

# Purchase Preference Policy

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**Subject:- Price/Purchase Preference for Production and Servicing of Public Enterprises.**

Reference is invited to O.M.No.BPE/GL-008/80/23.1.80/BPE/MM dated 15.10.80 on the above subject (copy enclosed).

In the new environment of a liberalized Industrial Policy and the emphasis on performance improvement of public enterprises to function on commercial principles etc., further protection in the term of price/purchase preference is not quite relevant in the new competitive environment. The matter was reviewed by the Government and the decision is as under:-

- (a) Instead of granting price preference to public enterprises, Government may grant purchase preference to the public enterprises.
- (b) In all such cases, while the quoted prices of public enterprises is not within the 10% of the lowest valid price bid, such a price bid may be rejected without any further consideration.
- (c) Where the quoted price is within 10% of the lowest price, other things being equal, purchase preference may be granted to the public enterprise concerned, at the lowest valid price bid.
- (d) The above purchase preference may be made operable for a period of 3 years as transition within which public enterprises should adjust themselves to the new environment of competitiveness and efficiency so that the entire policy of price/purchase preference may be withdrawn within the next 3 years, from the date of issue of this O.M.

**(OFFICE MEMORANDUM No.DPE/13(19)/91-Fin.the 13th January, 1992)**

**Copy of office memorandum No.GI-OC8/80/23-1-80-BPE/MM and No.23/1/80-BPE/MM dated the 15th October, 1980) regarding Purchase/Price Preference for products of public enterprises in competitions with private sector undertakings in the matter of purchase by Government Department etc.**

A reference is invited to the O.M. No.BPE/GL-023/78-MM dated 13.7.78 and GL-016/77-BPE/MM dated 15.6.77 both on the subject of purchase & price preference. Govt. have reconsidered the present policy and have decided that the following considerations shall be kept in view in purchases henceforth by public sector undertakings and Govt. Departments.

- (a) Investments in the public sector are made on overall grounds of public policy. **Public Enterprises have to be made viable and the capacities created should be utilized to the fullest extent.** Ministries, Govt. Departments and public sector undertakings should therefore, invariably purchase their requirements from public enterprises wherever such undertakings are able to meet the demand. Quality requirements and reasonable delivery schedules should of course be enforced.
- (b) Subject to negotiations for an agreement on price, price preference not exceeding 10% will be admissible to public sector undertakings;
- (c) In exceptional circumstances where a public sector undertaking requires a price preference of more than 10% the purchasing Ministry or Deptt. and the concerned undertaking should endeavour to reach an agreement by negotiation;
- (d) Where negotiations in regard to (c) above do not succeed, the cases should be submitted to the Cabinet Committees on Economic Affairs for a decision;

(e) Price preference upto 10% cannot be taken for granted. Every effort should be made to bring down cost and achieve competitiveness.

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**Subject:- Purchase Preference for Products & Services of Public Enterprises.**

Reference is invited to the Department of Public Enterprises OMs of even number dated 13.1.92, 14.2.94 and 15.3.95 regarding the policy of purchase preference for Central PSEs. The basic policy of purchase preference was spelt out in OM dated 13.1.92 which was operable for a period of three years. This policy provided purchase preference in supply of goods and services to the Government Departments and other PSEs if the price quoted by the supplying PSE was within 10% of the lowest valid bid price, other things being equal. The policy incorporated in the said OM was extended upto 31.3.97 vide OM dated 15.3.95 due to restructuring of PSEs in responding to the new competitive environment.

2. There have been requests from various PSEs and Ministries that this facility should be further extended for some more time. The matter has been carefully examined keeping in mind the various relevant factors and Government have decided that the scheme be extended for a limited period of 3 years i.e. upto 31.3.2000, for **manufactured items produced by PSEs or joint ventures with PSEs with a minimum value added content of over 20% by the latter, subject to the purchase being in excess of Rs.5 crore.**

3. The cases which were under consideration from 1.4.97 till the date of issue of this OM would stand covered under this policy, except those already decided otherwise.

