves many activities such as AON, issue of RFP, TEC, trials, staff evaluation and commercial negotiations. It has invariably been seen that maximum time is devoted in conduct of field trials by the user in various terrains and its subsequent evaluation at AHQ. Each equipment is to be trial evaluated separately as per its operational requirement and accordingly timeframe may vary for different equipments. Despite this, all efforts are made by the conducting agency to stick to the laid down time frame as given in DPP 2006. As per the DPP 2006 any major deviation to the time frame are to be brought to the notice of DPB for corrective measures. Hence, due to the complexities involved in the procurement of defence equipments, the time frame can only be indicative and not prescriptive. It is also envisaged that 30 to 35% of procurement schemes would be upto Rs.10 Crores in a financial year and would, therefore, lead to expeditious procurement of the equipment by the services. This is the first time that financial provision for capital procurement have been delegated to the services. From the experience gained it can be revised subsequently.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Recommendation (Sl. No. 9.6, 12.4 & 12.5)

The committee note that another reason for delays in procurement of a major equipment which is to be introduced for the first time, is that it has to be tried out during winter, summer, at high altitude, in desert, forest and plains and, therefore it does take time. The Committee desire that efforts should be made to reduce the time taken in the trials of the equipment in all the different situations.

The Committee, also stress that all required trials should be done in a time bound manner in conformity with the planned schedule.

The Committee note that field evaluation/computer simulation of a new weapon system is normally done in all conditions where the equipment is required to be deployed. The Committee are, however, of the view that though field evaluation/computer simulation of new equipment is very essential, this should be completed in a time-bound manner so that the procurement process is completed in the prescribed period.

The Committee further desire that in the field evaluation of new equipment, the user and technical experts of Ordnance Factories, DRDO and reputed private organization having relevant expertise, should invariably be involved so that they may help in proper evaluation of

the equipment particularly in case involving integration of different systems and sensitive equipment.

The Committee also desire that a floor level Committee should be constituted for evaluating the field trials. The Committee should comprise of the field level service officers, technical experts from DRDO, OFs/DPSUs and reputed private organization having relevant expertise and also the manufacturer. This will help in assessing the quality of equipment more objectively.

Reply of the Government

Due to the complexities involved in the procurement of defence equipments, it has invariably been seen that maximum time is devoted in conduct of field trials by the user in various terrains and its subsequent evaluation at SHQ. The equipment offered by the foreign vendors are not specifically developed for Indian conditions and there are number of short falls. The equipment is to be trial evaluated as per our GSQR parameters. Prolonged trials take place till the time all the parameters are validated.

Due to the complexities involved in the procurement of defence equipments, it has invariably been seen that maximum time is devoted in conduct of field trials by the user in various terrains and its subsequent evaluation at SHQ. The equipment offered by the foreign vendors are not specifically developed for Indian conditions and there are number of short falls. The equipment is to be trial evaluated as per our GSQR parameters. Prolonged trials take place till the time all the parameters are validated.

The trials are carried out by the user who is going to operate the equipment/weapon system in field conditions. The trials are also witnessed by representatives of higher formations; service HQs and even Technical Managers. The trials report is processed through the chain of command where the commanders in chain give their comments. While conducting trials, representatives of DRDO, DPSUs and other agencies are also involved on case to case basis

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Comments of the Committee

(Please see Para 50 of Chapter -1)

Recommendation (Sl. No. 10.7)

The Committee note that with a view to preventing corruption and to bring transparency in defence procurements, Integrity Pact clause has been introduced in the new procedure for defence purchases above Rs. 300 crore. In view of allegations of kickbacks made from time to time, the Committee feel that provision of Integrity Pact is appreciable in the new procedure. The Committee are of the view that this will work effectively only when there is more transparency in such dealings. The Committee hope that with the introduction of this clause, the people of the country would have more confidence in the process.

The Committee are, however, unable to understand the rationale behind signing of Integrity pact only for purchases above Rs. 300 crore. Corruption in the purchase of defence equipment costing less than Rs. 300 crore cannot be ruled out. Therefore, the Committee desire that the Ministry may amend the provisions of DPP 2005 to bring all kinds of defence deals upto Rs.100 crore under Integrity Pact.

Reply of the Government

Reply to this para has already been covered in Para 2.20.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 11.5)

The Committee further observe that in certain cases a company authorises a person to negotiate on its behalf. In that case, that person becomes a representative of the company for negotiating with the concerned authorities. The committee are of the opinion that to deal with such representatives and ensure transparency in such cases and check the possibility of any undue influence, the Ministry must evolve a clear and firm policy for identifying and accepting a person as a representatives of the company.

Reply of the Government

As per The Defence Procurement Procedure 2006 the Government of India invites responses to request for proposals only from Original Equipment Manufacturers (OEM) or Authorised Vendors or Government Sponsored Export Agencies (applicable in case of countries where domestic laws do not permit direct export by OEMs).

