

**GOVERNMENT OF INDIA
DEFENCE
LOK SABHA**

UNSTARRED QUESTION NO:274

ANSWERED ON:23.11.2006

DEFENCE PROCUREMENT MANUAL AND PROCEDURE

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Will the Minister of DEFENCE be pleased to state:

- (a) Whether the Government has announced a new Defence Procurement Manual and Defence Procurement Procedure;
- (b) If so, the salient features thereof ;
- (c) The extent to which these new measures are likely to be helpful in checking the corruption in defence deals ;
- (d) Whether it is mandatory for the foreign companies to invest 30 percent amount of the defence deals in India ;
- (e) If so, the details of economic zones where the said investment can be made and conditions thereof ;
- (f) Whether the Government has considered a level playing field for Indian Industry in terms of costs and payments; and
- (g) If so, the details thereof ?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF DEFENCE (SHRI A.K. ANTONY)

(a)to(g) : A Statement is attached. STATEMENT REFERRED TO IN REPLY TO PARTS (a) TO (g) OF LOK SABHA UNSTARRED QUESTION NO. 274 FOR ANSWER ON 23.11.2006

The Defence Procurement Manual (DPM-2006) and Defence Procurement Procedure

(DPP-2006) have been promulgated with effect from 1st September, 2006.

DPP 2006 covers all Capital Acquisitions (except medical equipment) undertaken by the Ministry of Defence. It includes a new procedure for the 'Make' category, a revised procedure for Indigenous Naval Ship building and a revamped Fast Track Procedure.

DPM-2006 covers Revenue Procurements of the Ministry of Defence.

The salient features of the DPP-2006 include:

- (i) Major decisions being taken in a 'collegiate' manner.
- (ii) An 'Integrity Pact' between the Government department and the bidder for all contracts above Rs.100 crores.
- (iii) Enhanced transparency in the conduct of field trials.
- (iv) Pre-bid meetings with the vendors.
- (v) Placing generic requirements of the Services on Ministry of Defence website.
- (vi) Generating vendor registration through the internet.
- (vii) Dealing directly with Original Equipment Manufacturers (OEM) or Authorised vendors or Government Sponsored Export Agencies (applicable in case of countries where domestic laws do not permit direct export by OEMs).
- (viii) Prohibiting the use of undue influence by the seller for obtaining any contract with the Government.
- (ix) Prohibiting the engagement of any individual or firm to recommend to the Government the award of a contract to the seller, and the payment of any amount in respect of any such recommendation. The salient features of DPM-2006 inter-alia include Integrity Pact, pre-bid conference for firming up technical specifications and placing details of award of tenders/contracts on the Website of the Ministry of Defence.

Both the DPP-2006 and DPM-2006 have been placed on the website of the Ministry of Defence (www.mod.nic.in).

As per DPP-2006 an Offset provision is applicable for all procurement proposals where the indicative cost is above Rs.300 crores involving the outright purchase from foreign/ Indian vendors and purchase from foreign vendor followed by Licensed Production. These Offset obligations shall be discharged directly by the direct purchase of, or executing export orders for, defence products and components manufactured or services provided by Indian Defence Industries. These Offset obligations may also be discharged by direct foreign investment in Indian defence industries, and in Indian organizations engaged in research in defence R&D.

The Offset provisions are applicable for only Indian Defence Industry and is not related to any specific economic zone.

A level playing field for the Indian industry has been ensured in DPP-2006 by incorporating the following guidelines to neutralize the impact of taxes and duties payable by Indian industry while carrying out evaluation of bids to determine L1 vendor, without making any changes in the tax structure:

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