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F.No.8(49)/2012-IPHW
Ministry of Communications and Information Technology
Department of Electronics and Information Technology

Dated: 27th May, 2013

NOTIFICATION

Subject: Policy for Preference to domestically manufactured electronic goods in procurement due to security considerations and in Government procurement - Notifying electronic products for Government Procurement in furtherance of the Policy

Reference: Notification No.8(78)/2010-IPHW dated 10.2.2012

The Government has notified the policy for providing preference to domestically manufactured electronic products in procurement due to security considerations and in Government procurement vide Notification No.8(78)/2010-IPHW dated 10.2.2012 (hereinafter called the Policy).

2. As per Clause 2.2.2, the Policy is applicable for procurement by all Ministries/Departments (except Defence) and their agencies for electronic products purchased for Governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

3. A Light Emitting Diode (LED) is an electronic device, which is essentially a PN junction opto-semiconductor that emits light when operated in a forward biased direction. LEDs convert electrical energy into light energy. Their applications encompass Illumination, Displays, Indicators, Back Lighting, Signage, Signalling, Mobile, Automotive, etc. Since LED products cut across sectors, they have been classified as generic electronic products in terms of the aforesaid policy.

4. In furtherance of the Policy notified vide reference cited above, the Department of Electronics and Information Technology (DeitY) hereby notifies that preference shall be provided by all Ministries/Departments (except Defence) and agencies under their control to domestically manufactured LED Products as per the said policy. The details are as follows:

LED Products

(A) Definition:

For the purpose of this Notification, LED products are those whose function is to utilize light produced by LEDs and spanning applications in the areas of: (i) Illumination, (ii) Optical Displays including True LED TVs, (iii) Backlighting, (iv) Signalling & Indication and (v) Transportation.

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(B)

Percentage of procurement for which preference to domestically manufactured LED Products is to be provided (in value terms)	Percentage domestic value addition in terms of Bill of Material (BOM) required for the LED Products to qualify as domestically manufactured
50%	50% in Year 1

(C) Criteria for BOM to be classified as domestic:

The domestic BOM of LED Products would be the sum of the cost of main inputs as specified in Column 1 of the following table, provided the inputs individually satisfy the value addition requirement specified in Column 2 of the table. However, the weightage of total cost of (d) Heat Sink or Thermal Management Solutions, (e) Secondary Optics and (f) System Fixture and Fitting shall not exceed 20% of the domestic BOM of the LED Product:

Main inputs in BOM/stages for manufacture of LED Products	Value addition required for the input to be classified as domestic BOM
1	2
(a) LED Emitter	Packaging from imported/domestically fabricated Bare LED Die subject to the condition that from Year 2 onwards, the Bare LED Die shall be domestically fabricated using imported/ indigenously manufactured inputs
(b) Driving Electronics	Domestic assembly from imported/ indigenously manufactured parts and components subject to the condition that the value of domestically manufactured parts and components (excluding the value of bare PCB) used in the assembly of "Driving Electronics" will be minimum 10% of the total value of parts and components used in the manufacture of "Driving Electronics" in Year 1, which will increase to minimum 20% of the total value of parts and components used in the manufacture of "Driving Electronics" in Year 2 and minimum 30% of the total value of parts and components used in the manufacture of "Driving Electronics" in Year 3 and in subsequent years

(c) Bare PCB including MCPCB	Domestically manufactured using imported/ indigenously manufactured inputs
(d) Heat Sink or Thermal Management Solutions	Domestically manufactured using imported/ indigenously manufactured inputs
(e) Secondary Optics	Domestically manufactured using imported/ indigenously manufactured inputs
(f) System Fixture and Fitting	Domestically manufactured
(g) Final Assembly / Testing	Domestically assembled / tested meeting Indian Standards as notified from time to time.

5. For reasons to be recorded in writing, a Government Ministry / Department or agencies under their administrative control may choose to procure a higher percentage of domestically manufactured goods than specified in the Notification. This would enable Ministries / Departments such as Atomic Energy, Space, Home Affairs, etc. to meet their special requirements or wherever a special policy provision exists / decision is taken by the Government to meet the demand from domestic manufacturers.

6. The notification comes into effect immediately. The Year 1 for the purpose of this notification would be upto 31.3.2014.

7. The domestic value addition for Year 2 onwards shall automatically increase by 5% in terms of Policy referred to as above.

8. The Department may review the Notification in case of technology / manufacturing ecosystem evolving differently from the one envisaged for this Notification.