The negotiations are held with the representatives of foreign companies, after seeking details of their representatives and after taking security clearance.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 13.11)

The Committee also feel that 12 months time taken under FTP to sign a contract will negate the very purpose of the procedure particularly when something is 'imminent' or there is an operational emergency. The Committee feel that there may be a need for separate procedure under FTP for SOS supplies. The Committee desire that the Government should examine this aspect also and check how far present FTP can handle such a situation. The Committee may be informed of the analysis made.

Reply of the Government

A revamped Fast Track Procedure 2006 has been included in Chapter-IV of DPP 2006.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 15.4, 15.5, 15.6 & 15.7)

The Committee note that a time frame of 19 to 22 weeks has been prescribed in DPM for placing orders and for revenue procurement under single commercial bids and 23 to 26 weeks for two bids. The Committee feel that the time frame is very much on the higher side and efforts should be made to curtail the time. The Committee further desire that a time frame should also be prescribed for getting delivery of the items by the defence forces and the same should be strictly adhered to.

The Committee also recommend that the Ministry of Defence should make clear distinction between defence equipment and other items such as telecom hardware, information technology hardware, office equipment, spare parts, etc. which do not strictly come under defence equipment. The Committee desire that the Ministry should make clear distinction between the defence and non-defence items in order to avoid complexities of procedure followed in procuring defence equipment. The procurement of these items should be simplified on the lines of the procedure followed in other Ministries / Departments. This may be called as civil budget.

During the study visit of the Standing Committee on Defence to Jammu, Leh, Srinagar and other forward areas, the Committee observed that there were delays in supply of consumable and non-consumable items to the Armed Forces. During the visit of the Committee to Siachen Area, it was noticed that soldiers were being issued used

items of personal clothing which were not fit for reuse. The Committee had expressed their concern about the continuous hardships the soldiers have to face because of the shortage of essential items like shoes, winter boots and winter clothing. The Committee, therefore, strongly feel that a faster procurement process must be evolved to ensure that the Armed Forces are not placed in difficulties because of the lack of timely quality and adequate supplies.

The Committee further observed during the study visit that the Armed Forces posted at Leh procure food and other agro based items from Delhi and other cities instead of procuring those items from the local farmers and producers. For the farmers at Leh and other border areas, Armed Forces are the main consumers of local supplies. Therefore, the Committee desire that the Ministry of Defence should evolve a policy to procure consumable items from the local producers. On the one hand, it will give a boost to the farming community in the border and high altitude areas and on the other it will provide fresh food items to the Jawans at a reasonable cost, by minimizing the cost of transportation, etc. This will also be helpful in ensuring better integration of the armed forces with the local population.

Reply of the Government

It is agreed that all efforts should be made to prescribe a time frame for placing orders, which should be restricted to the minimum possible and what is required to fulfill all the required procedures. However, it merits attention that it is for the first time that a time frame has been laid down under DPM-2005 in single bid and two bid system which also indicates time frame at each stage of procurement from indent till placement of Supply Order. This is to bring in accountability at all levels and also to ensure that tenders are finalised within validity period. This is being followed for less than an year till now and has shown improvements in the time frame of procurements being made. Further curtailment to the above mentioned prescribed time frames would be made based on experience gained from the ongoing procurements and after the system being followed fully stabilizes. Service HQrs have been conveyed the instructions of the Standing Committee in this regard.

With regard to making a distinction between defence and non-defence items, the procedure envisaged in DPM is to go in for open tender in respect of COTS items. Also, the guidelines of Finance bearing No. 8/4./E-II(A)/98 dated 17.12.98, is strictly followed as per which open tender procedure is followed without any brand name being

specified in respect of purchases of computer system. The objective has been not to limit the tender base by unduly restricting the specifications to military specifications. The recommendation of the Standing Committee has been circulated to all concerned for compliance.

The authorization of Special Clothing and Mountaineering Equipment to the army has been enhanced from 19,754 sets to 27,351 sets. Further to this, 20 items of clothing have been placed in Category I (to be retained by the troops) which will not be recycled and ensure that jawans do not have to reuse the clothing. Each jawan thus would be given a fresh set of clothing on induction.

