

6

**STANDING COMMITTEE
ON DEFENCE
(2005-06)**

FOURTEENTH LOK SABHA

MINISTRY OF DEFENCE

PROCUREMENT POLICY AND PROCEDURE

SIXTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2005/Agrahayana, 1927 (Saka)

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STANDING COMMITTEE ON DEFENCE
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MINISTRY OF DEFENCE

PROCUREMENT POLICY AND PROCEDURE

Presented to Lok Sabha on 12.12.2005
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LOK SABHA SECRETARIAT
NEW DELHI

December, 2005/Agrahayana, 1927 (Saka)

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COMPOSITION OF THE STANDING COMMITTEE
ON DEFENCE (2005-06)

Shri Balasaheb Vikhe Patil — *Chairman*

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| 5. Shri D.R. Shekhar | — | <i>Under Secretary</i> |
| 6. Smt. Jyochnamayi Sinha | — | <i>Committee Officer</i> |

PREFACE

I, the Chairman, Standing Committee on Defence (2005-06) having been authorised by the Committee to submit the Report on their behalf, present this Sixth Report on the subject 'Procurement Policy and Procedure'.

2. The Committee selected the above subject for examination during the year 2004-05. As the examination of the subject remained inconclusive, it was re-selected by the Standing Committee on Defence for examination during the year 2005-06.

3. The Committee, during their examination of the subject, took briefing and evidence of the representatives of the Ministry of Defence on 13 December, 2004, 4 February, 20 June and 12 September, 2005. The Committee also heard the views of representatives of Confederation of Indian Industry (CII) on 10 October, 2005 on the subject.

4. Based on the background note, written replies to the list of points furnished by the Ministry of Defence on the subject, approach paper submitted by CII, briefing/oral evidences tendered by the representatives of the Ministry and CII and the observations made by the members of the Committee during the Study visit to Jammu, Leh and Srinagar in October, 2004, the Committee finalised the draft Report at their sitting held on 7 November, 2005 and considered/adopted it at their sitting held on 17 November, 2005.

5. The Committee are concerned about the single vendor situation which frequently arises in Defence Procurement and have suggested that the GSQRs should be broad based and not be changed frequently. The Committee also stressed that the Ministry should draw the Long Term Integrated Perspective Plan, which will be helpful in projecting the requirements of the Services well in time. This will also be helpful to the Ordnance Factories, Defence PSUs and the Private Sector to plan their investments in future.

The Committee also stressed that the Ministry should encourage registration of authorized agents. This will facilitate in better co-ordination between the Services and the manufacturer. The Committee also recommend that the benefits of Transfer of Technology, joint ventures should be extended to the private sector also. This will be helpful in achieving Self-reliance.

The Committee also feel that the provision of an Offset Clause is a welcome step and should be used for the development of indigenous Defence industry. The Committee desire that efforts should be made to ensure participation of private sector and benefits of this clause should be passed on to them also.

6. The Committee wish to express their thanks to the representatives of the Ministry of Defence and the Confederation of Indian Industry (CII) for appearing before the Committee for evidence and for furnishing the material and information in a very short span of time which the Committee desired in connection with the examination of this subject.

7. 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;
6 December, 2005
16 Agrahayana, 1927 (Saka)

BALASAHEB VIKHE PATIL,
Chairman,
Standing Committee on Defence.

CHAPTER I

INTRODUCTION

1.1 India's strategic location, its long coast line, distant island territories and the continuing acts of terrorism from across the border, require India to maintain a high level of vigilance and defence preparedness. To this end, the Armed forces are required to be adequately equipped with the best state-of-the-art equipments available in the world, within the shortest period of time because in modern warfare 'speed' is the key to success in operational matters.

1.2 Defence expenditure accounts for nearly 13% of total Central Government expenditure, 23% of non-plan expenditure and around 2.38% of GDP as per 2005-06 Budget Estimates. In order to ensure better management of public money and procure defence equipments in shortest possible time, a fast and transparent defence procurement policy is the need of the hour. Acquisition of defence equipments is a complex and intricate process which has evolved over the years taking into account threat perception, security environment and requirements of Defence forces. Unlike procurement of other items, it is a long, deliberate and arduous process involving a number of steps like evolution of qualitative requirement by the Services, acceptance of necessity, identification of suitable vendors, issuance of Requests for Proposals, technical evaluation of offers, invitation for trials of selected equipments, General Staff evaluation and finally opening of the commercial quotes of the acceptable equipment. Care has to be taken at each step to maintain transparency and probity to ensure that the country gets best value for money. However, keeping in view the strategic importance of such deals, there is a need to keep certain amount of secrecy as well which make it difficult to issue open tenders etc. for such procurements.

1.3 It is seen that Defence purchases in recent times have become a subject of controversy. In view of the importance of the transparency and timely acquisition of defence equipments in the context of the present security scenario, the Committee selected the subject Procurement Policy and Procedure for detailed examination. The Committee decided to make an indepth study on new Defence Procurement Procedure-2005 for capital procurement and Revenue Procurement Manual-2005 which has been introduced for the first time so as to bring greater transparency in defence procurements and cut down delays in acquisition.

1.4 The Committee are happy to note that the Government has promulgated the 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 utilization of funds. This way it can be ensured that our soldiers get timely and quality supply of defence items.

1.5 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.

1.6 Defence Acquisitions

Defence procurements are made both from indigenous sources and through imports. In response to a query from the Committee about the percentage-wise break-up of procurement made through imports and from indigenous sources during the last 5 years, the Ministry furnished the following information:

(in %)

Year	Navy		Army		Air Force		Total for the three Services	
	Imported	Indigenous	Imported	Indigenous	Imported	Indigenous	Imported	Indigenous
2000-01	36.00	64.00	46	54	81	19	54.3	45.7
2001-02	48.93	51.07	34	66	74	26	52.3	47.7
2002-03	50.36	49.64	65	35	70	30	61.8	38.2
2003-04	57.68	42.32	52	48	76	24	61.9	38.1
2004-05	57.81	42.19	42	58	62	38	53.9	46.1

1.7 When enquired about the variation in percentage of indigenous and imported procurements had over the last 50 years and the concrete steps taken or proposed to be taken by the Government to boost up

the indigenous production and self-reliance, the Ministry in their written reply gave the following information:

Year	Procurement of stores (Revenue+ Capital) (Rs. in crores)	Percentage of Indigenous Procurement	Percentage of Imported Procurement
1994-95	12610	31.21%	68.79%
1995-96	14857	30.50%	69.50%
1996-97	15953	30.68%	69.32%
1997-98	18006	44.04%	55.96%
1998-99	20882	53.66%	46.34%
1999-2000	26674	54.00%	46.00%
2000-01	27440	53.28%	46.72%
2001-02	31353	58.03%	41.97%
2002-03	31089	53.73%	46.27%
2003-04	34021	58.63%	41.37%

They have further stated that:

“The Acquisition Wing was created to deal with Capital Acquisitions in 2001. Earlier procurement used to include Revenue as well as Capital Acquisitions. In the year 2004-05, 53.9% of procurement of Capital Acquisitions of Rs. 27,236 crore was through imports.

It can be seen from the trend that percentage of imported procurement has decreased over the last decade from 69% to about 41%.”

1.8 As regards constraints in increasing indigenous production, the Ministry stated:

“The constraints in increasing indigenous production of Defence Equipment have been examined by Kelkar Committee set up by the Govt. Its recommendations to boost up the indigenous production and self-reliance are being examined for implementation.”

Special Features of Defence Industry

1.9 While explaining the special features of Defence industry and Defence equipment acquisition, the Ministry furnished the following information:

“In India, defence equipment is being produced primarily in the public sector. Defence industry in the private sector is still in an embryonic stage. It will take private sector some time to come of age. There are a number of constraints in development of defence industry in private sector. For example:

- (i) Initial cost of investment in setting up infrastructure and production facilities is prohibitive. Rapid obsolescence of technology demands constant and sustained investment in Research and Development (R&D) and technology upgradation.
- (ii) Procurement procedures of all countries are lengthy and entail ground trials for long periods of time. Even thereafter decision-making is very time-consuming. Market for defence equipment is highly restricted and competitive. All countries protect, nurture and further the cause of their indigenous industry.
- (iii) Major difficulties are faced when there is a need for integration of complex systems in a weapon system. These difficulties got compounded if the major sub-systems belong to different types of technologies.

Special Features of Defence Equipment Acquisition

As with the defence industry, there are some special features which characterize defence equipment acquisition. These have been discussed in the succeeding paragraphs.

(a) Level of Technology

Most of the important defence acquisitions pertain to high-end technology. It is quite understandable that the services should seek the latest high-tech systems with cutting-edge technology with a view to maintain superiority over potential adversaries. But the procurement of such technology is not easy as it is well protected and not available freely.

(b) Complexity of Systems

No Original Equipment Manufacturer (OEM) produces a complete system. Complete Integrated systems are difficult to be sourced from one vendor. Invariably, sub-systems based on different hardware and software have to be procured from varied sources and their matching/integration is got done according to specific requirements. This entails close coordination amongst various agencies making it a time consuming process.

(c) Modernisation of Equipment

It is not possible to have all equipment of the same generation at any given time as complete inventories cannot be turned-over en-masse. Modernisation is a continuous process and is implemented in planned phases and for which a three-tier approach is adopted. At the lowest tier are equipments of obsolete technology whose useful life cycle is over and which need to be phased out. The middle tier consists of the equipment which still have considerable residual life. Their technology is mature but still relevant. Most of our inventory falls under this category. The upper tier consists of the state-of-the-art equipments which act as force multipliers and are generally expensive. Moreover, evaluation of such frontier technologies to ascertain their suitability to our environment is a time-consuming process. This three-tier system implies that maintenance, overhaul and upgradation of various systems assume significance. Availability of spares and product support have to be ensured.

(d) Denial Regime

Defence acquisitions have to be made within the constraints imposed by technology denial regimes. Many foreign Governments deny export licenses for the defence equipment sought and their spares. Invariably political and strategic considerations of the supplier country come into force. Unreliability of such sources has to be taken into account while planning acquisition.

(e) Commercially Available Equipment

With the development of our own industrial sector, a number of items can be procured commercially off the shelf (COTS). Such items are usually at the lower end of technology.

(f) Quality Control

Specialist organizations such as Directorate General of Quality Assurance (DGQA) have been assigned the responsibility of carrying out inspections and ensuring quality control. No equipment is accepted unless inspected and accepted by DGQA. It is a very deliberate process and guards against delivery of sub-standard goods by unscrupulous vendors.

(g) Exploitation of Equipment

Optimum exploitation of any equipment can be achieved only if both man and machine are fully integrated. Therefore, while identifying the equipment for procurement, training of the crew and their competence to absorb instructions have to be kept in mind. This invariably forms a part of the contract.

(h) Upgradation of Qualitative Requirements (QRs)

User services always want the best and the latest equipment. Even during the currency of a procurement process, users want to upgrade QRs. Such mid-course updates of QRs delay the completion of the acquisition process.

