

5.1.7 The procedure for award under the policy along with some examples of typical procurement scenarios is at Enclosure-V.

**6. Determination of LC**

**6.1 LC of goods**

6.1.1 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.

6.1.2 The criteria for determination of the local content cost in the goods shall be as follows:

- a) in the case of direct component (material), based on country of origin;
- b) in the case of manpower, based on INR component; and
- c) in the case of working equipment/facility, based on the country of origin.

6.1.3 The calculation of LC of the combination of several kinds of goods shall be based on the ratio of the sum of the multiplication of LC of each of the goods with the acquisition price of each goods to the acquisition price of the combination of goods.

**6.2 LC of service**

6.2.1 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.

6.2.2 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; and
- c) general service cost, excluding profit, company overhead cost, taxes and duties.

- 6.2.3 The criteria for determination of cost of local content in the service shall be as follows:
- a) in the case of material being used to help the provision of service, based on country of origin;
  - b) in the case of manpower and consultant based on INR component of the services contract;
  - c) in the case of working equipment/facility, based on country of origin; and
  - d) in the case of general service cost, based on the criteria as mentioned in clauses a, b, and c above.
  - e) Indian flag vessels in operation as on date.
- 6.3 **Determination of Local Content:** The determination of local content of the working equipment/facility shall be based on the following provision; working equipment produced in the country is valued as 100% (one hundred percent) local content; working equipment produced abroad is valued as much as nil (0% percent) local content.
- 6.4 **LC of the EPC Contracts:**
- 6.4.1 LC of EPC contracts shall be the ratio of the whole cost of domestic components in the combination of goods and services to the whole combined cost of goods and services.
- 6.4.2 The whole combined cost of goods and services shall be the cost spent to produce the combination of goods and services, which is incurred on work site. LC of the combination of goods and services shall be counted in every activity of the combination work of goods and services.
- 6.4.3 The spent cost as mentioned in paragraph 6.4.2 shall include production cost in the calculation of LC of goods as mentioned in clause 6.1.1 and service cost in the calculation of LC of services as mentioned in clause 6.2.2.
- 6.5 **Calculation of LC and Reporting**
- 6.5.1 LC shall be calculated on the basis of verifiable data. In the case of data used in the calculation of LC being not verifiable, the value of LC of the said component shall be treated as nil.
- 6.5.2 Formats for the calculation of LC of goods, services as well as EPC contracts may be seen at in Enclosure-II, Enclosure-III and Enclosure-IV.

## 7 Certification and Verification

7.1 Manufacturers of goods and/or providers of service, seeking Purchase Preference under the policy, shall be obliged to verify the LC of goods, service or EPC contracts with the provision as follows:

### 7.1.2 At bidding stage:

- a) Price Break-up:
  - The bidder shall provide break-up of "Local Component" and "Imported Component" in the price format
  - Bidder must have LC in excess of the requirement specified in **Enclosure-I.**
- b) Undertaking by the bidder:
  - The bidder shall submit an undertaking along with the bid stating that the bidder meets the mandatory minimum LC requirement, and such undertaking shall become a part of the contract
  - Bidder shall also submit the list of items / services to be procured from Indian manufacturers / service providers.
- c) Statutory Auditor's Certificate:
  - The Undertaking submitted by the bidder shall be supported by a certificate from Statutory Auditor engaged by the bidder certifying that the bidder meets the mandatory local content requirements of the project.

### 7.1.3 After Contract Award:

- a) In the case of procurement of goods and/or services with the value less than Rs. 5 Crore (Rupees Five Crore), the LC content may be calculated (self-assessment) by the supplier of goods and/or the provider of services and certified by the Director/Authorised representative of the company.
- b) The verification of the procurement of goods, service or EPC contracts with the value Rupees Five Crore and above shall be carried out by a Statutory Auditor engaged by the bidder.

- 7.2 Each supplier shall provide the necessary local-content documentation to the statutory auditor, which 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 good or service measured. The Auditor shall keep all necessary information obtained from suppliers for measurement of Local Content confidential.
- 7.3 The Local Content certificate shall be submitted along with each invoice raised. However, the % of local content may vary with each invoice while maintaining the overall % of local content for the total work/purchase of the pro-rata local content requirement. In case, it is not satisfied cumulatively in the invoices raised up to that stage, the supplier shall indicate how the local content requirement would be met in the subsequent stages.
- 7.4 As regards cases where currency quoted by the bidder is other than Indian Rupee, exchange rate prevailing on the date of notice inviting tender (NIT) shall be considered for the calculation of Local Content.
- 7.5 The Procuring Company shall also have the authority to audit as well as witness production processes to certify the achievement of the requisite local content

## **8 Governance and Supervision**

- 8.1 A Steering Committee will be constituted by MoPNG to provide effective guidance and to oversee the effective implementation of the Policy including review and amendments required therein. The Steering Committee may consider representations on target Local Content in goods, services and EPC and modify the policy accordingly.
- 8.2 The Steering Committee shall annually conduct a review of the policy implementation which shall specifically cover the issue of whether there has been adequate competition, and whether the policy has resulted in any reduction in competition/ exclusion of non-local bidders or any cost increase to the purchasing PSU, particularly in respect of services & works contracts.