Recognising the need and advantages of supporting the local farming community and the fact that quite a few items of food and fodder and other Agro products were being procured by the Armed Forces from outside the state, the Ministry of Defence has evolved practices that as far as possible such items would be procured locally, through Negotiated contracts with the local Cooperatives/Federations. This would, as observed by the Standing Committee on Defence, result in the availability of fresh food items and milk to the troops. This move would also result in minimising of transportation effort and cost. This would give a boost to the local Agricultural Sector in border Areas/High Altitude Areas on one hand and will lead to better integration of troops with the local population as there would be an economic inter dependence of sorts. A few examples of such practices are given below:-

- (i) Instructions for conclusion of negotiated contracts with the Cooperative Marketing Limited located at Leh (Ladakh), Karu, Nimu, Nubra, Turtuk, Dah and Kargil for supply of fresh vegetables, fresh fruits, potatoes, onions, garlic and Lucerne Hay are already in force and these items are procured from the cooperative marketing societies in these areas through negotiated contracts.
- (ii) Recently, Ministry of Defence issued instructions that local Milk Co-operatives in the State of Jammu & Kashmir (J&K) would be eligible to enter into Negotiated Contracts for supply of Milk in Northern Command along with the National Co-operative Dairy Federation of India Limited (NCDF I). This initiative of Ministry of Defence was not supported by the National Confederation/NCDFI, as J&K Dairy Producers, Processor and Marketing Cooperative Union Limited was not their member. However, the J&K

Government had supported the same, Keeping in view the need to give a boost to the local economy, Ministry of Defence has issued instructions and now JKDCUL is eligible to enter into negotiated contracts to supply milk to the Army. The policy initiative by Ministry of Defence would result in giving a boost to Milk production by the local farmers namely the Gujjar community which is spread all over the border areas. This would result in better interaction between the Armed Forces and the local, people.

- (iii) In order to ensure that local milk producers are not forced out of competition by the formation of cartels by established suppliers from other States, instructions have also been issued stating that local supplies from Co-operatives from outside J&K will be considered only when local Co-operatives/Federations are unable to meet the demand.

Min. of Defence OM No. H-11013/28/2005/D(Parl) dated 6.2.2007

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF GOVERNMENT'S REPLIES

Recommendation (Sl. No. 14.2)

The Committee are concerned to note that there is no empowered body besides C&AG to monitor and find out whether the prescribed procedure has been adhered to in letter and spirit in defence deals. The Committee desire that in addition to C&AG, a separate empowered Committee should be created to check each and every defence transaction and fix accountability/responsibility in case of any deviation from the procedure.

The Committee also desire that the suppliers should also be made responsible for maintenance of the equipment as is being done in other Departments.

Reply of the Government

As per existing instructions, all files relating to major Defence procurements of a value of Rs.75 crores and above are subjected to a time bound scrutiny/audit by the C&AG.

It may be mentioned that establishment of a separate empowered committee to check each and every defence transaction for fixing responsibility/accountability in case of deviation from the procedure is likely to cause further delay in procurement of equipment. The examination of procurement cases by the audit authorities leaves little scope for instituting a separate empowered committee to check each defence transaction.

It may be further mentioned that DPP-06 provides for Warranty guarantee in all cases of capital procurement to ensure performance of equipment according to the prescribed technical specifications. In addition, provision exists for entering into Annual Maintenance Contracts, wherever required.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 1.15)

The Committee note that 53.9% of procurements made in 2004 – 05 are through imports and only 46.1% of procurements are from indigenous sources. In the case of Navy, procurements through imports have increased from 36% to 57.81% during the last 5 years. It shows that even after more than 55 years of Independence, cutting edge technologies have not been developed in the country. This has resulted in the large scale dependence on foreign suppliers for defence procurements which are subjected to various constraints like technology denials, sanctions, higher costs, etc. by the exporting countries. The Committee feel that these constraints can be adequately addressed through sufficient investments in R & D Sector as also through transfer of design, data and technology agreements. The Committee, therefore, are of the strong view that Government should lay stress on building a strong R & D base with accountability so that development of defence equipment within the country is encouraged and dependence on foreign suppliers is minimised.

Reply of the Government

The Navy has been able to increase the indigenous procurement from 40% in 2004-05 to 60% in 2005-06 as a result of the major thrust given to indigenization. The increase in the content of indigenization from 2000-01 to 2005-06 is given in the table below:-

Year	Total	Imported (%)	Indigenous (%)
2000-01	3752.52	1706.90 (36)	2045.62 (64)
2001-02	4829	2363 (48.93)	2466 (51.07)
2002-03	3810	1919 (50.36)	1891 (49.64)
2003-04	5175	2985 (57.68)	2190 (42.32)
2004-05	7882.76	4557.11 (57.81)	3324.89 (42.19)

A strong R&D base is important for achieving self sufficiency in the Defence area. It may, however, be mentioned that R&D laboratories

undertake limited production of equipment developed by them which leads to problems in providing adequate product support, supply of spares, maintenance of equipment and training, as the R&D laboratories are not geared to undertake such production related activities.

The Navy's force level accretion plan is mostly based on indigenous construction capability of the PSUs and the Private Sector. To further this cause, Navy has established the Directorate of Indigenisation to provide impetus and direction to the process of indigenisation.