(i) Secrecy v/s Transparency

Procurement of any major military equipment cannot be carried out through open advertisements. The degree of secrecy required to be maintained will vary. On the other hand, transparency demands that maximum publicity be given and open competition be generated. These are contradictory requirements necessitating delicate balancing."

1.10 When asked about the role envisaged for the private participation in establishing joint ventures with the foreign countries, DRDO/DPSU/Ordnance Factories in development of defence equipment, the Ministry in a written note stated:

"As per the policy announcement made by the Government in May 2001, the Defence Industry sector was opened up to 100% for Indian Private Sector participation with Foreign Direct Investment (FDI) permissible up to 26% both subject to licensing. So far, 23 Letters of Intent (LOI)/Industrial Licences (IL) have been issued to entrepreneurs in the Private Sector by the Department of Industrial Policy & Promotion in consultation with the Ministry of Defence for manufacture of various Defence items.

As far as the role of Private Sector participation in establishing joint ventures with the foreign countries, DRDO, Defence PSUs/ Ordnance Factories in development/production of Defence equipment is concerned, a much greater role is envisaged for participation of Private Sector in establishing joint ventures for development and production of Defence equipment. Government would consider on merits the establishment of new projects by public and private sector through formation of consortiums or joint ventures.”

1.11 When asked about the roadmap developed by the Ministry for the next ten or fifteen years, in enhancing indigenous defence production, the Defence Secretary during oral evidence stated:

“I would like to say that the capability of the domestic industries—whether private sector or public sector—is increasing every year. We have also to see the requirement of the Defence Services. Here are certain areas where the capability does not exist, the import route has to be taken. If the volume is large, then, as I explained earlier, the technology transfer is taken. Thereafter, that becomes indigenous production in a phased manner.”

1.12 When asked as to how the Ministry are planning to ensure acquisition of design and development of technology, particularly at the level of sub-systems components and spares, which at a later stage can be best produced by PSUs or small-scale private company with licence in the new procurement procedure, the Ministry of Defence in their written reply stated:

“Acquisition proposals are forwarded to the Headquarters Integrated Defence Staff (HQ IDS) by the Service Headquarters. HQ IDS along with the representatives of various departments carry out technology scan in consultation with Defence Research and Development Organisation (DRDO) and then takes a holistic view of any proposal and categorise the case as ‘BUY’, ‘Buy and Make with Transfer of Technology’ or ‘Make’. The issue of transfer of Technology is analysed depending on the cost effectiveness and economy of scales. These recommendations are put up to the Defence Acquisition Council (DAC) which is headed by the Raksha Mantri. This Committee approve the proposal after due analysis. As a policy the Ministry is seeking maximum transfer of technology in cases which are approved as ‘Buy and Make’. It also monitors the level of technology being absorbed over the years and the same is reflected in the notes that are sent to the Cabinet Committee on Security (CCS).”

1.13 When asked whether the Govt. propose to allow private sector participation in ToT agreements to take benefit of developing new technologies, the Ministry in their written reply have stated:

“The Kelkar Committee has, *inter alia*, made certain recommendations regarding greater participation of the Private Sector in Defence Production. The recommendations made by the Committee are under active consideration of the Government.”

1.14 During oral evidence, the Defence Secretary, further emphasized this point:

“It is a great field of integration and things like that. We require independent configuration in most of the critical technologies. The Services, DRDO and the production agencies have participated very keenly right from the research stage, and all these things are done stage by stage. There is a good deal of partnership, and certainly our aim is to become self-sufficient in areas of critical technologies.”

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 minimized.

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.

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 modernisation 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.

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.

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.

CHAPTER II

DEFENCE PROCUREMENT PROCEDURE—A BRIEF HISTORY

2.1 Defence equipment is very expensive and requires huge investments to procure it. It is, therefore, essential that proper procedures be laid down and strictly adhered to for its procurement to get value for money. Well formulated procedures help in ensuring expeditious procurement of the approved equipment in terms of capabilities sought and time frame prescribed by optimally utilizing the allocated budgetary resources.

2.2 Emphasizing the need for well formulated procedure for defence procurement, the Public Accounts Committee, Lok Sabha, in their 187th Report (1989) recommended that Government should draw up comprehensive guidelines with regard to negotiations and implementation of defence contracts.

Defence Procurement Procedure 1992

2.3 Based on the above recommendation of PAC, (and Expert Committee Report of 1986), the Ministry of Defence issued guidelines for all procurement cases involving an outlay of Rs. 10.0 crore or more on 28 Feb. 1992. It is commonly referred to as Defence Procurement Procedure 1992 (DPP-1992). Modifications were incorporated in it from time to time. DPP-1992 laid down the steps to be followed for the complete gamut of procurement process. Though DPP-1992 was a creditable effort as it covered all activities pertaining to procurement, it suffered from several inadequacies which became apparent in its implementation over the years. Enumerating the deficiencies in DPP-1992, the Ministry in a written note stated that:

- (i) It did not cater to emergent requirements.
- (ii) A major grey area pertained to Transfer of Technology under 'Buy and Make' decision.
- (iii) Single-stage two bid system was not adequately stressed upon. Therefore, in a number of cases commercial quotes were sought from a single vendor after successful completion of trials.
- (iv) It did not provide for an inbuilt review mechanism.

- (v) A large number of agencies were involved in the process, yet there was no single monitoring agency.
- (vi) After the finalisation of Services Qualitative Requirements, Defence Research and Development Organisation (DRDO) was generally given the first option to develop the equipment. Vetting by DRDO entailed additional time.
- (vii) The procedure did not cater for long duration projects (*eg.* Naval Projects).
- (viii) There was no dedicated organization meant exclusively for procurement purposes. Most of the officers held multiple charges thus dividing their attention and efforts.

2.4 The shortcomings became more apparent during the Kargil conflict in 1999 when emergent procurements were required to be made. After the Kargil Conflict, the Govt. constituted a Group of Ministers (GOM) to go into the entire gamut of national security.

Findings of Group of Ministers on National Security

2.5 The group of Ministers on National Security in their report submitted in February, 2001 felt that the existing structure for procurement had led to sub-optimal utilization of funds, long delays in acquisition and had not been conducive to the modernization of the Services. They suggested the creation of a separate and dedicated institutional structure and establishment of Defence Procurement Organisation. The Report of the Group of Ministers was approved by the Cabinet Committee on Security (CCS) on 11 May 2001. Consequently, the Ministry of Defence established a new Defence Procurement Organization on 11 October 2001. This order also lays down the broad guidelines for the new defence procurement procedure promulgated in 2002.

Defence Procurement Procedure 2002

2.6 Defence Procurement Procedure 2002 was promulgated in December 2002 and made effective from 31st December 2002 and was applicable for procurements flowing out of 'Buy' decision of Defence Acquisition Council (DAC). This procedure was subsequently amended in June 2003 to include procurement on 'Buy and Make' through Imported Transfer of Technology (TOT) and termed as DPP-2002 (Version June 2003).

Acquisition Structure

2.7 The following is the acquisition structure established as a result of GOM Report.

Defence Procurement Organization

The Defence Procurement Organisation consists of the following:

(a) Defence Acquisition Council

1. It is an overarching structure under Raksha Mantri (RM). It consisted of Rajya Raksha Mantris, Chief of Army Staff (COAS), Chief of Naval Staff (CNS), Chief of Air Staff (CAS), Defence Secretary, Secretary, Defence Production (DP), Secretary, Research & Development (R&D), Secretary (Defence Finance), Chief of Integrated Defence Staff (CIDS) and Special Secretary (Acq).
2. DAC has been tasked to give approval in principle to capital acquisitions in the Long Term Perspective Plan (LTTP) covering a 15 year time span at the beginning of a Five year Plan period. It also approved all capital acquisition projects and identifying them as 'Buy' and 'Make' cases. Monitoring the progress of major projects is also its responsibility.
3. The decisions of RM based on DAC deliberations flew down for implementation to Defence Procurement Board, Defence Production Board and Defence R&D Board.

(b) Defence Procurement Board (DPB)

- 2.8 (i) It functions under the Defence Secretary and has Secretary (Defence Production), Secretary (Defence Research & Development), Secretary (Defence Finance), Vice Chiefs of the three Services and Special Secretary (Acquisition) as members.
- (ii) It oversees all activities related to 'Buy' and 'Buy and Make' decisions of DAC. It is responsible for the coordination, supervision and monitoring of the acquisition process.
- (iii) It has also been tasked to examine proposals from the Acquisition Wing regarding procurement procedures and make necessary changes in the procurement process after obtaining the approval of Raksha Mantri.

(c) Defence Production Board

2.9 It functions under Secretary (DP) and oversees all activities related to the indigenous manufacture under the Department of Defence Production flowing from the 'Buy and Make' and 'Make' decisions of the DAC.

(d) Defence R&D Board

2.10 It is chaired by Secretary (Def. R&D) and is responsible to progress, monitor and report on all indigenous proposals flowing out of the 'Buy and Make' and 'Make' decisions of the DAC.

(e) Acquisition Wing

2.11 The Defence Procurement Board is assisted in its functioning by an Acquisition Wing in the Department of Defence. All matters concerning acquisition of capital nature are dealt with by it. It is an integrated set up with officers from the Department of Defence, Finance Division and Service Head Quarters.

It is headed by Additional/Special Secretary (Acquisition) and is assisted by Financial Adviser (Acquisition) who also functioned as the Integrated Financial Adviser and head the Finance Branch in the Acquisition Wing.

The Wing consists of four Divisions viz. Land, Maritime, Air Force and Systems. Each Division has a Joint Secretary designated as Acquisition Manager, an Addl. Financial Adviser designated as Finance Manager and a Service Officer of two-star rank designated as Technical Manager.

Need for changing Defence Procurement Procedure 2002

2.12 With the experience gained in the last three years, Ministry of Defence realized that there exist some problems in implementation of DPP 2002 that need to be resolved to further streamline the process of acquisition. This has been necessitated due to the realization that following would need to be done:

- (a) Compress time frame and delineate clear time frames at each state of acquisitions to ensure optimal utilization of capital budget allocation.
- (b) Reduce time taken at the acceptance of 'necessity' stage.

- (c) Evolve a system of open tendering for non sensitive security equipment;
- (d) Put in place a nodal mechanism for formulating joint QRs for equipment of tri-service nature;
- (e) Provide guidelines in regard to application of Discounted Cash Flow (DCF) for evaluating offers with different payment terms and involving cash flow over a period of time and Exchange Rate Variation (ERV) in respect of Defence PSUs in order to make procurement process more transparent and objective;
- (f) Expedite processing of indents placed on Ordnance Factory Board (OFB) and schemes entrusted to DRDO; and
- (g) Include "Off set" in RFP on case to case basis to avail of direct benefits like technological transfer and exports, etc. & integrity pact as part of Standard Conditions of Contract.

