

**Framework for placing**  
**Long Term Orders**  
**for Indigenization**  
**by Defence PSUs and OFB**

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**FRAMEWORK FOR PLACING LONG TERM ORDERS FOR INDIGENIZATION BY  
DEFENCE PSUs AND OFB**

**1.0 Background**

1.1 The Department of Defence Production has issued Indigenization policy for DPSUs and OFB vide GOI/MoD/DDP Notification No 1(18)/02/Indigenization/DP(Plg-ES)/818 dated 08 Mar 2019. Para 3.14 of Indigenization policy on Long Term Orders, states that, “*Where ever the Defence PSUs and Ordnance Factory have visibility of long term demand of a component, they shall issue long term tenders for development of indigenous replacement of imported component (including alloys & special materials)*”. This framework lays down broad guidelines in furtherance of said policy declaration.

1.2 One of the common challenges faced in indigenization of an item (component or material, spares or sub-systems, LRU or aggregate, system or equipment) is that the number required at a given point of time is small and does not make economic case for incurring development/indigenization cost for such small number. Long Term Orders framework attempts to address this issue. It provides for procuring organization guidelines where it may aggregate the demand of the said item for a long term period up to 10 years to make it economically attractive for the industry to invest in its development/indigenization.

1.3 This framework is to be implemented mutatis-mutandis with existing procurement procedure of the procuring organization.

**2.0 Identifying items/material for Long Term Orders(LTOs):**

2.1 The Indigenization Committee of each DPSU/OFB will be responsible for identifying the imported items which can benefit from Long Term Order of up to 10 years.

2.2 The end users (Army, Navy, Air force, Indian Coast Guard, etc.) may be consulted in the process of identifying items/materials for long term Orders.



2.3 The prerequisite for identifying items/materials for long term orders is visibility of long term demand of the said item/material. Visibility of long term demand does not necessarily mean availability of firm order from the user but an expectation that the equipment/platform or its upgraded version for which the said item is required, is going to be in use for coming 5 to 10 years and therefore indigenization of said item or its upgraded version would also be required in coming years.

2.4 Mere visibility of long term demand is not sufficient to identify an item for placing long term order. The Indigenization Committee(IC) must also consider and justify the need to place long term order based on one or more of the following three parameters:

- i. High Technology Intensity.
- ii. Quantities required per year or per cycle of procurement are small.
- iii. Economic Viability for development/indigenization does not exist for small quantities.

2.5 In case of items like fasteners, O-rings, etc. which require high quality & reliability and long process certification for airborne applications, the vendors may find economic viability if these items are given under Long Term Order considering aspects like staggered delivery, shelf & storage life (as applicable).

### 3.0 Features of Long Term Orders:

3.1 Long term order enables aggregating the demand for multiple years thereby providing greater incentive for vendor to invest in development/indigenization. However, Long Term Orders should be for a period not longer than 10 years.

3.2 The period for a Long Term Order should be for the shortest period which gives adequate economic viability to the project.

3.3 **80% estimated quantity is to be considered for Long Term Orders:** Based on estimated demand of the item for a period, say 10 years, only 80% of the said demand should be considered for inclusion in Long Term Order. This is to safeguard the DPSUs/OFB against any downward trend in demands, while the item is offered under Long Term Orders.

3.4 **Price Variation Clause:** Appropriate Price Variation Clause should be incorporated to take care of price variations over a period of time. In addition, relevant Exchange Rate Variation Clause may also be incorporated as per DPP 2016. As per General Financial Rules 2017 in chapter 8, Rule 225, para viii(a), Price Variation Clause can be provided only in long-term contracts, where the



delivery period extends beyond 18 months. In short-term contracts firm and fixed prices should be provided for. Where a price variation clause is provided, the price agreed upon should specify the base level viz., the month and year to which the price is linked, to enable variations being calculated with reference to the price levels prevailing in that month and year.

**3.5 Approval of Competent Authority for Long Term Orders:** The Indigenization Committee(IC) shall obtain approval of the proposal from the Competent Financial Authority for the following:

- Items/material identified for long term orders
- Estimated quantities for long term orders
- Time frame for long term orders

**4.0 Procedural Guidelines for Entering into Long Term Orders with Vendors**

4.1 Extant procurement procedure at DPSUs/OFB applicable is to be followed for Long Term Orders also.

4.2 Models for Long Term Order

- i Make II
- ii Existing Indigenization schemes of DPSUs/OFB

4.3 **Stockpiling/Inventory:** The procuring authority should consider keeping stockpile/inventory of 12 months to 24 months' inventory of the material/item which is placed on a Long Term Order on a vendor considering shelf life/storage life and financial implications. This is to safeguard the DPSU/OFB against a delinquent long term vendor. In case the vendor fails to supply the product as per schedule, the Procuring Authority has time to develop new vendors by using the stock/inventory available to it.

4.4 **Foreclosure Clause:** Procuring Authority may include in the contract, a clause wherein they reserve the right to foreclose the Long Term Order on risk and cost of the vendor in case the vendor fails to comply with the terms of the contract or where the development/indigenization does not proceed according to the accepted milestones and /or if there are undue time and cost overruns, or failure of the prototype(s) during evaluation or on account of any other reasons. The proposal for foreclosure will be approved by the Competent Financial Authority, based on recommendation of the Indigenization committee.

**5. Cost Criteria:** The Procuring Authority should note that like any Indigenization, the long term order is expected to result in savings in cost apart from strategic self-reliance as laid down in Para 3.2 of the Indigenization Policy.

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