Comments of the Committee

(Please see Para 18 of Chapter -1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 1.16)

Whenever imports are made, transfer of design, data and technology should also be ensured. During the life of the agreement or a reasonable period to be specified therein, if the weapon system is upgraded, the foreign manufacturer should also transfer the upgraded technology without payment of royalty.

Reply of the Government

It would not be financially prudent to take ToT for all equipment procured from abroad. ToT is taken only in those cases where the requirement of equipment is large. Categorization of the equipment into 'Buy & Make' is decided by DAC/DPB.

Provisions have been incorporated at Para 11 of RFP (DPP-06), wherein vendors are supposed to intimate about all upgrades and modifications carried out in the equipment during its lifecycle.

Comments of the Committee

(Please see Para 21 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 1.18)

The Committee further desire that the private sector, which has grown in its capabilities and resources over the years, should be actively involved in the development/ production/ supply of defence

equipment. Instead of large scale dependence on foreign suppliers, who work under constraints imposed by their respective Governments, the Committee are of strong view that home-grown technologies should be developed with coordinated and concerted efforts of DPSUs, Ordnance Factories, Private Sector and DRDO. The Committee, therefore, desire that an appropriate defence production and procurement strategy be chalked out with emphasis on developing indigenous technologies. The Committee further desire that sufficient incentives with financial support be given to promote R&D in both public and private sectors engaged in developing cutting edge technologies. Similarly, in the case of Transfer of Technology (T.O.T.) agreements, private sector should also be allowed to participate in/ take benefit of developing new technologies.

Reply of the Government

Design and development of High Technology Complex systems by RURS/ Indian Industry / DPSUs/ OFB/ Consortia is being undertaken as per 'Make' procedure of DPP-2006. [Para 3(c) Chapter-II of DPP 2006]

Comments of the Committee

(Please see Para 24 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 2.24)

The Committee note with concern that with the scheduled de-commissioning of the ships, the force level will fall to 132 at the end of Eleventh Plan against DAC's directive to maintain the force level of 140 ships. The Committee, therefore, strongly recommend the government to take urgent steps to expedite acquisition of ships by placing sufficient orders with Defence Shipyards so that the required number of ships may be maintained. The Committee also desire that sufficient funds may be allocated to Defence Shipyards to enable them to undertake upgradation/modernization of their exiting infrastructure and produce ships of latest technology, thereby facilitating the Navy to induct them and to maintain their force level as per perspective plan.

Reply of the Government

Concerted efforts are made to ensure that Navy's force level of 140 ships as directed by DAC is maintained. There are 38 warships

and submarines presently being built at Indian shipyards, which are at various stages of construction. Details have been furnished in Annexure.

Cases for acquisition of ten new ships i.e. one Fleet Tanker, one Sail Training Ship (STS) and eight Mine Counter Measure Vessels (MCMVs) are under process.

Comments of the Committee

(Please see Para 27 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 3.5, 3.6 & 3.7)

The Committee note that acquisition of capital assets flows out from the defence procurement planning process which covers 15 year long Perspective Plan, 5-year Service Capital Acquisition Plan and Annual Acquisition Plan. It is, therefore, imperative that the above plans are formulated in time and timely approval is given by Government with firm indication of available funds so that procurement process progresses smoothly.

The Committee are constrained to note that there has been abnormal delay in formulation and approval of LTIPP covering the period 2002-2017 and since 3 years of the plan have elapsed, the Ministry has now revised the period of LTIPP to 2007-2022. Even the 10th Defence Five Year Plan (2002-2007), which is in the fourth year, has not yet been approved with firm indication of funds till now and is now an academic exercise only. It shows the casual approach of the Government in formulation of such an important plan as also adhocism in decision making, adversely affecting the modernization plan of the services. The Committee need not emphasize that in the long term procurements, lead time is required for creating futuristic forces, making it necessary to have long term defence planning. The Committee, therefore, recommend that the Government should urgently finalize the long term Perspective Plan and also initiate steps for finalization of the 11th defence plan so that there is a clear direction of procurements to be made. The Committee desire that the exercise be completed in a time-bound manner preferably within a year. The Committee further desire that the 11th Plan Approach Paper may be made available to the Committee at the time of examination of Demand for Grants 2006-07.

The early finalization of the LTIPP will also help in projecting the financial requirements to Ministry of finance (MOF) well in advance, so as to enable them to plan for the required funds accordingly. This planning will also help the Ministry of Defence (MOD) in identifying the requirements of the Services and initiating the procurement process, well in time, thereby reducing the time lag. This will also help in determining the broad based qualitative requirements by the services and ensuring that the GSQRs are not frequently changed and single vendor situations are avoided. The Ordnance Factories and public and private sectors can also plan their investments accordingly.

Reply of the Government

Broad approval to LTIPP 2002-17 was given by DAC in its meeting held on 19th June, 2006. Annual Acquisition Plan (AAP) of the three Services and Coast Guard pertaining to Financial Year 2006-07 has been approved by DPB on 11-4-2006 in respect of three Services and on 5-10-2006 in respect of Coast Guard.

