

CHAPTER VI

PRICE/PURCHASE PREFERENCE

11. DPE/Guidelines/VI/11

Extension of Purchase Preference Policy (PPP) for products and services of Central Public Sector Enterprises (CPSEs) beyond 31.3.2005.

The undersigned is directed to refer to DPE's O.M. of even no. dated 26.10.2004 extending thereby the Purchase Preference Policy (PPP) for products and services of Central Public Sector Enterprises (CPSEs) upto 31.3.2005. The Government has considered the matter further and has decided to extend the Purchase Preference Policy for a further period of three years i.e. upto 31.3.2008 with certain modifications/conditions. Accordingly, other things being equal, purchase preference will be granted to the CPSEs at the lowest valid price bid (L 1) if the price quoted by the CPSE is within 10% of the L1 price. The salient features of the modified Purchase Preference Policy are as under:

- (i) (i) PPP will continue for a further period of three years, with clear stipulation that it will be terminated with effect from 31.3.2008.
- (ii) (ii) PPP support will be extended to the contracts of the value of Rs. 5 crore and above but not exceeding Rs. 100 crore.
If civil works are included as part of the contract for supply of goods and / or if the contract is a turnkey contract, such contracts would also be covered by the PPP, subject to the condition that the total value of the contract does not exceed Rs. 100 crore.
- (iii) (iii) PPP will apply only to CPSEs and their subsidiaries (i.e. where PSE owns 51% or above shareholding), but not to a joint venture owned by a PSE and a private sector partner.
- (iv) (iv) A minimum value addition of 20% by the CPSEs/subsidiary companies by way of manufacturing and / or services would be a prerequisite for availing of purchase preference.
- (v) (v) The provisions relating to purchase preference should be specified in the Notice Inviting Tenders (NIT) for Rs. 5 crore and above but not exceeding Rs. 100 crore.
- (vi) (vi) PSEs should be subject to the same qualification process as any other bidder. If the PSE does not meet the minimum qualifications, it should be subject to disqualification. However, in suitable cases, the purchasers / clients may relax the condition of "net worth" from the list of minimum qualifications.
- (vii) (vii) If the PSE, which has had the benefit of the Purchase Preference Policy, fails to perform, it should also be subject to payment of liquidated damages or any other penalty included in the contract.
- (viii) (viii) Each Ministry shall make a list of CPSEs that would require PPP support and if there is no possibility of making a positive list, they may attempt a negative list of CPSEs which may not require PPP support.

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- (ix) (ix) Ministry of Power is granted exemption from the PPP, subject to the condition that they will place certain orders upon BHEL on a negotiated basis price benchmarked through competitively bid projects every year. Ministry of Power and Department of Heavy Industry will work out, at the beginning of the year, the number and value of the orders to be placed upon BHEL during the financial year.
2. All Ministries /Departments/ CPSEs / Autonomous Bodies except Ministry of Power will continue to grant purchase preference to CPSEs/subsidiary companies.
3. Respective Ministries /Departments / CPSEs / Autonomous Bodies will be responsible for implementing the Purchase Preference Policy in letter and in spirit. For any deviation including exclusion of the purchase preference clause from NIT, it will be obligatory on the concerned Ministry/ Department / CPSE / Autonomous Body to obtain prior exemption from the Cabinet in consultation with the Department of Public Enterprises.
4. The cases which were under consideration from 1.4.2005 till the date of issue of this order would stand covered under the policy except those which have already been decided otherwise.
5. All the Ministries/Departments are requested to immediately bring the contents of this O.M. to the notice of all the concerned officers in the Ministry/Department, CPSEs, Autonomous Bodies and other Organisations under their administrative control for strictly following the Purchase Preference Policy. As indicated in para 1(viii) administrative Ministries/Departments are also required to immediately make the list of CPSEs which may or may not require PPP support. A copy of such list prepared may also be sent to DPE for record.

(DPE OM No. DPE.13(12)/2003-Fin. Vol. II dated the 18th July, 2005)