9 **Sanctions**

9.1 The Procuring companies shall impose sanction on manufacturers/ service providers not fulfilling LC of goods/ services in accordance with the value mentioned in certificate of LC.

9.2 The sanctions may be in the form of written warning, financial penalty and blacklisting.

9.3 In the event that a manufacturer or supplier of goods and/or provider of services does not fulfil his obligation after the expiration of the period specified in such warning, the procuring company can initiate action for blacklisting such manufacturer/supplier/service provider.

9.4 A manufacturer and/or supplier of goods and/or provider of services who has been awarded the contract after availing Purchase Preference is found to have violated the LC provision, in the execution of the procurement contract of goods and/or services shall be subject to financial penalty specified in clause 9.4.1.

9.4.1 The financial penalty shall be over and above the PBG value prescribed in the contract and shall not be more than an amount equal to 10% of the Contract Price.

10. **Clarification on Goods/ Services:** Any issue regarding the coverage of a particular good/ service under the proposed policy would be referred to the Steering Committee for clarification.

11. **Time Period:** The Policy shall be applicable for 5 years. Except for 2017-18, the Policy shall not be continued unless, the Steering Committee by September 30th of each year, concludes a review as per para 8.2 of the Policy and recommends continuation of the Purchase Preference.

**Table 1: TARGET OF LOCAL CONTENT OF GOODS/SERVICE IN UPSTREAM OIL AND GAS BUSINESS ACTIVITIES**

Sl. No	Item	Local Content (%)		
		2017-2018	2018-2020	2020-2022
A.	Goods			
1	Tubular (Drilling Pipe, Drill Collar, Casing, Line Pipes, Tubing, etc.)	50	55	60
2	Drilling Mud/Chemicals/Oil Well Cement	40	45	50
3	Pumping Unit	30	35	40
4	Machinery & Equipment	20	25	30
5	Premium Bits	10	15	20
6	Wellhead & X-mass tree			
	a. Onshore	40	45	50
	b. Offshore	10	10	15
7	Down Hole Tools			
	a. Onshore	20	25	30
	b. Offshore	10	10	15
8	Well Completion / Artificial Lift Equipment			
	a. Onshore	20	25	30
	b. Offshore	10	10	15
9	Fuel Oil	5	10	10
10	Lubricant	5	10	10
11	Other Goods	30	35	40
B.	Services			
	Survey, Seismic and Geology Studies			
	a. Onshore	50	50	55
	b. Offshore	10	10	15
2	Logging Services			
	a. Onshore	20	25	30
	b. Offshore	10	10	15
3	Mud Logging	40	45	50
4	Chartering of Rigs			
	a. Onshore	50	60	70
	b. Offshore	20	25	30
5	Specialized Drilling and Completion Services*	10	15	20
6	Engineering Procurement Construction & Installation (EPCI)			
	a. Onshore	50	55	60
	b. Offshore			
	(i) Pipeline Projects	20	30	35
	(ii) Well Platform Projects	20	30	35
	(iii) Process Platform Projects	20	30	35
	(iv) Revamp Projects	20	30	35
7	Logistics (including FPSO and Tankers)			
	a. Onshore	75	75	80
	b. Offshore	15	20	25

Sl. No	Item	Local Content (%)		
		2017-2018	2018-2020	2020-2022
8	Air Logistics	15	20	25
9	Dry-docking	50	65	60
10	Other Services	30	35	40
C.	Fabrications			
1	Drilling/Workover Rigs/WSS units Construction			
	a. Onshore	50	60	70
	b. Offshore	20	25	35
2	Offshore Vessels/Rigs Construction	20	25	36

- a. \* Specialised Drilling and Well completion services include Direction Drilling, Whipstock, Milling, Coring, Cementing Services, Drilling fluid services, Completion & Production Services, WSS, Well Intervention Services, Fracturing and ROV etc.
- b. The policy is not applicable for Deep water/ HP-HT operations for the time being.
- c. The Charter Hiring of offshore vessels shall continue to be governed by DG, Shipping Guidelines. Indian Flag Vessels shall be considered as having 100% LC.