Broad approval to LTIPP 2002-17 was given by DAC in its meeting held on 19th June, 2006.

Broad approval to LTIPP 2002-17 was given by DAC in its meeting held on 19th June, 2006. 11th Defence Plan projections have been forwarded to Ministry of Finance vide RM's letter dt. 21-07-2006.

Comments of the Committee

(Please see Para 31 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 4.10 & 4.11)

The Committee, however, desire that SQRs should be laid down after careful evaluation of the equipment, if already in use, during the trials and exercises. The Committee feel that for laying down SQRs, experts from OFB / DRDO and outside must be consulted so that deficiencies in the equipment are identified and technical parameters, after rectifying the known deficiencies, are correctly laid down for the procurement of that equipment in future.

Similarly, if the equipment to be procured is not in use, the service requirements should be clearly identified first by the user and thereafter SQR may be laid down after consulting experts from DRDO, OFB and

reputed private Organisations having relevant expertise. This would help in avoiding changes in SQR again and again

Reply of the Government

Reply to this para has already been covered in Para 2.20.

Formulation of SQRs has been addressed in DPP-2006 (Para 13 to 16).

Comments of the Committee

(Please see Para 35 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 4.12)

The Committee suggest that, in order to avoid single vendor situations a new methodology be adopted which should comprise inviting pre-bid meetings of the various manufacturers to discuss technical specifications of the desired product after floating global enquiries. Then the respective service headquarters can prepare their own technical specifications from the above discussion by involving the technical experts from the user service, DRDO, OFB, DGQA and reputed private organisations having relevant expertise, before inviting the manufacturers to submit the technical and financial bids according to the specifications. This will be helpful in avoiding manipulation and single vendor situations as many manufacturers will participate in final bidding and accountability will be there. The Committee would like to emphasize that the system should be foolproof so that there is no room for accusation of corruption and illegal transaction.

Reply of the Government

Reply to this para has already been covered in Para 2.20.

Comments of the Committee

(Please see Para 38 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 6.9)

The Committee have been informed that the Ministry maintain data bank of prospective vendors who are suppliers of defence

equipment. Defence Attaches posted in various countries are also involved in the identification of vendors. The Committee are of the view that Defence Attaches should be given a meaningful role in identifying technology and defence equipment available with foreign suppliers and they should regularly and adequately apprise the Ministry of the various advancements made and agencies involved in the development of defence equipment in the country of their posting. They should also provide data and evaluation of such equipment and its tentative cost, etc. The Ministry of Defence should have sufficient data bank with them based on such information.

Reply of the Government

Provision has been made in DPP 2006 to generate maximum vendor response through vendor's registration through internet, case specific advertisement on the internet, expression of interest and advertisement through newspaper (Para 24).

Comments of the Committee

(Please see Para 45 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt 6.2.2007

Recommendation (Sl. No. 11.4)

The Committee note with concern that despite the guidelines issued by the Ministry for appointment of authorised Indian representative agents of foreign suppliers, nobody has registered himself as an authorised Agent. The Committee are of the view that representatives of the suppliers in the country can play a useful role in After Sale Service and in sorting out problems during the warranty period etc. The Committee, therefore, strongly recommend that the Ministry may analyse the reasons for non-registration of authorised representatives with the Ministry and take remedial steps to make the procedure less cumbersome and simple so as to encourage the authorised representatives to come forward and register themselves.

The Committee also feel that registration of agents should be encouraged so that the allegations of kickbacks may be minimised and these agents may also facilitate better coordination between the MoD and the supplier during trials, etc. This will also help in reducing the time and cost overruns.

Reply of the Government

On the basis of Ministry of Finance's instructions issued on 31st January, 1989 relating to Indian Agents of foreign suppliers for all the Ministries/ Departments under the Government of India, supplementary instructions were issued by the Ministry of Defence in April, 1989 and in November, 2001 to regulate authorized Indian representatives/agents of foreign suppliers. The instructions provide for the regulation of representational arrangements through a system of registration, categorical and open declaration by the foreign suppliers of the services to be rendered by their authorized representative/agents and the remuneration payable to them by way of fees, commission or any other method. So far no authorized Indian Representative/Agent has been registered by the Ministry of Defence in terms of these instructions.

There is no embargo on the foreign suppliers to open their own offices in India in terms of RBI Notification No. FEMA 22/2000-RB dated 3rd May 2000 and employing their representatives in such offices. The Services are in touch with such offices for after Sale Service and in sorting out problems during the warrantee period.