Defence Procurement Procedure 2005

2.13 The Defence Procurement Procedure 2002 (version June 2003) needed a review in the light of experience gained over the years and also to incorporate suggestions received from Central Vigilance Commission and Comptroller & Auditor General and Ministry of Finance from time to time to streamline the procedure and to remove the impediments in the acquisition process. In order to meet the twin objectives of greater transparency and accountability in all acquisition process and reduction in acquisition time cycle as also in view of mandatory requirement of review to DPP 2002 after 2 years, the Govt. brought forward a new Defence Procurement Procedure 2005. DPP-2005 has come into effect from 1st July 2005. The salient features of DPP-2005 are:

1. qualitative requirements have been further broad based to avoid single vendor situations;
2. provisions have been incorporated to obtain upto 30% direct offset in acquisition cases of more than Rs. 300 crore. This is in line with Kelkar Committees recommendation and has been incorporated to benefit Indian industry.
3. provision for an Integrity Pact has been made in the RFP for purchases over Rs. 300 crore;

4. standard contract document has been made a part of the RFP soliciting techno commercial offer. This will provide level playing field to the bidders bringing in addition, objectivity and transparency in the process;
5. preparation of Joint Services Qualitative Requirements for common equipment of the three services.
6. evaluation criteria have been made more objective incorporating some of the suggestions made by the Ministry of Finance.
7. Broad timeframe for the completion of different procurement activities has been prescribed for processing procurement cases to expedite acquisition process.

Defence Procurement Manual-2005

2.14 While the Defence Procurement Procedure addresses predominantly the procedure for capital acquisition flowing out of 'Buy' or 'Buy or Make' with TOT option, there was no uniform manual for Revenue expenditure which accounts nearly 55% of total revenue expenditure of Government of India. The Government, therefore, announced Defence Procurement Manual 2005 for revenue procurement.

2.15 The salient features of the Defence Procurement Manual 2005 (Revenue Procurement) are as under:

- (i) The Request for Proposals, both for indigenous and foreign procurement has been made transparent, enumerating short-listing and award criteria;
- (ii) Uniformity has been brought in for the interpretation of various contracting clauses and issues;
- (iii) Broad time frame has been prescribed for each state and process of procurement so as to cut down delays and bring in accountability.
- (iv) General guidelines for assessing Reasonability of Prices.

Defence Procurement Policy for 'Make' category

2.16 The Defence Procurement Policy 2005 caters only to Buy/Buy and make categories. When asked as to the steps being taken by the Ministry to evolve an effective and clear-cut policy in 'Make' category, the Ministry in their written reply have stated that:

"the Government is in the process of formulating a separate procedure for Defence acquisition in respect of 'Make' category of projects."

2.16a. During oral evidence the Defence Secretary further stated that:

“the Integrated Defence Staff has prepared a draft ‘Make’ Policy which has been circulated to the services and to other concerned divisions. After consultations, the ‘Make’ category policy is going to be set up.”

2.17 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 by 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.

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.

2.19 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.

2.20 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 indepth 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.

Ship Building Procedure

2.21 A specific procedure for Ship building has been included in DPP-2005 to address the complex issue involved in indigenous design and construction of warships in Defence Public Sector Shipyards. The procedure provides as under:

“In accordance with the Defence Procurement Procedure 2005, Capital Acquisitions have been categorized under three main heads, namely; ‘Buy’, ‘Buy and Make’ and ‘Make’ decisions. Warship building is a capital and technology intensive activity that does not fall into any one of the above categories because elements of all these are present in the process of ship construction. Hence, it is necessary to define a separate procedure for acquisition of warships and Coast Guard vessels through indigenous design/construction. However, procurement of a complete ship from abroad will continue to be guided by DPP-05. Similarly, minor vessels such as yard craft, barges, harbour tugs, ferry craft and pontoons for the Services will also be procured under provisions of DPP-05. For minor vessels more than one Shipyard may be short-listed. Cases of nomination of a yard for Coast Guard ships will also be approved by the DPB based on the merits of each case.

This procedure will be applicable to acquisition of warships through indigenous design and construction by Defence Public Sector shipyards.”

2.22 As regards, the current decommissioning schedule of the warships of the Navy in their Long Term Perspective Plan, the Committee were informed that the Navy has made 15-year long-term Perspective Plan and 10-year Ship building Plan. In the Perspective Plan, the Ministry have targeted for 195 ships. The DAC has also directed the Ministry to ensure to have 140 ships. But based on the current decommissioning schedule, the force level will come down to 123. This will pick up and come to 132 by the end of the Eleventh Plan.

2.23 When the Committee enquired about the status of acquisition of submarines, and the idle submarine building capacity in MDL, the Defence Secretary during oral evidence stated:

“It is correct to say that the Mazagon Dockyard did not manufacture submarines after 1994. In fact, it was doing the repairing and maintenance work of submarine. As far as the requirement of the Navy is concerned, talks are going on with the

French companies. The aim even at that time was that it would be bought through technology transfer and the submarine will be built in our submarine manufacturing yard, that is Mazagon Docks."

In response to a query about cost escalation due to delay in finalizing the submarine project, the Defence Secretary stated:

"There was a question of cost escalation because the negotiations were prolonging. So the Ministry of Defence again negotiated regarding limiting cost escalation and finally last week the Cabinet Committee on Security have cleared the submarine projects and India will manufacture Scorpene class submarine with French technology and French parts in the Mazagon Docks. So our Mazagon Dock capability will be restored."

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 existing infrastructure and produce ships of latest technology, thereby facilitating the Navy to induct them and to maintain their force level as per perspective plan.

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.

CHAPTER III

LINKAGE TO ACQUISITION PLANS

3.1 DPP-2005 lays down that proposals for acquisition of capital assets flow out from the defence procurement planning process. This planning process will cover the long-term, medium-term and short-term perspectives as under:

- (a) 15 year Long Term Perspective Plan (LTPP)
- (b) 5 year Services Capital Acquisition Plan (SCAP)
- (c) Annual Acquisition Plan (AAP)

The procedure further provides that:

“Based on the Raksha Mantri’s Operational Directive, Headquarters Integrated Defence Staff (HQ IDS), in consultation with the Service Headquarters (SHQs), would formulate 15 years Long Term Integrated Perspective Plan (LTIPP) for the Defence Forces. The Five Year Defence Plans for the services would also be formulated, by HQ IDS, which would include requirements of 5 years Services Capital Acquisition Plan. The SCAP should indicate the list of equipment to be acquired, keeping in view operational exigencies and the overall requirement of funds. The planning process would be under the overall guidance of the Defence Acquisition Council. Its decisions as approved by the Raksha Mantri will flow down for implementation to the Defence Procurement Board (DPB). The DAC will categorize all schemes as BUY, BUY and MAKE and MAKE on a five year basis and accord overall Acceptance of Necessity. The AAP would be a subset of the SCAP and would also include schemes of value less than Rs. 20 crores.”

3.2 Explaining further, the Ministry in their background note stated,

“Acquisitions have been linked to the Services Long Term Perspective Plans. Headquarters Integrated Defence Staff has been assigned the responsibility of integrating the plans and thereafter Defence Acquisition Council (DAC) would categorise all schemes of Services Capital Acquisition Plan (SCAP). If SCAP is not finalized, Annual Acquisition Plan (AAP) would be approved by the DPB based on the recommendations of SCAP Higher

Categorisation Committee (SCAPHCC). Approval of SCAP and AAP by DAC/DPB would be construed as Acceptance of Necessity and only quantity vetting will be done in the MoD. This should help in reducing the time taken for procurement.”

3.3 As the acquisition process flows from defence procurement planning the Committee inquired about the status of Long Term Integrated Perspective Plan and the Tenth Defence Plan of the Ministry. The Ministry in their reply stated:

“Interaction with Service HQs for formulating the Long Term Integrated Perspective Plan (LTIPP) commenced in Jan. 02 to cover the period 2002-2017. On receipt of the Long Term Perspective Plans (LTPPs) from the three services, an initial LTIPP was formulated by HQ IDS in Oct. 03 and circulated to the Service HQs for their comments.

It was observed that LTPPs of the three services are basically based on the tasks listed in the RM’s Operational Directive 2002, and focused on individual service requirements to make up the voids.

Certain important issues like Joint Conventional Edge, capabilities to be achieved, aspects of commonality of equipment; inter-service prioritization and indigenisation which have not been adequately addressed in the initial LTIPP. Secondly since three years had already elapsed in the 10th Plan, it was felt that a revised LTIPP be drafted at HQ IDS to focus on the above issues and cover the Xth, XIth and XIIth plan periods. Thus, LTIPP 2002-2017 was not presented to the COSC for approval. It may be mentioned that the draft 10th five year plan was forwarded by IDS HQs to MoD on 12 May 04 and the period upto 2007 has been adequately covered.

A draft Approach paper for LTIPP 2007-2022 has been prepared. Comments from the Service HQs are being analysed at HQ IDS. Various Study Teams have been formed to deliberate upon these critical issues which are complex in nature and require an involved process. The revised LTIPP (2007-2022) on compilation will be circulated to the service HQs for their comments and then presented to COSC. On clearance by the service HQs and COSC, it will be forwarded to the Ministry of Defence for obtaining DAC/CCS approval.”

3.4 During evidence when the Committee enquired about the likely time by which the integrated defence plan would be finalized, the Defence Secretary replied:

“even in the earlier meeting, you have expressed the concern and we have really gone ahead with a much better degree of planning and this long-term integrated defence plan is underway. Certainly, this whole exercise is being done by us in consultation with all Service Headquarters. We are at it. We would be in a much better position than what was there earlier.”

3.5 The Committee note that acquisition of capital assets flows out from the defence procurement planning process which covers 15-year long term 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.

3.6 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 finalise 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 2006-2007.

3.7 The early finalisation 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.

CHAPTER IV

FORMULATION OF SERVICE QUALITATIVE REQUIREMENT

4.1 The procurement process starts with the formulation of Service Qualitative Requirement (SQR) which lays down the user requirements in a comprehensive manner.

4.2 When asked to explain the procedure followed for laying down SQR by the user directorate, the Ministry of Defence in a written reply furnished the following information:

“All acquisitions are generally based on Service Qualitative Requirements (SQRs), which lay down the users requirements in a comprehensive, structured and concrete manner. These SQRs are drafted by the user directorate at Service Headquarters and circulated to all concerned including Directorate of Research and Development Organisation, Department of Defence Production, Directorate General of Quality Assurance, Directorate of Standardization and the Technical Manager, Acquisition Wing and any other department, as deemed necessary.”

4.3 When asked as to whether it is not essential that the experts from OFB and DRDO must be consulted before laying down the SQR, the Ministry in their written reply stated that:

“The Services Qualitative Requirements (SQRs) when formulated are circulated to all the agencies including the Defence Public Sector Undertakings (PSUs) and the Defence Research and Development Organisation (DRDO) well in time. The comments of these agencies are duly considered and SQRs modified accordingly. All these agencies are represented on the Staff Equipment Policy Committee which approves the Services Qualitative Requirements.

