

**GOVERNMENT OF INDIA
DEFENCE
LOK SABHA**

UNSTARRED QUESTION NO:1820
ANSWERED ON:16.12.2013
DEFENCE PROCUREMENT PROCEDURE
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Will the Minister of DEFENCE be pleased to state:

- (a) whether the Government has decided to revise the Defence Procurement Procedure (DPP);
- (b) if so, the details thereof; and
- (c) the steps taken by the Government to give major thrust to indigenisation and to give the first right of refusal to Indian defence industry including public and private sectors for procurement of weapons and allied systems for armed forces?

Answer

MINISTER OF DEFENCE (SHRI A.K. ANTONY)

(a) & (b): The Defence Procurement Procedure (DPP) is reviewed on a continuous basis and amendments are promulgated regularly. The DPP has recently been revised and promulgated with effect from 1st June, 2013 [DPP-2013]. Earlier revisions were in 2005 (1.7.2005), 2006 (1.9.2006), 2008 (1.9.2008) and 2011 (1.1.2011). The amendments brought out in DPP 2013 aim at enhancing indigenisation, reducing processing time by clearly articulating the step by step acquisition process, and bring further clarity in the capital acquisition process.

(c) A statement is enclosed.

STATEMENT REFERRED IN THE REPLY GIVEN IN PART (c) OF LOK SABHA UNSTARRED QUESTION NO. 1820 FOR ANSWER ON 16.12.2013

The following provisions have been incorporated in Defence Procurement Procedure (DPP-2013) to give major thrust to indigenisation:-

(i) Prioritization of various categories of capital acquisitions: Preference will now be given for indigenous production. The categorization committees will now follow a preferred order of categorization beginning with (1) 'Buy (Indian)' followed by (2) 'Buy & Make (Indian)' (3) 'Make' (4) 'Buy & Make with ToT' and (5) 'Buy (Global)'. Detailed reasons for not considering higher preferred categories are to be recorded.

(ii) Simplification of 'Buy & Make (Indian)': 'Buy & Make (Indian)' procedure has been considerably simplified. It is expected to result in faster processing of the cases under this category.

(iii) Maintenance ToT: In 'Buy (Global)' cases, vendor can also provide Maintenance Transfer of Technology (MToT) to Indian private industry. This permits the Indian Private Industry to receive MToT from Indian Vendors in the 'Buy (Global)' cases.

(iv) Clarity on Indigenous content: Indigenous content 30% for 'Buy (Indian)' and 50% for 'Buy & Make (Indian)' categories has been clearly defined. This will provide requisite clarity.

(v) A method of assessment of indigenous content, based on self-certification by vendors has been clearly indicated at Appendix-F to Chapter-I.

(vi) Indigenous content requirements will now extend all the way to the lowest tier of the sub-vendor. Hence, import content in the products supplied by the sub-vendors will not qualify towards indigenous content.

(vii) There would be penalties for not achieving the stipulated indigenous content levels at each given stage with a scope to make up for the deficiency at a later stage.

(viii) Indigenous content percentage is also achieved in the basic equipment, manufacturers recommended spares, special tools and test equipment.

(ix) In 'Buy (Indian)' cases, product offered at trial stage must also have minimum 30% indigenous content. However, no minimum indigenous content requirement is stipulated for the 'Buy (Portion)' in 'Buy and Make (Indian)' cases. This will encourage genuine indigenization and will provide more time for Indian vendors to absorb ToT and set up manufacturing facility while concurrently meeting service requirement.

(x) Minimum 30% indigenous content in first basic equipment made / assembled in India and subsequent deliveries thereof with a flexibility to achieve overall 50% indigenous content over the total deliveries. As such, Industry can now achieve overall 50% indigenous content of the total contract value in a graded pace of their choosing.

(xi) Commercial clauses have been updated and rationalized to create a level playing field. Bid evaluation criterion have been made more elaborate to reduce subjectivity.

(xii) 30% of outright purchases or purchases through ToT ['Buy (Global)' or 'Buy & Make with ToT' categories] with a value of `300 Crore or more will come as offset obligation. Defence, Inland / Coastal security and Civil Aerospace products and Maintenance, Repair, Training, R&D are recognised as eligible products and services for discharge of offset obligation [Annexure-VI of Appendix D to Chapter I of DPP]. Purchase or placing export orders on Indian Public / Private enterprises, FDI with Indian Public / Private enterprises, ToT to Indian Public / Private enterprises or provision of equipment or ToT for Indian R&D are the avenues for the seller to discharge offset obligations.

(xiii) The main contractor is responsible to fulfil the Offset obligations within the timeframe of the contract and an extension of maximum two years is allowed beyond the contract period with a mandatory submission of additional Performance Bond.

(xiv) Banking of offset credit is permissible with a validity of 7 years. Maximum 50% of offset obligations under each contract are permissible when the banked offset credits are used.

(xv) Provision of a multiplier of 1.50 in the case of Micro, Small & Medium Enterprises and up to 3.00 in the case of DRDO in discharge of offset obligations is available in the offset guidelines.

(xvi) There are provisions for penalties and debarment in case of default in the offset implementation.