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

Comments of the Committee

(Please see Para 53 of Chapter - 1)

Recommendation (Sl. No. 13.8, 13.9, 13.10 & 13.12)

The Committee note that the fast tract procedure promulgated in December, 2002 to facilitate speedier acquisition of defence equipment in an emergent situation has completely failed to meet its objectives. A study of the cases taken up under FTP revealed that it took more than 12 months to sign the contracts defeating the very purpose for which it was established i.e. to meet certain unforeseen eventualities. Actual delivery of the equipment would have taken some more time. The Committee were informed that there was mix up in the implementation of the Fast Track Procedure, and the government is in the process of reviewing it. As an efficient Fast Tract Procedure can play a vital role in emergent situations, the Committee recommend that the Ministry should carefully analyse the shortcomings of FTP and establish a procedure for emergent purchases which is truly fast tract and quick.

The Committee feel that the conditionality of starting procurement process after the approval of RM only, in itself seems to be time consuming in an emergent situation where time is of great essence. The Committee desire that the requirements of emergent nature after having been certified at the level of GOC-in-C in Army and equivalent level in other forces and routed through Chief of Staff should be considered emergent to start the process. Approval of RM can be taken when the proposal is put up to him for financial sanction.

However, to check that every other case is not put under FTP, the Ministry should lay down norms / guidelines which a procurement case would have to meet to qualify for Fast Track Procurement. A certificate to this effect can be furnished by GoC-in-C approving the case.

The Committee also desire that the Ministry of Defence should keep uptodate data-bank of different sources of supply, equipment/ weapons available, their evaluation and costs, etc. based on the information sent by different Defence Attaches and from other sources. This data bank should always be kept uptodate. This would reduce the time lag under Fast Track Procurement as well as normal procurement.

Reply of the Government

A revamped Fast Track Procedure 2006 has been included in Chapter -IV of DPP 2006.

A revamped Fast Track Procedure 2006 has been included in Chapter -IV of DPP 2006.

The data bank in respect of equipment and known manufacture world wide is being maintained by Technical Managers except for the cost factor. Approximate cost is however, ascertained through internet and various journals / magazines available and at times even Defence Attaches give such inputs. If the costs are not available, then in the internal CNC meetings inputs from various agencies like DRDO, OFB, and DPSU are taken to arrive at reasonable approximation of price.

Comments of the Committee

(Please see Para 59 of Chapter - 1)

Ministry of Defence OM No.H-11013/28/2005/D(Parl) dt. 6.2.2007

CHAPTER V

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH
FINAL REPLIES OF GOVERNMENT ARE STILL AWAITED

—NIL—

NEW DELHI;
12 July, 2007
21 Asadha, 1929 (Saka)

BALASAHEB VIKHE PATIL,
Chairman,
Standing Committee on Defence.

MINUTES OF THE SIXTEENTH SITTING OF THE STANDING
COMMITTEE ON DEFENCE (2006-07)

The Committee sat on Tuesday the 16th January, 2007 from 1100 hrs. to 1300 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil—*Chairman*

MEMBERS

Lok Sabha

2. Shri Santosh Kumar Gangwar
3. Dr. K.S. Manoj
4. Ms. Ingrid Mcleod
5. Shri Asaduddin Owaisi
6. Dr. H.T. Sangliana
7. Shri Mahadeorao Shiwankar
8. Shri Rajesh Verma

Rajya Sabha

9. Shri Jai Parkash Aggarwal
10. Shri R.K. Dhawan
11. Smt. Viplove Thakur

SECRETARIAT

1. Shri P.K. Bhandari — *Joint Secretary*
2. Shri D.R. Shekhar — *Under Secretary*

LIST OF REPRESENTATIVES FROM MINISTRY OF DEFENCE

1. Shri Shekhar Dutt — Defence Secretary
2. Shri K.P. Singh — Secretary (DP)
3. Dr. M. Natarajan — SA to RM
4. Shri V.K. Misra — Secretary (Def. Fin.)

5. Shri S. Banerjee	—	DG (ACQ)
6. Dr. (Mrs.) Rekha Bhargava	—	Addl Secy (B)
7. Shri A.K. Jain	—	Addl Secy. (J)
8. Shri P.K. Rastogi	—	Addl. Secy. (DP)
9. Shri Alok Perti	—	JS (SY)
10. Shri T. Ramachandru	—	JS (S)
11. Shri C. Bachhawat	—	JS & AM (MS)
12. Shri Shashi Kant Sharma	—	JS&AM (Air)
13. Shri Gautam Chatterjee	—	JS (O/N)
14. Shri S.N. Mishra	—	Addl FA (M)
15. Shri Amit Cowshish	—	Addl FA (A)
16. Smt. Shobaba Joshi	—	FM (LS)
17. Maj. Gen. H.S. Sehgal	—	TM (LS)
18. Shri K.K. Kirty	—	Dir. (Acq)
19. Shri Mukesh Sinha	—	Dir. (Fin/Budget)
20. Shri S.K. Yagnik	—	Dir (Proc)
21. Smt. Namita Mehrotra	—	Dir (Vig)
22. Lt. Col. DPK Pillay	—	PO (Def)
23. Shri M. Fakruddin	—	Dir (Planning), HAL
24. Shri S.K. Sharma	—	Addl. DG/AV, OFB