**(DPE OM NO.DPE/13(19)/91-Fin. Dated the 31st October, 1997)**

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**Subject:- Purchase Preference for products and services of Central Public Sector Enterprises.**

In continuation of this Department's OM of even number dated 31.10.97 extending the Purchase Preference Policy upto the period 31.3.2000, it is clarified that the **extended Purchase Preference Policy covers both products and services of PSUs.**

**(DPE OM No.DPE/13(19)/91-Fin. Dated the 10th February, 1998)**

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**Subject:- Purchase Preference for products and services of Central Public Sector Enterprises.**

Reference is invited to the Department of Public Enterprises' OM No.DPE/13(19)/91-Fin. dated 31.10.97 and 10.2.98 regarding the policy of purchase preference for products and services of Central PSEs.

2. Keeping in view, the requests from various Ministries, PSEs and the various relevant factors, Government have decided to extend the policy of purchase preference for products and services of central public sector undertakings for two more years i.e. upto 31.3.2002 **with the existing parameters except that the minimum value of purchase as specified in the scheme may be Rs. one crore instead of Rs .5 crores** as specified in DPE OM dated 31.10.97. **The provisions relating to purchase preference should be specified in the "Notice Inviting Tender" (NIT) in each case.** It has also been decided that the **public enterprises which avail benefit of the purchase preference should be subjected to adequate penalties for cost over-runs etc.**

(DPE OM NO.DPE/13(3)/2000-Fin.-GL 30 dated the 14th September, 2000)

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**Subject:- Purchase Preference Policy for Products and Services of Central Public Sector Enterprises.**

Reference is invited to the Department of Public Enterprises' OM of even number dated 14.9.2000 regarding the Policy of Purchase Preference for Products and Services of Central PSEs.

2. It is clarified that in view of the extension of the policy vide the above OM, the provision of the policy will be applicable to all pending cases also subject to the same parameters as specified in the above OM.

(DPE OM No.DPE/13(3)/2000-Fin. Dated the 30th October, 2000)

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**Subject : Purchase Preference Policy for Products and Services of Central Public Sector Enterprises.**

Reference is invited to the Department of Public Enterprises' O.M. of even No. dated 14.9.2000 and 30.10.2000 regarding the Policy of Purchase Preference for Products and Services of central PSEs.

2. This is to inform that **comparison of bids is done after evaluation of the bids**. Therefore, the valid bid price referred to in para (c) of O.M. dated 13.1.1992, renewed from time to time, is to be construed as the evaluated price and not the quoted price.

(O.M. No. DPE/13(3)/2000-Fin. dated 8.11.2000)

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**Subject:- NIT Clause for Purchase Preference for products and services of Central Public Sector Enterprises.**

Reference is invited to the purchase preference clause in the Notice Inviting Tender (NIT) in the Department of Public Enterprises' OM No.DPE/13(3)/2000-Fin. dated 14.9.2000 on the policy of purchase preference for products and services of Central PSEs.

It has been brought to the notice of this Department that some NITs do not contain the purchase preference clause mandated by the above mentioned OM. It is clarified that there is no option to any Department/PSE to deviate from the purchase preference policy currently in force till 31.3.2002. The **PSEs being disinvested would also continue to avail the benefit of the policy till privatized. In case any deviation is considered necessary, it is obligatory to obtain exemption from the competent authority.**

(DPE OM No. DPE13(3)/2000-Fin.-GL-L VII dated the 19th November, 2001)

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**Subject:- Purchase Preference for Products and Services of Central Public Sector Enterprises.**

Government have decided to extend the existing purchase preference policy for products and services of central public sector enterprises (CPSEs) for two more years from 1.4.2002 to 31.3.2004. Under the policy, if the price quoted by the public sector enterprise is within 10% of the lowest price in a tender, other things being equal, purchase preference may be granted to the CPSE concerned at the lowest valid price bid. The policy has the following provisions:

(e) The 10% purchase preference would be extended to tenders/NIT of rupees five crores and above.