The new procedure lays down that the SQRs should be broad based and should result in a multi vendor situation.”

4.4 Comparing this provision with DPP 2002, the Ministry stated that

“DPP 2002 procedure envisaged approval of SQR of Staff Equipment Policy Committee (SEPC) after necessary vetting by

concerned agency while in the new procedure the provision of seeking comments of technical managers on SQRs has been added. Prior to approval of SQRs the SEPC is to assess the likely number of vendors meeting the SQRs. If single vendor situation is likely then reason for formulation of such SQR has to be recorded.”

4.5 According to the Ministry it will avoid single vendor cases and ensure formulation of realistic SQRs.

4.6 The Ministry further informed that:

“DPP-2005 provides that SQRs should be broad based and formulated so as not to restrict the technical choice of equipment. To ensure standardization of an equipment, being procured by all the services, the SQR would be prepared by Headquarters Integrated Defence Staff (IDS). In the new procedure, the procedure of having desirable parameters has been done away with, since it has no relevance either in conduct of trials or for staff evaluation.”

4.7 Another important feature of DPP-2005 is that it clearly states waiver/amendment to parameters of SQR may be accorded by the SHQ concerned before issue of Request for Proposal (RFP). Thereafter no waiver of parameters would be granted.

4.8 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.

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.

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 reputed private organisations having relevant expertise 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.

4.11 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.

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 organizations 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.

CHAPTER V

OFFSET CLAUSE

5.1 The DPP 2005 contains a new offset provision to leverage the benefits of large defence purchases to country's advantage.

It states as under:

"The SCAP Categorisation Committee will also recommend the inclusion of an offset clause amounting to 30 percent of the indicative cost in the RFP where the indicative cost of the contract is Rs. 300 crore or more. The Committee will also suggest the name of the lead DPSU/OFB which will assist MoD in monitoring the implementation of the offset contracts during the post contractual period. The SCAP Categorisation Higher Committee may consider changes in the offset amount, if felt necessary, while making recommendation to DAC for approval."

5.2 Explaining the background of this new provision the representatives of Ministry of Defence during briefing in this connection stated:

"Based on the recommendations of the Kelkar Committee plus the experience of other countries this provision has been included for the first time that for all projects costing more than Rs. 300 crores, there will be an obligation on the part of the supplier for a 30% offset to defence industry or may be to other industries."

5.3 The Defence Secretary during briefing clarified that it need not be an investment directly but it can be in various forms that includes technology. The Committee were informed that most of the countries, when they go in for the procurement of defence equipment, have this provision of offset. He stated:

"There are different patterns being followed in the countries. There are some countries where they have even a legislation for enforcing the offset provision, where as others are doing it by administrative orders. Our experience has been mixed. Even the developed countries are following the offset provisions. If I have to summarise the experience, I will say that in the case of countries which have less developed industries, the implementation of offset provision

has been somewhat difficult. They do not have the industrial base, whereas in countries which have a fairly developed infrastructure of industries, the implementation of the offset procedure has been comparatively better. As you said, it is a new experience for us. We will try to do our best. It is only through experience that we will know what kind of hurdles are going to be there.”

Explaining the benefits of offsets the Defence Secretary stated:

“... We see examples of a number of other countries which have in the recent past built up their indigenous defence industries, we find that it has been to a great extent, facilitated by this offset mechanism. Through the means of transfer of technology and capacity into the buying country, gradually the capacity of recipient country is built up and the industry and the know-how within that country increase. They also become larger and larger players in the defence production field, not only meeting their own requirements but they can also enter into export field.”

5.4 The Committee enquired whether the modalities for offset investments have been chalked out and the fields identified for investment in India. The Committee also enquired about the monitoring mechanism to ensure that vendors fulfil their obligation. The Ministry in the written reply stated:

“The Service Capital Acquisition Plan (SCAP) Categorisation Committee will recommend the inclusion of an offset clause amounting to 30% of the indicative cost in the RFP where the indicative cost of the contract is Rs. 300 crore or more. The Committee will also suggest the name of the lead DPSU/OFs which will assist MoD in monitoring the implementation of the offset contract during the post contractual period. The SCAP Categorisation Higher Committee may consider changes in the offset amount, if felt necessary, while making recommendation to DAC for approval. The technical offer is required to include a compliance statement to the effect that the vendor will undertake offset amounting to 30% of the commercial proposal. Failure to discharge this undertaking at any stage will result in disqualification of the vendor from further participation.”

5.5 When the Committee enquired whether the Government propose to extend benefits of the offset clause to the private sector already engaged in defence production, the Ministry in their written reply have stated that:

“Initially the offset clause are being absorbed by Indian Public Sector Undertakings; however in line with the Kelkar Committee’s Report the private industry would be involved on case to case basis.”

5.6 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 to 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 utilization 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.

5.7 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 alongwith 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.

CHAPTER VI

SOLICITATION OF OFFERS

Issue of Requests for Proposal

6.1 As regards the issue of RFP, the DPP provides for two bid system. Where technical and commercial offers are invited together, commercial offers are opened later on whose technical bids are qualified.

6.2 In reply to a question from the Committee whether the procurement procedure prescribed limited or open tendering, the Ministry stated:

“As per DPP-2002 (Version June 2003) once SQRs were finalized, the sources of procurement of the weapon systems were ascertained and short listing of the prospective manufacturers/suppliers carried out by the SHQ. The short listed vendors were the Original Equipment Manufacturers (OEMs)/Authorised Vendors/ Government Sponsored export agencies. In DPP-2005 also since security concerns prevent operational parameters to be made public, provision for limited tendering has also been provided. However, for commercially off-the-shelf items not available at DGS&D rate contract, open tender route would be followed.”

6.3 When the Committee enquired the criteria for selecting vendors for sending RFP, the Ministry furnished the following information:

- (i) Data Bank is maintained with SHQ and Technical Managers in Acquisition Wing.
- (ii) Vendors who inform Service HQ of their capabilities/ collaboration with foreign vendors.
- (iii) Identification carried out through Defence Attaches, Military Journals and Internet etc.
- (iv) Information obtained by visiting various Defence Exhibitions in India.
- (v) Information provided by various delegations visiting International Defence Exhibitions.
- (vi) Details of product information and equipment upgrade as provided by various manufacturers by sending technical literature and brochures.

(vii) Information received from various Fora viz. Indo-US Defence Cooperation, Indo-UK Defence Cooperation, Indo-Israel Defence Cooperation etc.”

6.4 The Committee enquired whether MoD register vendors for defence supplies and how often they update the list, the Ministry in a written reply stated:

“Ministry of Defence maintains a data bank of prospective vendors who are the suppliers of defence equipment. This data bank is continuously updated with the available information from published journals and other available sources.”

6.5 As regards the role of Defence Attaches in maintaining the data bank about the defence equipment and supplies the Ministry in their written replies stated:

“Defence Attaches are normally involved in the initial stages of the procurement in identification, and also broad performance evaluation trials where they have the necessary expertise and wherewithal to conduct them. The Service Headquarters maintain a link with the OEMs/equipment suppliers abroad through the respective DAS who keep the Service Headquarters informed about the new developments in the field of armament in the countries of their posting.”

6.6 On a specific query of the Committee whether Ministry is making any conscious efforts for the indigenisation of acquisitions and whether Request for Proposal is being issued to the private sector, the Ministry stated as under:

“The aspect of indigenous acquisition is being addressed during the Services Capital Acquisition Plan Categorization Committee (SCAPCC) and Services Capital Acquisition Plan Categorization Higher Committee (SCAPCHC) meetings held to categorise the Capital Schemes as ‘Buy’, ‘Buy & Make’ and ‘Make’.

Wherever indigenous firms have the capability to supply the required defence equipment, Request for proposals are also sent to these firms.

The Government had set up a committee under the chairmanship of Dr. Vijay L. Kelkar, *inter alia* to examine current procurement procedure and recommend changes required to modify the acquisition process on the approach based on ‘product strategy’

and to suggest modalities for integration of users, Ministry of Defence and the industry both public and private sector. The Committee submitted Part-I of the report which is towards “strengthening self-reliance in defence preparedness”.

6.7 The report takes into account the increasing capabilities of Indian industry and growing globalization of defence industry. The Committee’s proposal focus on the following key issues:

- (i) Involvement of country’s best firms in Defence Capability Building.
- (ii) Introduction of offsets policy to bring in Technology and investment.
- (iii) Explore synergies amongst private sector DPSUs, OFs and DRDO to promote high technology capabilities.
- (iv) Create an environment for increasing export of defence equipment and services.

The recommendations made by the Committee are presently under examination of the Government.

6.8 When the Committee wanted to know that while selecting the vendor whether the Ministry emphasize the provision for preferred supplier who is involved in the successful development of a product, the Ministry stated:

“The Government of India invites responses to the Request for Proposal (RFP) only from OEM or Authorised Vendors or Government Sponsored Export Agencies subject to the condition that in cases where the same equipment is offered by more than one of the aforementioned vendors, preference would be given to the OEM. This would ensure that procurement is carried out from the firm which has developed the system. However, ‘Make’ procedure is being formulated and this issue would appropriately be addressed.”

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 an equipment and its tentative cost, etc. The Ministry of Defence should have sufficient data bank with them based on such information.

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.

CHAPTER VII

SINGLE VENDOR SITUATION

7.1 In response to a query of the Committee as to whether the single vendor situation has been analysed and how the Government propose to deal with such situation, the Ministry in their written reply stated:

“Single vendor situation has been analysed in great detail in DPP-2005. To avoid single vendor situation a number of provisions have been included in DPP-2005 as under:

- (i) Prior to approval of SQRs, the Staff Equipment Policy Committee (SEPC) has to assess the likely number of vendors meeting the QRs. If a single vendor situation is likely to arise, then the reasons for the formulation of such QRs have to be separately recorded.
- (ii) If a single vendor situation arises at TEC stage, then a fresh RFP is to be issued by reformulating the SQRs. There is no provision for waivers of SQR parameters at TEC stage.
- (iii) During Staff Evaluation if no vendor meets SQRs after trials, then fresh RFP would be issued after reformulation of SQR parameters.
- (iv) 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 the merit of the case.
- (v) If only one vendor meets SQRs after trials, then it is not to be construed as single vendor case.
- (vi) Repeat orders are not to be construed as single vendor cases.”

7.2 Elaborating further, the representative of MoD during deposition before the Committee stated:

“Some steps have been taken in the new procedure to avoid single-vendor situation. I would also like to qualify that it is not that single vendor situation in all cases has a negative connotation. Suppose we have collaboration transfer of technology arrangement

between Bharat Electronics Limited and a foreign partner, and we are building up capacity for the manufacture of any particular item in Bharat Electronics Limited, then it is also expected that future requirements of that type of equipment will be met by Bharat Electronics Limited. So, Bharat Electronics Limited will become technically a single vendor but then, after all, it is our own PSU. Therefore, we want to encourage that kind of collaboration.”