(Dr. Ajay Kumar)

Joint Secretary to Government of India

Tel.: 24360160

New Delhi, Dated 27.5.2013

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Copy to:

1. All Ministries/Departments of Government of India
2. Cabinet Secretariat
3. PMO
4. Planning Commission
5. Comptroller and Auditor General of India
6. AS&FA, Department of Electronics and Information Technology
7. Internal Distribution


(Dr. Ajay Kumar)

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MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY
(Department of Information Technology)

NOTIFICATION

New Delhi, the 10th February, 2012

Subject: Preference to domestically manufactured electronic goods in procurement due to security considerations and in Government procurement.

No. 8(78)/2010-IPHW.—With increasing deployment of electronic devices and Information Technology (IT) applications in various sectors, the critical applications are vulnerable to cyber attacks. As use of electronics and IT becomes pervasive, the ability to use these devices or applications to disrupt normal human life and threaten life and property by an inimical interest has become increasingly common. Reports show that India has also suffered attacks on its critical infrastructure from agencies opposed to India. A malicious hardware can be triggered to launch an attack. The situation is further compounded because the technology has yet to develop which can definitively detect such malicious hardware.

2.1 The Government has, accordingly, laid down the following policy for providing preference to domestically manufactured electronic products, in procurement of those electronic products which have security implications for the country and in Government procurement for its own use and not with a view to commercial resale or with a view to use in the production of goods for commercial sale.

2.2 Scope

2.2.1 Electronic product or products having security implications and agencies deploying them will be notified by concerned Ministry/Department. The notified agencies will be required to procure the notified electronic

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product from a domestic manufacturer to the extent prescribed in this notification. When the electronic goods are specified by the concerned Ministries/Departments, rationale for such items being covered as essential security interest may also be clearly detailed. Listing of electronic goods as security sensitive can also be done by a designated authority notified for this purpose by the Ministry/Department concerned which may take a project wise decision on which projects or project components are sensitive from the security angle.

2.2.2 In Government procurement, the policy will be applicable to all Ministries/Departments (except Defence) and their agencies for electronic products purchased for Governmental purposes and not with a view to commercial resale or with a view to use in the production of goods for commercial sale. Each Ministry/Department would notify the sector specific electronic product or products for which preference would be accorded to domestically manufactured electronic product or products. However, generic products, which are procured across sectors, such as, computers, communication equipment etc., would be notified by the Departments of Information Technology/Telecommunications, as the case may be.

2.2.3 The notification issued by each Ministry/Department for providing preference to domestically manufactured electronic product or products, either for reasons of security or for Government procurement, would specify the percentage of procurement to be made from domestically manufactured electronic product or products but it shall not be less than 30% of the total procurement value of that electronic product or products. Further each Ministry/Department would also specify the domestic value addition requirement which the electronic product should satisfy for the product to qualify as domestically manufactured electronic product. However, such specification should not be below the generic definition of domestically manufactured electronic products provided in para 2.3 below.

2.2.4 The policy is also applicable to procurement of electronic hardware as a service from Managed Service Providers (MSPs).

2.3 Domestically Manufactured Electronic Products. The Domestically Manufactured Electronic Products are manufactured by companies that are registered and established in India and engaged in manufacture in India and would include Contract Manufacturers, but traders are excluded from the definition. These electronic products shall meet the following graded domestic value-addition in terms of Bill of Material (BOM) from domestic manufacturers.

Percentage domestic value addition* in terms of BOM from domestic manufacturers	Year
25%	Year 1
30%	Year 2
35%	Year 3
40%	Year 4
45%	Year 5

* The formula for Value-Addition:

- Product Price (Ex-Factory) : A
- Cost of Bill of Material (BOM) in 'A' : B
- BOM sourced from domestic manufacturers : C
- Value Addition in terms of BOM : $(C/B) \times 100$

3. Eligibility: All companies registered in India and engaged in manufacture of electronic products in India are eligible for consideration under the policy.

4. Procurement: The procuring agencies shall follow their own procurement procedures, subject to meeting the requirement that specified percentage of procurement shall be of domestically manufactured electronic products.

4.1.2 Aggregation of annual requirements and such other procurement practices, which facilitate the implementation of this policy, may be adopted by procuring agencies.

4.2 Procurement by Government Ministry/Department or agencies under their administrative control

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4.2.1 Wherever the domestically manufactured electronic products are procured under this policy by a Government Ministry/Department or an agency thereof, such procurement shall be subject to matching of L1 price and on satisfying technical specifications of the tender.

