CIRCULAR No. 5

Sub: Line of Credit – Related issues

Defence Line of Credit (LoC) is an important means to build strategic relationship with Friendly Foreign Countries and to give boost to Defence exports. An SOP for the procurement of Indian-origin Defence equipment under Defence Line of Credit for the Friendly Foreign Countries has been issued by MoD. Copy of SOP is enclosed.

2. As per new SOP “In case, the item(s) have been procured after testing and other formalities by any of the armed forces through either revenue or capital route through OFB, DPSUs or private vendors, the DG/AS will furnish a statement setting out details regarding specifications, prices and other relevant commercial information and the year of acquisition.” MEA would then inform that LoC holding country that it could use this information to directly procure from the OFB, DPSU or the Indian private sector at the prices/terms offered to the Indian armed forces subject to an escalation formula determined by the Principal Advisor (cost), export-related charges and other relevant incidentals as mutually-negotiated between the LoC holding country and selected vendor.

3. In view of the above, DPSUs/OFB should ensure that whenever they send information on Line of Credit related items, the same must be accompanied by LPP (Price of last purchase by the armed forces) & the year of purchase.

4. This has the approval of competent authority.

Encl: SOP

To:

CMDs of DPSUs, DGOF / OFB

Copy to:
1. Sr. PPS to Secy. (DP)
2. Sr.PPS to AS (DP)
3. JS/NS, JS/LS, JS/AS, JS/DIP, JS(P&C), EA & JS(DOMW)
1. Defence Lines of Credit (LoC) are an important means to build strategic relationship with friendly foreign countries and to give boost to defence exports. A SOP modelled on FMS procedures has been drafted to simplify acquisition to achieve quick utilization of LoC.

2. The Friendly Foreign Countries (FFCs) could be given the option (a) seek price discovery in the Indian market for specific items included in the LoC or (b) use the proposed SOP as under:

   (a) Defence LoC operationalized.

   (b) FFCs indicates choice(s) of defence equipment to the MEA.

   (c) MEA passes on the request to Nodal Officer in the MoD (AS dealing with IC).

   (d) AS shares information with (a) DG (Acq.) and (b) AS dealing with Revenue procurement seeking time-bound details of procurement of the same (or similar) items.

   (e) In case, the item(s) have been procured after testing and other formalities by any of the armed forces through either revenue or capital route-through OFB, DPSUs or private vendors, the DG/AS will furnish a statement setting out details regarding specifications, prices and other relevant commercial information and the year of acquisition.

   (f) This information will be passed on to MEA by the Nodal Officer.

   (g) The MEA could then inform that LoC holding country that it could use this information to directly procure from the OFB, DPSU or the Indian private sector at the prices/terms offered to the Indian armed forces subject to an escalation formula determined by the Principal Adviser (cost), export-related charges and other relevant incidentals as mutually-negotiated between the LoC-holding country and selected vendor.

   (h) Prior to this, MoD will seek and obtain the willingness of the OFB, the DPSUs and the Indian private sector entities to participate in this direct arrangement. Only those that explicitly do so, will be included.

   (i) The LoC holder may accept this mechanism. In that case, it should be possible for them to place orders on a single-source basis, without tender enquiry, on the relevant entity (s) and use the proceeds of the LoC for that purpose. MEA will issue appropriate guidelines for this purpose.

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