7.3 The representative of MoD further informed that:—

“Single vendor situation has two effects. It invites criticism because there is no way of knowing what is the benchmark price. Price negotiation can be a problem. Secondly, in the existing procedure, the single vendor situation demands for an additional procedure which takes time. It says that we have to get the approval of DPB and then go to RM. So, these approvals take time. In order to reduce the single vendor situation, we have done two or three things. Now, what we have stated in the new procedure is that there may be some equipment which the Government may like to acquire through single vendor because there is only one person who is manufacturing it and the strategic requirement demands that we have to acquire it. In such situation, the matter will be discussed before the Defence Acquisition Council and a conscious decision will be taken to go for single vendor.

The second objective is that we should try to frame the SQRs and try to broad base them so that the situations of single vendor are minimized.

The third provision that we have introduced is that in response to RFP, some vendors respond and as a result of technical evaluation, if it becomes a single vendor, in that case, it will not be processed, and the SQRs will be reframed and the fresh RFP will be issued.

These are some of the methods by which we have tried to reduce the single vendor situation. Another thing that we have done is like giving order to BHEL, the example which the Defence Secretary has given, or may be giving orders to OFB. In the present procedure, there was some ambiguity.

Many a time, it was not clear whether RFP needs to be issued or we should go to them directly. In such cases, we have clarified in the procedure that they will not be treated as single vendor, and you can go straight to them without going through the RFP, that means time is saved.”

7.4 When asked how the procurement is decided which involves major diplomatic and economic consideration, the representative of the Ministry informed:—

“A provision has been made for procurement due to strategic, political, economic or technological reasons on single vendor basis or from a vendor who is not L1. Such decisions would be taken with the approval of CCS on recommendation of DPB.”

7.5 It has been observed that in many cases a particular weapon system, after completing its shelf life, has to be replaced and to acquire it again, the Govt. invariably approaches particular exporting country. It is further noticed that initially the services try to project a small requirement and after the identification of the supplier they place a target order. All these situations may lead to single vendor situation. While clarifying this point, the representatives of Ministry of Defence, during oral evidence has stated that:

“Sir, you had also talked of the cases in which the single vendor situation comes. This has been worrying the Ministry quite a bit. In fact, the best method of procurement is where the single vendor situation does not arise. A lot of modifications are also being done in order to see that the single vendor situation does not arise. For example, a few months ago, a Committee headed by the Raksha Mantri with all the Chiefs decided that after the RFP is issued, in case certain changes in the Qualitative Requirements are made which require a single vendor situation, then the case would be closed and again a new RFP would have to be issued. It means that to that extent it will be a fresh case. So, that is our effort in seeing that the single vendor situation does not arise.”

7.6 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 requirements 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.

7.7 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.

CHAPTER VIII

STANDARD CONTRACT CLAUSE

8.1 The DPP 2005 provides for standard contract document which indicates the general conditions of contract that would be the guideline for all acquisitions. Explaining the provision, the Defence Secretary, Acquisition during briefing stated:

“Until now, we did not have a Standard draft Contract document. Even the CVC has observed that in many cases, the supplier himself gave the contract document. Since it did not meet our requirements, there used to be long negotiations on the standard conditions. After getting it vetted by the Law Ministry, it is part of the procedure, and this will be known at the time of issue of RFP. So, those negotiations will be avoided, and it will be more transparent for the bidders.”

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.

CHAPTER IX

BROAD TIME FRAME FOR PROCUREMENT ACTIVITY

9.1 The DPP-2005 provides for broad time frame for procurement activities as under:

Sl. No.	Activity	Time (months)	Cumulative Time (months)
1	2	3	4
1.	Acceptance of Necessity (AoN)	1	1
2.	Request for Proposals (RFP)		
	(a) Simultaneous vetting by Acquisition Manager, Finance Manager and Technical Manager.	1/2	1 ¹ / ₂
	(b) Approved by RFP by Additional Secretary/ Special Secretary (Acquisition).	1/2	2
	(c) Receipt of responses	3	5
3.	Technical Evaluation Committee (TEC)		
	(a) Evaluation of proposals and preparation of TEC report	3	8
	(b) Vetting of report by Technical Manager and acceptance by Additional Secretary/ Special Secretary (Acquisition).	1	9
4.	Trials. Field trials/DGQA/Maintainability trials including receipt of trial report, preparation and approved of Staff evaluation at Service HQ.	6-12	15-21
5.	Staff Evaluations. Examination by Technical Manager and acceptance of Staff Evaluation by Additional Secretary/Special Secretary (Acquisition).	1	16-22

1	2	3	4
6.	Commercial Negotiation Committee (CNC)		
	(a) Opening of bids and determination of L1	1	17-23
	(b) CNC Negotiations	3-5	20-28
	(c) Finalisation of CNC report	1	21-29
	(d) Internal Procedure Audit	1	22-30
	(e) Approval of CFA-Mod/Mof/CCS	1-4	23-34
	(f) Contract Signing	1	24-45
7.	Total Time Taken		24-35 months (2-3 years including trials).

9.2 when pointed out that this time frame would take 2-3 years in acquisition process, the Secretary, Defence during briefing stated:

“We had internally debated this aspect whether it will mean giving scope for laxity, even where you can do it within six months and yet you take it on to two or three years. The idea, was that this is the outer limit because over the years, our experience shows that on an average, there is a particular time, which is minimal, which is required in each stage, but that is the applicable situation for major equipment. There might be something which is available off the shelf. You do not have to go through all these processes and it might be that you just place an order and it will come within a few weeks, but the other extreme can be that the Army needs a particular major equipment which has to be introduced for the first time and then it has to be tried out during winter, summer, at high altitude, in desert, forest, plain and everywhere and therefore, it takes time, various seasons. Therefore, this broad time-frame is only an indicative time-frame to give the outer limit because even if it involves a major equipment, it should not exceed that. This is the idea.”

9.3 One of the stages in this broad time-frame is approval of CFA by Ministry of Finance, Ministry of Defence and Cabinet Committee on Security. When asked that in case these parameters are exceeded

especially by CFA, especially in CNC negotiations, was there any accountability, the Defence Secretary stated:

“Yes, Sir. Till the matter is within the Ministry of Defence, there is very much an accountability. There is a DAC headed by Raksha Mantri which is supposed to review all major projects. There is a defence Procurement Board which meets every 15 days on fixed days of the month to review all hold ups, amongst other things. But once the thing has gone out of the Ministry of Defence, let us say to the Ministry of Finance, we do not have any control over it. There are two types of situations where things have to go to the Finance Ministry. One, those projects which are beyond the delegated powers of the Raksha Mantri which are to be exercised in consultation with the Finance Minister and those which are still higher and which have to go to the Cabinet Committee. Those have to go to the Ministry of Finance. How long the Ministry of Finance will take is not under our control. For that, there is no accountability, I am afraid.”

9.4 The Committee enquired about the accountability in case of delay in post negotiation situation. The Defence Secretary stated that there are enough mechanism in the contract and in the negotiations to deal with it.

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 in 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.

9.6 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.

CHAPTER X

INTEGRITY PACT (IP)

10.1 The new DPP-2005 provides that signing of integrity pact would be considered for purchases over Rs. 300 crore. The Integrity Pact is a binding agreement between the agency and bidders for specific contracts in which the agency promises that it will not accept bribes during the procurement process and bidders promise that they will not offer bribes. Under the IP, the bidders for specific services or contracts agree with the procurement agency or office to carry out the procurement in a specified manner. The essential elements of the IP as detailed in DPP-2005 are as follows:—

- “(a) A pact (contract) between the Government of India (Ministry of Defence) the authority or the “principal”) and those companies submitting a tender for this specific activity (the “bidders”);
- (b) An undertaking by the principal that its officials will not demand or accept any bribes, gifts, etc., with appropriate disciplinary or criminal sanctions in case of violation;
- (c) A statement by each bidder that it has not paid, and will not pay, any bribes;
- (d) An undertaking by each bidder to disclose all payments made in connection with the contract in question to anybody (including agents and other middlemen as well as family members, etc., of officials); the disclosure would be made either at time of tender submission or upon demand of the principal, especially when a suspicion of a violation by that bidder emerges;
- (e) The explicit acceptance by each bidder that the no-bribery commitment and the disclosure obligation as well as the attendant sanctions remain in force for the winning bidder until the contract has been fully executed;
- (f) Undertakings on behalf of a bidding company will be made “in the name and on behalf of the company’s chief executive officer”;

- (g) The following set of sanctions shall be enforced for any violation by a bidder of its commitments or undertakings:
 - (i) Denial or loss of contract;
 - (ii) Forfeiture of the bid security and performance bond; Liability for damages to the principal and the competing bidders; and
 - (iii) Debarment of the violator by the principal for an appropriate period of time;
- (h) Bidders are also advised to have a company code of conduct (clearly rejecting the use of bribes and other unethical behaviour) and a compliance program for the implementation of the code of conduct throughout the company."

10.2 During briefing the representatives of Ministry of Defence in this regard stated:—

".....An enabling provision has been made for signing of an integrity Pact between the purchaser, and the potential supplier, that is, the bidder when the RFP is issued. This Integrity Pact is a new idea which is being introduced. It is being followed in some of the countries. Basically, we would like to sign an agreement with all the bidders who would like to bid. The agreement would be that both the sides would adopt only ethical practices, and no corrupt practices would be adopted. It would also specify that in case any of the sides violates the agreement, then what would be the implications. We are trying to introduce this for the first time. As I said, in some of the countries, it is already existing."

10.3 The Committee enquired about the practice followed all over the world and in India pertaining to commission paid to make procurements through vendors and incentives offered by various manufacturers for purchasing their equipments. The Ministry in a note stated:—

"Although the practice followed all over the world pertaining to commission offered to make procurement through vendors is not known, certain countries like United States and some nations of Europe have adopted several mechanisms to prevent the use of undue influence in obtaining contracts. For instance, the Organisation for Economic Cooperation and Development (OECD) convention on combating bribery of foreign public officials in

international business transactions has been adopted by certain European Nations. This convention prohibits the use of undue influence in defence contracts. Similarly, the Transparency International, an NGO has called for inclusion of integrity pact in contracts to ensure transparency and prevent undue influence in defence contracts. In the United States also there are stringent laws that prohibit the payment of commission/use of undue influence in obtaining defence contracts.”

