

## **PURCHASE PREFERENCE POLICY LINKED WITH LOCAL CONTENT (PP-LC)**

"MOP&NG has notified the purchase preference (linked with local content) for the procurement of goods and services under Oil & Gas Projects in India. Under this Policy, the bidders are allowed to avail the purchase preference linked with attaining the stipulated Local content.

Project owner reserves the right to allow Manufacturers or Suppliers or Service providers, purchase preference as admissible under the prevailing policy, subject to their complying with the requirements/conditions defined herein and submitting documents required to support the same.

In order to avail the Purchase preference under this policy, bidder shall achieve minimum Local Content (LC) of **20% (2017-18), 22% (2018-20) and 25% (2020-22)** (in line with **Table - 2** of policy). The Policy shall be implemented in the following manner.

- a. In case the lowest (L1) bidder meets the stipulated LC criteria, the order shall be awarded to such bidder.
- b. In case none of the bidders meets the stipulated LC criteria, the order shall be awarded to the Lowest bidder.
- c. In case the lowest bidder does not meet the stipulated LC criteria, the bidders shall be ranked in the ascending order of evaluated prices and next bidder meeting minimum stipulated LC and with his evaluated price within a price band of (+) 10% of lowest bidder's evaluated price, shall be given opportunity to supply 50% of the requirement by matching the lowest bidder's evaluated price. However, if 50% quantity works out to a fraction of quantity, the bidder shall be considered for next higher quantity. In case the quantity cannot be split, the order shall be placed with the entire quantity.
- d. In case there are more than one bidder within the price band of (+) 10% of lowest bidder's evaluated price, they shall be ranked in ascending order of their evaluated prices. The opportunity of matching the price shall be accorded starting from the lowest bidder out of these bidders and in case of his refusal, to the next bidder, and so on.
- e. In case none of the bidders who meet the stipulated LC criteria agree to match the lowest price, the natural lowest bidder will be awarded the job.

- f. The option in case of MSE bidders qualifying under both Policies, namely, Purchase Preference under the Public Procurement Policy - 2012 (PPP - 2012) from MSE bidders and Purchase Preference Linked with Local Content (PP-LC 2017) shall be exercised as under :
- i. The MSE bidder can avail only one out of the two applicable purchase preference policies, i.e. PP-LC 2017 or PPP-2012 and therefore, bidder will be required to furnish the option under which he desires to avail purchase preference. This option must be declared within the offer and in case bidder fails to do so although he is eligible for both the Policies, his offer would be evaluated considering PPP-2012 as 'the default chosen option'.  
In case a MSE bidder opts for preference under PPP-2012, he shall not be eligible to claim benefit under PP-LC 2017 (irrespective of the fact whether he furnishes the detail of LC in his offer and this LC meets the stipulated LC criteria).
  - ii. In case a MSE bidder opts for purchase preference based on PP-LC 2017, he shall not be entitled to claim benefit of purchase preference benefit as applicable for MSE bidders under PPP-2012. However, the exemptions from furnishing Bidding Document fee and Bid security shall continue to be available to such a bidder.
- g. In view of the above, the bidder's quoted prices against various items of enquiry shall remain valid even in case of splitting of quantities of the items, except in case of items where the quantity cannot be split since these are to be awarded in a Lot or as a package or Group.
- h. While evaluating the bids, for price matching opportunities and distribution of quantities among bidders, the order of precedence shall be as under :
- MSE bidder (PPP-2012)
  - PP-LC complied bidder (PP - LC)

### **Examples of Purchase Preference**

#### **Non divisible item**

LI bidder is non MSE, non PP-LC bidder

L2 bidder is PPC-LC (within 10%)

L3 bidder is MSE bidder (within 15%)

MSE bidder shall be given preference to match the L1 price. If L3 bidder matches the LI price, order shall be placed on him, otherwise option for matching the LI price shall be given to L2 bidder (PP-LC)

**Divisible Item**

LI bidder is non MSE, non PP-LC bidder

L2 bidder is PP-LC (within 10%)

L3 bidder is MSE bidder (within 15%)

MSE bidder shall be given preference to match the LI price. If bidder matches the LI price, order shall be placed on him for the quantity specified in the bidding document. For the balance quantity (i.e. 50% of tendered quantity/value) option for matching the LI price shall be given to L2 bidder (PP-LC) Balance quantity shall be awarded to natural lowest bidder.