4.2.2 For procurement by Government Ministries/Departments and agencies under their administrative control, the tender for procuring electronic products would normally specify that specified part of the procurement value would be awarded to the lowest technically qualified domestic manufacturer of electronic products, subject to matching with L1, if such bidders are available. The remaining will be awarded to L1, irrespective of whether he is a domestic manufacturer or not.

4.2.3 It is not necessary that each tender for the procurement of electronic product is split. If a tender cannot be split, either because the unit of procurement is small or because of technical reasons, or because no domestic manufacturer is available for the product, the procuring agency may ensure that the annual requirement of procuring the specified extent of electronic products from domestically manufactured products is achieved through suitable enhancements in other tenders.

4.2.4 The tender conditions would ensure that domestically manufactured electronic products are encouraged and are not subject to restrictive mandatory requirement of prior experience. However, procuring Department/agency may incorporate such stipulations as may be considered necessary to satisfy themselves of the production capability and product quality of the domestic manufacturer.

5. Compliance

5.1 A suitable self-certification system would be devised to declare domestic value addition by the vendor. The system would also provide for checks by Standardization, Testing and Quality Certification (STQC) and other testing laboratories accredited by the Department of Information Technology. In cases of mis-declaration suitable penalties will be imposed. STQC would be strengthened for this purpose.

5.2 Each Ministry/Department shall annually obtain a declaration indicating the extent of compliance to the policy and reasons for non-compliance thereof from all procuring agencies under its administrative control.

5.3 Individual Departments/Ministries may provide for suitable incentives/disincentives for compliance under the policy.

6. **Electronic products:** In case of a question whether an item being procured is an electronic product to be covered under the proposed policy, the matter would be referred to the Department of Information Technology for clarification.

7. **Time period:** The policy will be valid for 10 years from the date of its notification in official gazette.

8. **Guidelines:** Detailed guidelines for operationalizing the proposed policy which would, inter alia, provide for modalities of self-certification by the vendor and the procuring agencies would be issued after the policy is notified. The relevant guidelines for procurement, in respect of the Government, Government PSUs and Government controlled institutions, would be issued with the concurrence of the Finance Ministry.

9. Some examples of typical procurement scenarios are illustrated in Appendix.

Dr. AJAY KUMAR, Jt. Secy.

Appendix

SOME EXAMPLES OF TYPICAL PROCUREMENT SCENARIOS

Example 1

Procurement of 1 lakh Laptops

Under a Government project, it is intended to procure one lakh laptops. In order to fulfill 70:30 norm of the proposed policy, they have to procure 30,000 laptops from domestic electronic products manufacturer. The bid documents should specifically provide preference to domestically manufactured electronic products in terms of 30% of procurement value subject to matching of L1 price and on satisfying technical specifications of the tender. Suppose there are five bids. Consider DM as Domestic Manufacturer and NDM as No Domestic Manufacturer.

Case 1: After opening of commercial bids, position is like L1: DM1, L2: NDM1, L3: NDM2, L4: NDM3 and L5: DM2. then work will be awarded to DM1 vendor.

Case 2A: After opening of commercial bids, position is like L1: NDM1, L2: NDM2, L3: NDM3, L4: DM1 and L5: DM2. NDM1 qualifies as L1, and DM1 is L4, then NDM1 has to provide 30% of the procurement value to DM1 at L1 prices.

Case 2B: If DM1 refuses to undertake the tendered work at L1 prices, DM2 should be considered to supply at L1 prices.

Case 3: After opening of commercial bids, position is like L1: NDM1, L2: NDM2, L3: NDM3, L4: NDM4 and L5: NDM5. In this case, no domestic electronic product manufacturer is available; hence the full order will be awarded to NDM1.

Example 2

Procurement of Super Computer

Procuring agency desires to procure Super Computer with prescribed specification for Rs. 5 crore. Item cannot be split. The procuring agency is not able to apply 70:30 norm. Therefore, in subsequent procurement of electronic products by the said agency, it should provide an additional value of Rs. 1.5 crore (30%) for domestic manufactured electronic products.

Example 3

Procurement of switches by Telecom Licensee 'X' through a Managed Service Provider (MSP) 'A'

Telecom Service Provider may only be procuring hardware services from MSP 'A'. However, 70:30 norm is applicable vide clause 2.1 of the proposed policy. Telecom Licensee 'X' is required to ensure 30% of the procured value that MSP 'A' provides through domestic electronic hardware products.