10.4 In DPP-2005 standard contract provides for provision relating to penalty for the use of undue influence, agents/agency commission. It states:—

“The seller confirms and declares to the buyer that the seller is the original manufacturer of the stores referred to in this contract and has not engaged any individual or firm, whether Indian or foreign whatsoever, to intercede, facilitate or in any way to recommend to the Government of India or any of its functionaries, whether officially or unofficially, to the award of the contract to the Seller; nor has any amount been paid, promised or intended to be paid to any such individual or firm in respect of any such intercession, facilitation or recommendation. The Seller agrees that if it is established at any time to the satisfaction of the Buyer that the present declaration is in any way incorrect or if at a later stage it is discovered by the Buyer that the Seller has engaged any such individual/firm, and paid or intended to pay any amount, gift, reward, fees, commission or consideration to such person, party, firm or institution, whether before or after the signing of this contract, the Seller will be liable to refund that amount to the Buyer. The Seller will also be debarred from entering into any supply Contract with the Government of India for a minimum period of five years. The Buyer will also have a right to consider cancellation of the Contract either wholly or in part, without any entitlement or compensation to the Seller who shall in such event be liable to refund all payments made by the Buyer in terms of the Contract along with interest at the rate of 2% per annum above LIBOR rate. The Buyer will also have the right to recover any such amount from any contracts concluded earlier with the Government of India.”

10.5 When asked about the rationale behind fixing up the limit of Rs. 300 crore for “Integrity Pact” the Ministry in their written reply have stated that:

“The provision of Integrity Pact has been added for the first time. This is a binding agreement between the buyer and the prospective

vendors in which the buyer promises that it will not accept bribes during the procurement process and bidders promise that they will not offer bribes. In the beginning, the acceptability of the provision by the vendors would have to be seen and based on this, the provisions can be amended in future.”

10.6 During evidence the representatives further elaborated this point during oral evidence as under:—

“In the Defence Procurement Procedure (DPP) of 2005, for the first time a clause relating to the ‘integrity pact’ has been introduced. This is a recommendation which has been made by the Transparency International and which we had got also as a suggestion from the Central Vigilance Commission. We have put it in our Procedure. The figure of Rs. 300 crore is mainly on account of the fact that in the DPP 2002, which was there earlier, there used to be a provision for an Eminent Persons’ Group which is to oversee all the major acquisitions. That was restricted to the cases above Rs. 300 crore. This is a ballpark kind of a figure. To ensure that there is complete transparency in the acquisition process—in the major acquisitions above this which will involve major vendors—this particular clause has been introduced. For the first time it has been done. This is to ensure that there is certain amount of confidence that the whole process is being done in a completely transparent manner.”

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.

CHAPTER XI

APPOINTMENT OF INDIAN AUTHORISED REPRESENTATIVES OF FOREIGN SUPPLIERS

11.1 The Ministry of Defence issued comprehensive guidelines in November-December 2001 for appointment of Indian Authorized Representatives Agents of foreign suppliers. An Individual, a Partnership, an Association of Persons, Limited Companies, private or public can be appointed as Authorized Representative/Agents/Sale Consultants/Adviser of a foreign supplier in accordance with the guidelines. They are supposed to give certain basic data particularly about the financial and tax status. The Committee were informed that nobody has registered himself as an Agent despite the facility offered by the Government.

11.2 To a further query of the Committee as to why the agents are not coming forward to get their names registered, the representatives of the MoD during the briefing stated:—

“I do not think that this kind of analysis has been done. It is not true that nobody has come forward. During the course of last three years, we have received some applications. However, as you said, probably, the procedure and the kind of information we ask for is so cumbersome, and this is my feeling, that they need to be comparatively simplified.”

11.3 When asked about a specific question, what would be the role of these so called defence agents and the areas where they are allowed, the representatives of the Ministry of Defence during oral evidence stated that:—

“We had sent a proposal to the Ministry of Law to yet certain provisions in the Acts and the Contracts that we sign. The first provision is that there will be no use of undue influence. That means, nobody can bribe anybody and get a contract. Secondly, if it is proved that commission has been paid to the agent then a contract can be cancelled and further, other penalties can be levied under the Indian Penal Code. Thirdly, we should have the right to have an access to the books of accounts so that we can go and see whether actually any commissions has been paid or not.”

11.4 The Committee note with concern that despite the guidelines issued by the Ministry for appointment of authorized Indian representative agents of foreign suppliers, nobody has registered himself as an authorized 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 warrantee period, etc. The Committee, therefore, strongly recommend that the Ministry may analyse the reasons for non-registration of authorized representatives with the Ministry and take remedial steps to make the procedure less cumbersome and simple so as to encourage the authorized 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 minimized and these agents may also facilitate better coordination between the Ministry of Defence and the supplier during trials, etc. This will also help in reducing the time and cost overruns.

11.5 The Committee further observe that in certain cases a company authorizes 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.

CHAPTER XII

FIELD EVALUATIONS

12.1 On the query by the Committee regarding the procedure adopted for holding of trials of new weapons and equipments etc. and whether any technical experts are associated with the trials, the Ministry in the written note stated:—

“Field Evaluations (Trials), if required, are required to be conducted by user services on the basis of Standard Operating Procedure (SOP). The manufacturer of the short-listed equipment shall be asked to send the desired number of units of the equipment/weapon system for field evaluation. Service Headquarters will formulate the trial directives and will constitute a trial team. The trial directives specify the fundamental points that need to be addressed for validating the essential parameters. The Services Qualitative Requirements of the equipment would be a part of the trial directives. Representatives of DRDO, quality assurance agency may also form a part of the field evaluation as on required basis. The field evaluation is to be conducted in all conditions where the equipment is required to be deployed. In cases involving integration of systems and sensitive equipment, a multi-disciplinary Technical Delegation may be deputed abroad for evaluation and an empowered committee for negotiation. Where field evaluation is not feasible, the possibility of conducting evaluation through computer simulation is to be explored. Field evaluation/computer simulation may be dispensed with after approval of Defence Procurement Board on recommendations at appropriate level in Service Headquarters.”

12.2 On a specific query regarding the system adopted by the Ministry in evaluation of the present weapons system and whether evaluation report based on field trials and exercises is referred to OFB to know how the notified shortcomings can be rectified, the Ministry replied:—

“There is no automatic involvement of technical experts from Ordnance Factories in the trial of new equipment and weapon system undertaken by the Armed Forces. The involvement is need based and is determined by the Armed Forces.”

12.3 The Ministry has further informed that the DPP-2002 did not specify that SQRs would be part of trial directives. In the new procedure it has been clarified that SQRs should form part of the trial directives and parameters not mentioned in RFP should not be considered for field evaluation. The objective is to ensure transparency and fairness.

12.4 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.

12.5 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 cases 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.

CHAPTER XIII

FAST TRACK PROCEDURE (FTP)

13.1 With a view to facilitate acquisition of defence equipment in a shorter time frame, a need was felt to have in place a FTP to ensure quick procurement during crisis situation. Thus, a FTP was promulgated in September 2001 after its approval by Cabinet Committee on Security. Its salient features are:

- (i) Need for adoption of FTP must emanate from the Service Chief. It is routed through the DPB for the consideration of the RM the requirement should relate to an imminent operational situation or a crisis without warning. Procurement process starts only after RM's approval.
- (ii) It is confined to items which are likely to be available within the laid down time frame of 12 months. Items should preferably be those which are in service or which have already been trial-evaluated. In exceptional cases, trial team may be sent to vendor's premises for quick evaluation.
- (iii) Financial Powers under Fast Track Procedure:
 1. RM — Rs. 300 crore
 2. RM & FM — Rs. 300 to 400 crore
 3. CCS — Above Rs. 400 crore

13.2 The Ministry informed the Committee that in the period between October 2001 and July 2004, 62 cases were approved under Fast Track Procedure. An analysis of time taken in the process is as follows:

	Cases approved	Contracts signed	Contracts signed within			Deliveries completed	Deliveries partially completed	Total
			06-months	7-12 months	Over 12 months			
1. Army	50	37	14	11	12	21	13	34
2. Navy	7	7	6	0	1	5	1	6
3. Airforce	5	5	3	0	2	5	0	5
Total	62	49	23	11	15	31	14	45
	(79%)	(47%)	(22%)	(31%)	(63%)	(29%)	(92%)	

13.3 Based on the above information, the Committee wanted to know whether 31% of the cases approved by Defence Procurement Board (DPB) under the Fast Track Procedure (FTP), which had taken more than 12 months to finalise the contract, qualify to be processed under FTP. The Ministry in their written reply has stated that Fast Track Procedure (FTP) for procurement of Defence Equipment has been promulgated for meeting urgent operational requirement on the recommendations of the Chiefs of the concerned Services. It is true that in 31% of the cases approved by DPB under FTP it had taken more than 12 months to conclude the contract. However, the delay in signing the contracts has occurred due to following reasons:

- (i) Substantial time taken in negotiating the contract.
- (ii) Decision taken to conduct trial at a later stage.
- (iii) Seeking extension of time by the vendor.
- (iv) Verifying/confirming the claims and allegations of competitor about the capability of the vendor to supply the item.

13.4 Regarding the shortcomings of the fast track procedure, Defence Secretary during the briefing admitted that:

“The fast track procedure was made with a certain kind of situation in mind. It is not supposed to be the normal procedure to be carried out on a day to day basis. It was meant to meet certain unforeseen eventualities or things which suddenly fell into a situation which had created a kind of an emergency or when something was imminent. In such circumstances, we could not afford to have a long drawn out process. If we need something, it has to be procured fast. For that kind of thing, fast track procedure was envisaged. It was supposed to be put into effect only under certain given situations and the Chief of the Defence Force concerned, the Army, Navy or Air Force, and the Minister would have to certify that it is an urgent operational imminent emergency kind of a requirement. It is only then that the fast track procedure was to be adopted. Somehow, down the line it got distorted into situations which were not really falling strictly into that category. Therefore, we found a number of cases that were initiated under the label of fast track procedure but were not really falling into that category. We found that while implementing them, it took longer than expected and the whole idea of having a fast track procedure seemed to be defeated in that sense. So, the

Raksha Mantri has recently directed us to see how this whole business of fast track procedure could be made more relevant and streamlined and made applicable only in required conditions. So, these things are being reviewed.”

13.5 To the query of the Committee whether there is any limit on the rate at which purchases can be made in fast track the Secretary (Defence Finance) stated this has to be seen by price negotiation committee.

13.6 Under fast track Procedure, the conditionality of starting approval of RM seems to be time consuming. When asked about the steps taken by the Ministry to cut down the time frame and about the guidelines/mechanism available in the new procedure to check that all the cases are not put, under FTP the Ministry in their written reply have state that:

“The Fast Track Procedure—2001 is being reviewed. The objective of this procedure is to ensure expeditious procurement for urgent operational requirements foreseen as imminent or for a situation where crisis has emerged without prior warning. The main stress of the review would be to cut down the time period of procurement so that the operationally urgent requirements are procured in the shortest possible time.”

13.7 When asked whether the financial powers stipulated under Fast Track Procedure are sufficient and whether the same are being reviewed by the Ministry to enhance the limit, the Ministry in their written reply furnished to this Committee, have started that:

“The existing Financial Powers are considered adequate.”