(ii) CPSEs registered under the Companies Act, 1956 and statutory CPSEs will be eligible for purchase preference as before. Joint venture companies where holding of Government and/or CPSEs is 51% or more and joint ventures which are subsidiaries of CPSEs with CPSEs holding 51% equity or more will also be eligible for purchase preference.

(i) A minimum value addition of 20% by the CPSEs/Joint Venture Units by way of manufacture and/or services would be a prerequisite for availing purchase preference.

(ii) Ministries/Departments/CPSEs and autonomous bodies under Central Government will continue to grant purchase preference to CPSEs.

(iii) Purchase preference will also be available to only those privatized CPSEs where specific Government approval has been accorded for the specific periods from the date of disinvestment.

(iv) Respective Ministries/Departments/autonomous bodies/CPSEs will be responsible for implementing the Purchase Preference Policy.

(v) As per the existing policy the provisions relating to purchase preference should be specified in the Notice Inviting Tender (NIT) for rupees five crores and above. For any deviation including exclusion of the purchase preference clause from the NIT, it will be obligatory for the concerned Ministry/Department/CPSEs/autonomous bodies to obtain prior exemption from the Cabinet in consultation with the Department of Public Enterprises.

(vi) Other provisions of the purchase preference policy remain unaltered.

**(Office Memorandum No.DPE/13(1)/2002-Fin. dated 14th June, 2002.)**

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**Subject : Extension of Purchase Preference for products and services of Central Public Sector Enterprises beyond 31.3.2004.**

The undersigned is directed to refer to DPE's O.M. No. 13(1)/2002 dated 14th June, 2002 extending thereby the Purchase Preference Policy for a period of two more years upto 31.3.2004. The Government have reviewed the matter further and decided to extend the Purchase Preference Policy for a period of one more year w.e.f. 1.4.2004 to 31.3.2005. Accordingly, other things being equal, purchase preference will be granted to the Central Public Sector Enterprises(CPSEs) at lowest valid price bid(L1) if the price quoted by a CPSE is within 10% of the L 1 price. The salient features of the policy are as under :

(i) The 10% purchase preference would be extended to tenders/NIT of rupees 5 crore and above;

(ii) CPSEs registered under the Companies Act, 1956 and Statutory CPSEs will be eligible for purchase preference as before. Joint venture companies where holding of Government and/or CPSEs is 51% or more and joint ventures which are subsidiaries of CPSEs with CPSEs holding 51% equity or more will also be eligible for purchase preference;

(iii) A minimum value addition of 20% by the CPSEs/Joint Venture Units by way of manufacturing and / or services would be a prerequisite for availing of purchase preference;

(iv) Ministries/Departments/CPSEs and autonomous bodies under Central Government will continue to grant purchase preference to CPSEs;

(v) Respective Ministries/Departments/autonomous bodies/CPSEs will be responsible for implementing the Purchase Preference Policy in letter and spirit strictly;

(vi) As per the extant policy, the provisions relating to purchase preference should be specified in the Notice Inviting Tender (NIT) for rupees 5 crore and above. For any deviation including exclusion of the purchase preference clause from the NIT, it will be obligatory on the concerned Ministry / Department / CPSEs / autonomous bodies to obtain prior exemption from the Cabinet or the agency authorized by it in consultation with the Department of Public Enterprises on case to case basis; and

(vii) Other provisions of the purchase preference policy remain unaltered.

2. The cases which were under consideration from 1.4.2004 till the date of issue of this O.M. would stand covered under this policy, except those which have already been decided otherwise.

3. All the Ministries/Departments are requested to immediately bring the contents of this O.M. to the notice of all the concerned officers, Central Public Sector Enterprises(CPSEs), Autonomous Bodies and other organisations under their administrative control for strictly following the Purchase Preference Policy in letter and spirit.

**(Office Memorandum No.DPE/13(12)/2003-Fin. dated 26th October, 2004)**

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