For further clarification, in case an item has quantity 4 nos. then 1 no. can be given to MSE bidder, 2 to PP-LC bidder and left out 01 no. to natural LI bidder.

- i. In case lowest bidder is a MSE bidder, the entire work shall be awarded to him without resorting to purchase preference to bidders complying with Local Content.
- j. In case lowest bidder is a PP-LC bidder purchase preference shall be resorted to MSE bidder as per provisions specified in the enquiry document w.r.t. PPP-2012 only.
- k. Certification of Local Content

Manufacturers of goods and/or providers of service, seeking Purchase Preference under the policy, shall be obliged to certify the LC of goods, services or EPC contracts as under:

**At bidding stage**

Bidder shall furnish the percentage of the local content, taking into account the factors and criteria listed out in the policy. These details shall be required only at aggregate level like supply value, transport value and other heads given in the price schedule.

**The bidder claiming the PP-LC benefit shall be required to furnish an undertaking on bidder's letterhead confirming his meeting the Local Content and this undertaking shall be certified as under :**

- Where the total quoted value is less than INR 5 Crore  
The LC content shall be self assessed and certified by the authorized signatory of the bidder signing the bid.
- Where the total quoted value is INR 5 Crore or above
  - i) The Proprietor and an independent Chartered Accountant, not being an employee of the firm, in case of a proprietorship firm.

- ii) Any one of the partners and an independent Chartered Accountant, not being an employee of the firm in case of a partnership firm.
- iii) Statutory auditors in case of a company. However, where statutory auditors are not mandatory as per laws of the country where bidder is registered, an independent chartered accountant, not being an Employee of the bidder's organization.

Note:

1. Sample formats for calculation of LC are enclosed as **Appendix I, II & III** (Use relevant appendix for calculation of the local content - by bidder.)
2. LC of goods shall be computed on the basis of the cost of domestic components in goods, compared to the whole cost of product. The whole cost of product shall be constituted of the cost spent for the production of goods, covering: direct component (material) cost; direct manpower cost; factory overhead cost and shall exclude profit, company overhead cost and taxes for the delivery of goods.
3. However, LC of service shall be calculated on the basis of the ratio of service cost of domestic component in service to the total cost of service. The total cost of service shall be constituted of the cost spent for rendering of service, covering: a) cost of component (material) which is used ; b) manpower and consultant cost; cost of working equipment/facility; c) general service cost, excluding profit, company overhead cost, taxes and duties.

***The onus of submission of appropriately certified documents lies with the bidder and the purchaser shall not have any liability to verify the contents and will not be responsible for the same.***

***However, in case the procuring company has any reason to doubt the authenticity of the Local Content, it reserves the right to obtain the complete back up calculations before award of work failing which the bid shall be rejected.***

**After award of contract:**

- Where the estimated value is less than INR 5 Crore:  
The LC certificate shall be submitted along with each invoice duly self-certified by the authorized signatory of the bidder
- Estimated value is INR 5 Crore or above:

Supplier shall provide the necessary local content documentation to the statutory auditor, who shall review and determine that local content requirements have been met, and issue a local content certificate to that effect on behalf of procuring company, stating the percentage of local content in the goods or service measured.

*However, procuring company shall also have the authority to audit as well as witness production processes to certify the achievement of the requisite local content and/or to obtain the complete back up calculation before award of work failing which the bid shall be rejected and appropriate action may be initiated against the bidder.*

**Failure of bidder in complying with the local content post award:**

In case a bidder, who has specified in his bid that the bid meets the minimum Local Content specified in the enquiry document, fails to achieve the same, the following actions shall be taken by the procuring company:

- a. Pre-determined penalty @ 10% of total contract value
- b. Banning business with the supplier/contractor for a period of one year.