13.8 The Committee note that the fast track 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 Track 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 track and quick.

13.9 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 to 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.

13.10 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.

13.11 The Committee also desire that the Ministry of Defence should keep upto date 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 upto date. This would reduce the time lag under Fast Track Procurement as well as normal procurement.

13.12 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.

CHAPTER XIV

POST CONTRACT MONITORING

14.1 In response to a query, as to whether there is any mechanism laid down by the Ministry to check the contracts after they are placed, if proper procedure was followed, the representatives of MoD during briefing stated that:

“There are two things. Internally there is a post contract monitoring which is done at different level depending on the value of the contract. Secondly, there is the CAG of India who examines as an outsider. I do not think there is a system where internally we check.”

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.

CHAPTER XV

REVENUE PROCUREMENT

15.1 The revenue procurement is for items and equipment including replacement equipment (functionally similar) assemblies/sub assemblies and components to maintain and operate already sanctioned assets in the service, the necessity of which have been established and accepted by the Govt. For Revenue Procurement, Govt. has delegated financial powers under revenue head to a number of functionaries in each department. Procurement involving financial implication beyond delegated powers is undertaken with the approval of MoD.

15.2 The Defence Procurement Manual 2005 lays down time limit for procurement and accountability. It states:

“The effect of delay in processing and clearance of various procurement activities needs no emphasis. The decentralization of decision-making mechanism and delegation of financial powers are aimed at facilitating faster decision making and obtaining best value for money. However, the delegation of powers also implies ‘authority with accountability’. Every individual in the chain of the procurement process is accountable for taking action in a specified time period so that the requirements of the Defence Departments are met on time. Vetting of necessity and single tender enquiry/LTE where required must be done by IFA within 4 weeks to pre-empt any disruption in operational/production/maintenance requirements.”

A flow chart showing major activities and time frame prescribed is placed below:

Time Frame from Acquisition [Single Commercial Bids]		
1	2	3
Receipt of Indent		
1.	Vetting, Registration of Indent and	1 Week
2.	Vendor Selection and preparation of TE	1 Week
3.	IFA Concurrence, CFA approval and floating of LTE/STE	2 Weeks
Procurement Action		
1.	Time Allowed for submission of offers in a single bid system (Commercial bid only)	3 Weeks (LTE) 4 Weeks (OTE) 6 Weeks (GTE)

1	2	3
2.	Opening of Commercial offers, preparation of CST, Tech Vetting, etc.	2 Weeks
3.	Proposal for Procurement/Counter Offer/ Scheduling of PNC with IFA concurrence, and CFA approval	2 Weeks
4.	Brief for PNC, notice of PNC and PNC meetings	4 Weeks
5.	PNC minutes and signature	1 Week
6.	IFA concurrence and CFA Approval of Purchase Proposal	2 Weeks
7.	Preparation of SO and Despatch of SO	1 Week
Total		19-22 Weeks

Time Frame from Acquisition [Two Bids]

1	2	3
Receipt of Indent		
1.	Vetting, Registration of Indent and	1 Week
2.	Vendor Selection and preparation of TE	1 Week
3.	IFA Concurrence, CFA approval and floating of LTE/STE	2 Weeks
Procurement Action		
1.	Time Allowed for submission of offers in a Two bid system (Commercial bid and tech bid)	3 Weeks (LTE) 4 Weeks (OTE) 6 Weeks (GTE)
2.	Opening of Tech Bids and Technical Evaluation by TEC	3 Weeks
3.	Opening of Commercial offers	2 Weeks
4.	Preparation of CST and Proposal	1 Week
5.	Proposal for Procurement/Counter offer/ Scheduling of PNC with IFA concurrence, and CFA approval	2 Weeks
6.	Brief for PNC, notice for PNC and PNC meetings	4 Weeks
7.	PNC minutes and signature	1 Week

1	2	3
8.	IFA concurrence and CFA Approval of Purchase Proposal	2 Weeks
9.	Preparation of SO and Despatch of SO	1 Week
	Total	23-26 Weeks

15.3 The Manual specifically lays down that provisions of DPM will not be applicable in the case of emergent requirements involving operational and technical necessities in respect of powers to be exercised by CFAs without IFA concurrence.

15.4 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 of the defence forces and the same should be strictly adhered to.

15.5 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 equipments. 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.

15.6 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 shows, 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.

15.7 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 consumer 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.

NEW DELHI;
17 November, 2005
26 Kartika, 1927 (Saka)

BALASAHEB VIKHE PATIL,
Chairman,
Standing Committee on Defence.

MINUTES OF THE EIGHTH SITTING OF THE STANDING
COMMITTEE ON DEFENCE (2004-05)

The Committee sat on Monday, the 13th December 2004 from 1430 hrs. to 1628 hrs. in Committee Room 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Anand Sharma — *Officiating Chairman*

MEMBERS

Lok Sabha

2. Shri Thupstan Chhewang
3. Shri Milind Deora
4. Shri Bhupinder Singh Hooda
5. Shri Suresh Kalmadi
6. Dr. C. Krishnan
7. Shri S.D. Mandlik

Rajya Sabha

8. Gen. (Retd.) Shankar Roy Chowdhury
9. Smt. N.P. Durga
10. Shri Janardan Dwivedi
11. Shri Lalit Suri

SECRETARIAT

1. Shri John Joseph — *Additional Secretary*
2. Shri P.K. Bhandari — *Director*
3. Smt. Anita Jain — *Under Secretary*

Representatives of the Ministry of Defence

1. Shri Ajai Vikram Singh, Defence Secretary
2. Ms. Somi Tandon, Secretary (Defence Finance)
3. Shri Shekhar Dutt, Secretary (Defence Production)

4. Dr. M. Natarajan, SA to RM
5. Shri S. Banerjee, Additional Secretary (Acquisition)
6. Shri Ranjit Issar, Additional Secretary
7. Smt. Sheela Bheede, FA (Acquisition)
8. Shri P.K. Anand, JS & AM (LS)
9. Dr. Thomas Mathew, JS & AM (MS)
10. Shri Mohapatra, JS & AM (Air)
11. Shri S.N. Misra, FM (LS)
12. Shri Tarsem Lal, FM (MS)
13. Shri S.L. Bunker, FM (Air)
14. Maj. Gen. H.S. Sehgal, TM (LS)
15. Rear Adm. R.N. Kshetrapal, TM (MS)
16. AVM Rajesh Lal, TM (Air)
17. Shri K.K. Kirty, Director (Acq.)
18. Rear Adm. Nirmal Varma, ACNS (P&P)
19. Cmde. A.R. Radhakrishnan, PDNP

2. In the absence of Hon'ble Chairman, Standing Committee on Defence, Shri Anand Sharma, M.P. and Convenor, Sub-Committee-II acted as Chairman for the sitting on 13 December 2004.

3. The Committee then took up the evidence of representatives of the Ministry of Defence in connection with the examination of 'Procurement Policy and Procedure'.

4. The Chairman welcomed the Defence Secretary and his colleagues to the sitting of the Committee and invited their attention to the Directions 55 and 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations at the sitting.

5. The Defence Secretary then briefed the Committee on the 'Procurement Policy and Procedure' of defence equipments. Thereafter, presentation was made by Additional Secretary (Acquisition) of the Ministry on the subject. The representatives of the Ministry also replied to the queries of the Members regarding delays in acquisition of defence equipments, non-finalisation of Tenth Defence Plan, feasibility of pre-audit of defence deals, private sector participation in defence production and other related topics.

6. A verbatim record of the proceedings was kept.

Witnesses then withdrew.

7. The Committee decided that during the session days, minimum three days notice should be given for a sitting of the Committee and it should preferably be held after 5 P.M.

The Committee then adjourned.

MINUTES OF THE FOURTEENTH SITTING OF THE
STANDING COMMITTEE ON DEFENCE (2004-05)

The Committee sat on Friday, the 4th February 2005 from 1100 hrs. to 1245 hrs. in Committee Room 'G-074', Parliament Library Building, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Illiyas Azmi
3. Shri S. Bangarappa
4. Shri Ramesh Jigajinagi
5. Dr. K.S. Manoj
6. Shri Raghuraj Singh Shakya

Rajya Sabha

7. Shri R.K. Anand
8. Dr. Farooq Abdullah
9. Gen. (Retd.) Shankar Roy Chowdhury
10. Smt. N.P. Durga
11. Shri Janardan Dwivedi

SECRETARIAT

1. Shri John Joseph — *Additional Secretary*
2. Shri P.K. Bhandari — *Director*
3. Smt. Anita Jain — *Under Secretary*

Representatives of the Ministry of Defence

1. Shri Ajay Vikram Singh, Defence Secretary
2. Ms. Somi Tandon, Secretary (Defence Finance)
3. Shri Shekhar Dutt, Secretary (Defence Production)

4. Shri S. Banerjee, Additional Secretary (Acquisition)
5. Shri Ranjit Issar, Additional Secretary (I)
6. Smt. Sheela Bhide, FA (Acquisition)
7. Vice Admiral Sangram Singh Byce, DCIDS (PP&FD)
8. Lt. Gen. P.P.S. Bhandari, DCOAS (P&S)
9. Shri P.K. Anand, JS & AM (LS)
10. Dr. Thomas Mathew, JS & AM (MS)
11. Shri S.K. Sharma, JS & AM (MS)
12. Shri Gautam Chatterjee, JS (O/N)
13. Shri Alok Perti, JS (S)
14. Shri Tarsem Lal, FM (MS)
15. Shri S.L. Bunker, FM (Air)
16. Dr. A.S. Pillai, Chief Controller R&D (R&M)
17. Maj. Gen. H.S. Sehgal, TM (LS)
18. Rear Adm. R.N. Kshetrapal, TM (MS)
19. AVM Rajesh Lal, TM (Air)
20. Rear Adm. Nirmal Varma, ACNS (P&P)
21. Maj. Gen. Kunal Mukherjee, ADGWE
22. Maj. Gen. Vikram Madan, ADG (EM)
23. Air Mshl. J.S. Gujral, DCAS
24. Cmde. A.R. Radhakrishnan, PDNP

2. At the outset, the Hon'ble Chairman, Standing Committee on Defence welcomed the representatives of Ministry of Defence and invited them to further brief the Members of the Committee on the subject 'Procurement Policy and Procedure'.