DRDO

1. Dr. Prahlada	—	CCR&D (SI) & DS
2. Shri S.C. Narang	—	CCR&D (R&M) & DS

IDS

1. Lt. Gen. H.S. Lidder	—	CISC
2. Air Cmde K.G. Kumar	—	DACIDS (LTP)

ARMY HQTRS

1. Lt. Gen Deepak Kapoor	—	VCOAS
2. Lt. Gen Z. U. Shah	—	DCOAS (P&S)
3. Lt. Gen. S.S. Dhillon	—	MGO
4. Maj Gen. A.K. Mehra	—	ADGWE

AIR HQTRS

1. Air Mshl A.K. Nagalia — DCAS
2. AVM N. Vijaya Kumar — ACAS (FP)

NAVAL HQTRS

1. V. Adml. Nirmal Verma — VCNS
2. Rear Adml R.K. Dhowan — ACNS (P&P)
3. Shri S.P.S. Barsa — DDG, CG

2. At the outset, Hon'ble Chairman welcomed the Members and representatives of Ministry of Defence to the sitting of the Committee. The Chairman then requested the Representatives of the Ministry to give clarifications on certain issues on the Action Taken Replies on Sixth Report on Procurement Policy and Procedure and Eleventh Report on Demands for Grants 2006-07 and drew their attention to the Direction 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting.

3. The Chairman and Members then requested the representatives to enlighten the Committee on the important points viz., the Ministry to build strong R&D base to encourage indigenization and minimise dependence on foreign suppliers, service-wise information on percentage of indigenous development of Defence equipment and procurement made from foreign countries during the last five years, details of acquisition of ships, time period prescribed in Defence Procurement Policy 2006, and reasons for delay in procurement and remedial measures thereof, adequacy of present delegation of financial power to the services, offset provision and involvement of private sector etc.

4. The representatives of the Ministry of Defence clarified the points one-by-one.

5. The Committee then decided to have oral evidence of the representatives of the Ministry of Defence on some more points on the Action Taken Replies on the Sixth Report on Procurement Policy and Procedure and Eleventh Report on Demands for Grants (2006-07) in the sitting of the Committee to be held on 19.02.2007.

6. The record of the verbatim proceeding was kept.

The Committee then adjourned.

MINUTES OF THE TWENTY-FIRST SITTING OF THE STANDING
COMMITTEE ON DEFENCE (2006-07)

The Committee sat on Monday, the 19th February, 2007 from 1500 to 1630 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil—*Chairman*

MEMBERS

Lok Sabha

2. Shri Santosh Kumar Gangwar
3. Dr. H.T. Sangliana

Rajya Sabha

4. Shri Abu Asim Azmi
5. Shri R.K. Dhawan
6. Smt. N.P. Durga
7. Shri K.B. Shanappa

SECRETARIAT

1. Shri Gopal Singh — *Director*
2. Shri D.R. Shekhar — *Under Secretary*

WITNESSES

REPRESENTATIVES OF MINISTRY OF DEFENCE

1. Shri Shekhar Dutt — Defence Secretary
2. Shri K.P. Singh — Secretary (DP)
3. Dr. M. Natarajan — SA to RM
4. Shri V.K. Misra — Secretary (Def. Fin.)
5. Shri S. Banerjee — DG (ACQ)
6. Dr. (Mrs.) Rekha Bhargava — Special Secretary (B)
7. Shri Alok Perti — JS (SY)

8. Shri T. Ramachandru	— JS (S)
9. Shri Binoy Kumar	— JS (E)
10. Shri S.N. Mishra	— Addl FA (M)
11. Shri Amit Cowshish	— Addl FA (A)
12. Smt. Shobana Joshi	— FM (LS)
13. Maj. Gen. H.S. Sehgal	— TM (LS)
14. Shri K.K. Kirty	— Dir (Acq)
15. Shri Mukesh Sinha	— Dir. (Fin/Budget)
16. Shri S.K. Yagnik	— Dir. (Proc)
17. Smt. Namita Mehrotra	— Dir (Vig)
18. Lt. Col. DPK Pillay	— PO (Def)
19. Shri B.C. Biswas	— Member, OFB
20. Shri S. Mukhopadhyay	— Member Finance, OFB
21. Shri M. Fakruddin	— Dir (CP&M), HAL
22. Shri Prahlada	— CCR & D (SI) & DS
23. Air Mshl. A.V. Vaidya	— Offg. CISC
24. Air Cmde K.G. Kumar	— DACIDS (LTP)
25. Lt. Gen Deepak Kapoor	— VCOAS
26. Lt. Gen. (Dr.) DDS Sandhu	— ADC
27. Maj Gen A.K. Mehra	— ADGWE
28. Air Mshl A.K. Nagalia	— DCAS
29. AVM N. Vijay Kumar	— ACAS (FP)
30. V. Adml. Nirmal Verma	— VCNS
31. Rear Adml R.K. Dhowan	— ACNS (P&P)
32. IG SPS Basra	— DDG CG