To ensure the recovery of above pre-determined penalty, payment against dispatch/shipping document shall be modified to the extent that the 10% payment out of this milestone payment shall be released after completion of this milestone as well as submission of certification towards achievement of Local Content as per provision of enquiry document. Alternatively, this payment can be released against submission of additional bank guarantee valid till completion schedule, plus 3 months or as required by purchasing company.

**Purchase Preference in case where Negotiation is also required:**

In case purchase preference is applicable, but negotiation is to be conducted with L1 bidder, negotiation shall be carried out. MSE and/or LC complied bidder shall be offered to match the negotiated prices (even if, post negotiation, they are higher by more than 10% as compared to L1 bidder provided they were within 10% of L1 bidder as per original quoted prices) and left out quantity, if any, as per provisions of enquiry document shall be awarded to that bidder.

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**Table 2: TARGET OF LOCAL CONTENT OF GOODS/SERVICES IN MIDSTREAM AND DOWNSTREAM**

Items	Local Content (%)		
	2017-18	2018-20	2020-22
Service Contracts	20%	22%	25%
Supply Contracts	20%	22%	25%
EPC Contracts (others)	30%	35%	40%

**Note:**

1. The proposed policy is not applicable for DMEP and MSME, there being specific policies for those products/ services
2. The prescribed local content in the above Tables (Table 1 & Table 2) shall be applicable on the date of Notice inviting Tender.

## Appendix - I

### LC of Goods

Table: CALCULATION OF LOCAL CONTENT – GOODS

Name of Manufacturer	Calculation of manufacturer Cost per ne unit of Product			
Cost Component	Cost (Domestic Component)	Cost (Imported Component)	Cost Total Rs./US\$	% Domestic Component
	a	b	c=a+b	d=a/c
I. Direct Material Cost				
II. Direct Labour Cost				
III. Factory Overhead				
IV. Total Production Cost				

#### Note

$$\% \text{ LC Goods} = \frac{\text{Total cost (IVc)} - \text{Total imported component cost (IVb)}}{\text{Total Cost (IV.c)}} \times 100$$

$$\% \text{ LC Goods} = \frac{\text{Total domestic component cost (IVa)}}{\text{Total Cost (IV.c)}} \times 100$$

## LC of Service

Table: CALCULATION OF LOCAL CONTENT – SERVICE

NAME OF SUPPLIES OF GOODS/PROVIDER OF SERVICE			Cost Summary				
			Domestic	Imported	Total	LC	
				Rs/US\$		%	Rs/US\$
			b	c	d	e = b/d	f = dxe
A.	I. Material used cost	Rs. US\$					
	II. Personnel & Consultant Cost	Rs. US\$					
	III. Other service cost	Rs. US\$					
	IV. Total cost (I to IV)	Rs. US\$					
B.	Taxes and Duties	Rs. US\$					
C.	Total Quoted price	Rs. US\$					

## Note

$$\% \text{ LC Services} = \frac{\text{Total cost (A.IV.d)} - \text{Total imported component cost (A.IV. c)}}{\text{Total Cost (A.IV.d)}} \times 100$$

$$\% \text{ LC Service} = \frac{\text{Total domestic component cost (A.IV.b)}}{\text{Total Cost (A.IV.d)}} \times 100$$



## LC of EPC Contracts

A.	COST COMPONENT Rs./US\$	Cost Summary			
		Domes tic	Imported Rs/US\$	Total	LC
					% Rs/US\$
		b	c	d	e=b/d f=dxe
I	GOODS				
1	Material Used Cost				
2	Equipment Cost				
3	Sub Total I				
II	SERVICES				
1	Personnel & Consultant Cost				
2	Equipment & Work Facility Cost				
3	Construction/Fabrication Cost				
4	Other Services Cost etc.				
5	Sub Total II				
III	TOTAL COST GOODS + SERVICES				
B	NON COST COMPONENT				
C	TOTAL QUOTED PRICE				

## Note

% LC Combination =

$$\frac{[\text{Total domestic component cost of goods (A.I.3.b)} + \text{Total domestic component cost of service (A.II.5.b)}]}{\text{Total Cost (A.III.d)}} \times 100$$