3. Based on the observations during the study visit of the Committee to Jammu, Leh and Srinagar and other forward areas during the month of October 2004, the Committee made the following points pertaining to procurement of defence equipments and other necessary items and the delays involved in making available timely and adequate supply of these items to Jawans in Saichen and other high altitude areas:

- (i) Non-availability of adequate clothing and other necessary equipments for the Jawans;
- (ii) Need for revision of norms providing two sets of special clothes to Jawans;

- (iii) Clothing and equipment provided to Jawans in India *vis-a-vis* Pakistan, China and other countries of the world where men are deployed at high altitude areas;
- (iv) Imports v/s indigenous production of clothing required for high altitude areas;
- (v) Findings of Kelkar Committee's Report with regard to induction of private sector into defence production;
- (vi) Non-indication of firm allocation for the Tenth Plan leading to difficulties in privatisation because of absence of availability of funds and the corrective methods the Ministry will like to undertake to remove the obstacles;
- (vii) Need for long term perspective plan for the defence sector and availability of matching financial allocations for modernisation and defence preparedness;
- (viii) Non-availability of adequate medical facilities in Army hospitals in general and high altitude areas in particular;
- (ix) The Government directions of 26% Foreign Direct Investments in defence sector;
- (x) Concurrent engineering system in the Ministry of Defence. Time lag between model stage and production stage; and
- (xi) Whether the Defence Procurement Board has resulted in expediting in procurement procedure.

4. The representatives of the Ministry of Defence agreed in principle to the concern expressed by the Committee on the above mentioned points and assured the Committee to take corrective measures and answered the queries put to them.

5. A verbatim record of the proceedings was kept.

Witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE THIRTY SECOND SITTING OF THE
STANDING COMMITTEE ON DEFENCE (2004-05)

The Committee sat on Monday, 20th June, 2005 from 1500 hrs. to 1650 hrs. in Committee Room 'G-074', Parliament Library Building, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Churchill Alemao
3. Shri Iliyas Azmi
4. Shri A.V. Bellarmin
5. Shri Thupstan Chhewang
6. Smt. Sangeeta Kumari Singh Deo
7. Sh. Milind Deora
8. Shri Ramesh Jigajinagi
9. Dr. C. Krishnan
10. Shri S.D. Mandlik
11. Dr. K.S. Manoj
12. Shri Raghuraj Singh Shakya
13. Shri Balashowry Vallabhaneni
14. Ms. Ingrid Mcleod
15. Shri Dharmendra Yadav

Rajya Sabha

16. Shri R.K. Anand
17. Gen. (Retd.) Shankar Roy Chowdhury
18. Shri T.T.V. Dhinakaran
19. Shri Janardan Dwivedi
20. Shri Anand Sharma

SECRETARIAT

1. Shri P.D.T. Achary — *Secretary*
2. Shri M. Rajagopalan Nair — *Additional Secretary*
3. Shri P.K. Bhandari — *Director*
4. Smt. Anita Jain — *Deputy Secretary*
5. Shri D.R. Shekhar — *Under Secretary*

Representatives of Ministry of Defence

1. Shri Ajay Vikram Singh, Defence Secretary
2. Shri Shekhar Dutt, Secretary (DP)
3. Ms. Somi Tandon, Secretary (Defence Finance)
4. Shri H.C. Gupta, Special Secretary (Acquisition)
5. Dr. M. Natrajan, SA to RM
6. Shri S. Banerjee, AS (DP)
7. Shri Ranjit Issar, Additional Secretary (I)
8. Shri S.C. Narang, CCR & D (R&M)
9. Shri P.K. Jena, Addl. FA
10. Shri P.K. Anand, JS & AM (LS)
11. Shri S.K. Sharma, JS & AM (Air)
12. Dr. Thomas Mathew, JS & AM (M&S)
13. Maj. Gen. H.S. Sehgal, TM (LS)
14. Rear Admiral Nirmal Verma, ACNS (P&P)
15. Maj. Gen. A.K. Mehra, VSM, ADG WE
16. Maj. Gen. Vikram Madan, ADG (EM)
17. AVM K.K. Nohwar, VM, ACAS (Plans)

2. At the outset, the Chairman welcomed the Secretary and the other officers of the Ministry of Defence to the sitting of the Committee and invited their attention to direction as 58 of the directions by the Speaker Lok Sabha. The Ministry then made presentation on the subject 'Defence Procurement Policy and Procedure'. The Committee sought clarifications on issue like acquisition of equipments during emergency, transparency *vis a vis* secrecy, Defence/non-defence items, process of indigenisation, common specification & role of India in global market, transfer of technology, single vendor problem etc. The representative then answered the queries one by one. On certain issues Ministry assured the Committee to furnish replies later on.

3. The Chairman thanked the representatives of the Ministry of Defence for appearing before Committee and expressing free and frank views.

4. Verbatim record of the proceedings was kept.

The Committee then adjourned.

MINUTES OF THE THIRD SITTING OF THE STANDING
COMMITTEE ON DEFENCE (2005-06)

The Committee sat on Monday, the 12 September, 2005 from 1030 hrs. to 1230 hrs. in Committee Room No. 139, Parliament House Annexe, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Iliyas Azmi
3. Shri Suresh Chandel
4. Shri Thupstan Chhewang
5. Shri Ramesh Jigajinagi
6. Dr. C. Krishnan
7. Shri S.D. Mandlik
8. Dr. K.S. Manoj
9. Shri Raghuraj Singh Shakya
10. Shri Mahadeorao Shivankar
11. Shri Ganesh Prasad Singh
12. Shri Manvendra Singh
13. Shri Balashowry Vallabhaneni
14. Ms. Ingrid Mcleod

Rajya Sabha

15. Shri Janardan Dwivedi
16. Shri Pramod Mahajan
17. Shri Anand Sharma

SECRETARIAT

1. Shri P.K. Grover — *Joint Secretary*
2. Smt. Anita Jain — *Deputy Secretary*
3. Shri D.R. Shekhar — *Under Secretary*

Representatives of Ministry of Defence

1. Shri Shekhar Dutt, Defence Secretary
2. Smt. Sheela Bhide, FA (Acquisition)
3. Shri S. Banerjee, AS (Acq.)

4. Shri Ranjit Issar, Addl. Secy. (I)
5. Shri P.K. Anand, JS&AM (LS)
6. Shri S.K. Sharma, JS&AM (Air)
7. Dr. Thomas Mathew, JS&AM (MS)
8. Smt. Rita Menon, JS (SY)
9. Maj. Gen. H.S. Sehgal, TM (LS)
10. Rear Adml. R.K. Dhowan, ACNS (P&P)
11. Maj. Gen. A.K. Mehra, VSM, ADG WE
12. Maj. Gen. Vikram Madan, ADG (EM)
13. AVM K.K. Nohwar, VM, ACAS (Plans)
14. Shri R.K. Chauhan, Dir. (P&C), DRDO
15. Shri C.M. Dhawan, Dir. (MM), DRDO

At the outset Chairman welcomed the members to the sitting of the Committee and informed them that the representatives of the Ministry of Defence were present to tender oral evidence on the subject 'Procurement Policy and Procedure'.

2. The Chairman then welcomed the Defence Secretary and his colleagues to the sitting of the Committee and invited their attention to Directions 55 and 58 of the Directions by the Speaker, Lok Sabha regarding maintaining confidentiality of the deliberations of the sitting.

3. The Committee then took oral evidence of the representatives of the Ministry of Defence on the subject "Procurement Policy and Procedure". Members of the Committee then sought clarifications on some of the points in the new procurement procedure like ensuring 'Transfer of Technology' particularly at the level of sub-systems components and spares, which could be best produced by medium and small scale private sector industry or PSUs; how to avoid single vendor situation, methods adopted to assess and project a realistic demand in advance and in case of default to ensure accountability of services in procurement, the issue pertaining to import of defence equipment and indigenous development, sharing of R&D among PSUs, the ordnance factories and private sector, long-term planning to make procurement procedure easy and transparent, perception of Ministry of Defence on FDI in Defence Sector etc.

4. The representative of the Ministry answered the queries one by one. On certain issues where information was not available the Chairman stressed that might be supplied at the earliest.

5. A verbatim record of proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE EIGHTH SITTING OF THE STANDING
COMMITTEE ON DEFENCE (2005-06)

The Committee sat on Monday, the 7 November, 2005 from 1500 hrs. to 1540 hrs. in Committee Room 'G-074', Parliament Library Building, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Churchill Alemao
3. Shri Iliyas Azmi
4. Shri Suresh Chandel
5. Smt. Sangeeta Kumari Singh Deo
6. Shri Ramesh Jigajinagi
7. Shri Suresh Kalmadi
8. Dr. C. Krishnan
9. Shri S.D. Mandlik
10. Dr. K.S. Manoj
11. Shri Raghuraj Singh Shakya
12. Shri Balashowry Vallabhaneni

Rajya Sabha

13. Shri R.K. Anand
14. Smt. N.P. Durga
15. Shri Janardan Dwivedi
16. Shri Pramod Mahajan
17. Shri Lalit Suri

SECRETARIAT

1. Shri S.K. Sharma — *Additional Secretary*
2. Shri R.C. Ahuja — *Joint Secretary*
3. Smt. Anita Jain — *Deputy Secretary*
4. Shri D.R. Shekhar — *Under Secretary*

2. At the outset, Hon'ble Chairman welcomed the Members to the sitting of the Committee for finalizing the draft Report on 'Procurement Policy & Procedure'.

3. Hon'ble Chairman then requested the Members to give their suggestions/modifications for incorporation in the draft report. Some Members of the Committee suggested minor changes/modifications. The Chairman further requested the Members to give their suggestions in writing, if any, later on for incorporation in the draft report.

4. The Committee then decided to consider and adopt the amended draft report at the sitting to be held on 17 November, 2005.

The Committee then adjourned.

MINUTES OF THE TENTH SITTING OF THE STANDING
COMMITTEE ON DEFENCE (2005-06)

The Committee sat on Thursday, the 17 November, 2005 from 1500 hrs. to 1700 hrs. in Committee Room 'G-074', Parliament Library Building, New Delhi.

PRESENT

Shri Balasaheb Vikhe Patil — *Chairman*

MEMBERS

Lok Sabha

2. Shri Churchil Alemao
3. Shri Iliyas Azmi
4. Shri A.V. Bellarmin
5. Shri Suresh Chandel
6. Dr. C. Krishnan
7. Dr. K.S. Manoj
8. Shri Raghuraj Singh Shakya
9. Shri Mahadeorao Shiwankar
10. Shri Manvendra Singh
11. Shri Balashowry Vallabhaneni

Rajya Sabha

12. Shri Janardan Dwivedi
13. Shri Pramod Mahajan
14. Shri Anand Sharma

SECRETARIAT

1. Shri R.C. Ahuja — *Joint Secretary*
2. Smt. Anita Jain — *Deputy Secretary*
3. Shri D.R. Shekhar — *Under Secretary*

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. The Committee then took up following draft reports for consideration:

- (i) Procurement Policy and Procedure; and
- (ii) Defence Ordnance Factories

The Committee after deliberation adopted the draft report on 'Procurement Policy and Procedure' with modifications/amendments suggested by the Members.

4. Due to paucity of time, the Committee decided to postpone the consideration of the draft report on 'Defence Ordnance Factories' to 23.11.2005.

5. The Committee, thereafter, authorized the Chairman to finalize the draft report in the light of the amendments/suggestions given by the Members and present the same to both the Houses of Parliament.

The Committee then adjourned.