2. At the outset, the Hon'ble Chairman welcomed the representatives of the Ministry of Defence to the sitting of the Committee and drew their attention to Direction 58 of the Directions by the Speaker regarding maintaining confidentiality of the deliberations of the Committee and invited them to render oral evidence on the Action Taken Replies to the recommendations contained in the Sixth Report on Procurement Policy and Procedure and Eleventh Report on Demands for Grants (2006-07).

3. In regard to the Action Taken Replies to the recommendations contained in the Sixth Report, the Chairman and Members raised certain important queries viz. status of Eleventh Plan, delegation of financial powers of Raksha Mantri and the Three Service Chiefs, off-set clause, single-vendor situation and trend of incurring capital and revenue expenditure and Fast Track Procedure for acquisition etc.

4. In regard to the Action Taken Replies to the recommendations contained in the Eleventh Report, the Members raised some of the vital points viz. the implementation status of all the recommendations of GoM Report on reforming National Security System, challenges to National Security, creation of the post of Chief of Defence Staff and the present status of the construction of Air Defence ship etc.

5. The representatives of the Ministry of Defence answered the queries of the Members one-by-one. On certain points they assured the Committee to furnish written replies later on.

The witness then withdrew.

6. A verbatim record of proceedings was kept.

The Committee then adjourned.

MINUTES OF THIRTY-SIXTH SITTING OF THE STANDING
COMMITTEE ON DEFENCE (2006-2007)

The Committee sat on Wednesday, the 27th June 2007 from 1500 to 1600 hrs. in Committee Room 'B', Parliament House Annexe, New Delhi.

PRESENT

Shri. Balasaheb Vikhe Patil – *Chairman*

MEMBERS

Lok Sabha

2. Dr. K.S. Manoj
3. Shri Shrinivas Patil
4. Shri Rajendrasinh Ghanshyamsinh Rana (Raju Rana)
5. Shri Arjun Charan Sethi
6. Shri Mahadeorao Shiwankar
7. Shri Manvendra Singh
8. Shri Rajesh Verma

Rajya Sabha

9. Shri Jai Parkash Aggarwal
10. Smt. Shobhana Bhartia
11. Smt. N.P. Durga
12. Shri S.P.M. Syed Khan
13. Shri. K.B. Shanappa

SECRETARIAT

1. Shri D.R. Shekhar — *Deputy Secretary – II*
2. Smt. J.M. Sinha — *Under Secretary*

2. At the outset, Hon'ble Chairman welcomed the members to the sitting of the Committee. The Committee then took up for consideration the draft Action Taken Report on the recommendations/observations contained in the Sixth Report of the Committee (14th Lok Sabha) on 'Procurement Policy and procedure'. As desired by the Chairman one

Chapter on 'Fast Track Procedure' was circulated to the Members during the sitting of the Committee for incorporation in the report. The Committee considered the above Chapter and after some deliberations, same was approved to incorporate in the Action Taken Report. Committee after some deliberation adopted the draft Action Taken Report with some additions/modifications.

3. The Committee then authorised the Hon'ble Chairman to finalise the report and present the same to both the Houses of Parliament.

The Committee then adjourned.

APPENDIX

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE 6th REPORT OF THE STANDING COMMITTEE ON DEFENCE (FOURTEENTH LOK SABHA) ON 'PROCUREMENT POLICY AND PROCEDURE'

		Percentage of Total
(i) Total number of recommendations	28	
(ii) Recommendations/Observations which have been accepted by the Government (Para Nos, (1.4 & 1.5), 1.17, 1.19, (2.17, 2.19 & 2.20), 2.18, 2.25, (4.8 & 4.9), (5.6 & 5.7), 6.10, (7.6 & 7.7), 8.2, 9.5, (9.6 & 12.4 & 12.5), 10.7, 11.5, 13.11 and (15.4, 15.5, 15.6 & 15.7)	17	60.71
(iii) Recommendations/Observations which the Committee do not desire to pursue in view of Government replies Para Nos. 14.2	1	3.57
(iv) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee: (Para No. 1.15, 1.16, 1.18, 2.24, (3.5, 3.6 & 3.7), (4.10 & 4.11), 4.12, 6.9 11.4 and (13.8, 13.9, 13.10 & 13.12)	10	35.71
(v) Recommendations/Observations in respect of which final replies of Government are still awaited: (Para Nos. Nil)	0	—