**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.



Enclosure-II

**CALCULATION OF LOCAL CONTENT-GOODS**

Name of Manufacturer		Calculation by manufacturer Cost per one unit of product			
Cost component		Cost (Domestic component) a	Cost (imported component) b	Cost Total Rs/US\$ c= a+b	%Domestic Component d= a/c
I.	Direct material cost				
II.	Direct labour cost				
III.	Factory overhead				
IV.	Total production cost				

**Note:**

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

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

**CALCULATION OF LOCAL CONTENT- SERVICE**

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

Note:

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

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

Enclosure -IV

**CALCULATION OF LOCAL CONTENT - EPC (GOODS AND SERVICE)**

A.	COST COMPONENT (Rs/US\$)	Cost Summary			
		Domestic	Imported Rs/US\$	Total	LC
					% Rs/US\$
		b	c	d	e=b/d f=d x e
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 = Total domestic component cost of goods (A.I.3. b)+

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

PROCEDURE FOR AWARD AND SOME EXAMPLES OF TYPICAL  
PROCUREMENT SCENARIOS

1. Procedure for award of contracts under this policy shall be as follows:
  - 1.1. **Goods:**
    - 1.1.1. For oil and gas sector goods proposed to be procured, among all technically qualified bids, the lowest quoted price will be termed as L1 and the rest of the bids shall be ranked in ascending order of price quoted, as L2, L3, L4 and so on. If L1 bid meets prescribed LC as per Enclosure-I, the said bidder will be awarded full value of the order.
    - 1.1.2. If L1 bid does not meet prescribed LC as per Enclosure-I, the value of the order awarded to L1 bidder will be the balance of procurement value after reserving specified percentage (50%) of the total value of the order for the eligible LC manufacturer. Thereafter, the lowest bidder among the eligible LC manufacturer, whether L2, L3, L4 or higher, will be invited to match the L1 bid in order to secure the procurement value of the order earmarked for the eligible LC manufacturer. In case first eligible LC manufacturer fails to match L1 bid, the next eligible LC manufacturer will be invited to match L1 bid and so on. However, the procuring company may choose to divide the order amongst more than one successful bidder as long as all such bidders match L1 and the criteria for allocating the tender quantity amongst a number of successful bidders is clearly articulated in the tender document itself.
    - 1.1.3. In case all eligible LC manufacturers fail to match the L1 bid, the actual bidder holding L1 bid will secure the order for full procurement value.
    - 1.1.4. Only those LC manufacturers whose bids are within 10% of the L1 bid would be allowed an opportunity to match L1 bid.
    - 1.1.5. Example 1 - Procurement of 50,000 MT Casing Pipes



It is intended to procure 50,000 MT casing pipes. The bid documents should specifically provide preference to LC manufacturers of casing pipes (having local content more than the prescribed level as per **Table 1**) in terms of 50% of procurement value subject to matching of L1 price and on satisfying technical specifications of the tender. Suppose there are five bids. Consider LC as the manufacturer meeting local content requirement (and within 10% of the L1 bidder) as per Table 1 (Attachment 1) and NLC as the manufacturer not meeting local content requirement.

**Case 1:** After opening of commercial bids, position is like L1: LC1, L2:NLC1, L3: NLC2, L4: NLC3 and L5: LC2, then work will be awarded to LC1 vendor.

**Case 2A:** After opening of commercial bids, position is like L1: NLC1, L2: NLC2, L3: NLC3, L4: LC1 and L5: LC2. NLC1 qualifies as L1, and LC1 is L4. Then LC1 shall have the option of providing 50% of the procurement value at L1 prices. NLC1 will get remaining 50% of the procurement value.

**Case 2B:** If LC1 refuses to undertake the tendered work at L1 prices, LC2 should be considered to supply at L1 prices.

**Case 3:** After opening of commercial bids, position is like L1: NLC1, L2: NLC2, L3: NLC3, L4: NLC4 and L5: NLC5. In this case, no vendor with prescribed local content is available, hence the full order will be awarded to NLC1.

## **1.2. Services/ EPC contracts:**

1.2.1. For oil and gas services/ EPC contracts proposed to be procured, among all technically qualified bids, the lowest quoted price will be termed as L1 and the rest of the bids shall be ranked in ascending order of price quoted, as L2, L3, L4 and so on. If L1 bid meets prescribed LC as per Enclosure- I, the said bidder will be awarded full value of the order.

1.2.2. If L1 bid does not meet prescribed LC as per Enclosure- I, the lowest bidder among the eligible LC service provider, whether L2, L3, L4 or higher, will be invited to match the L1 bid. In case first eligible LC service provider fails to match L1 bid, the next eligible LC service

provider will be invited to match L1 bid and so on. The entire contract would be awarded to the lowest eligible service provider, subject to matching L1 bid.

1.2.3. In case all eligible LC service providers fail to match the L1 bid, the actual bidder holding L1 bid will secure the order for full procurement value.

1.2.4 Only those LC service providers whose bids are within 10% of the L1 bid would be allowed an opportunity to match L1 bid.

1.2.5 Example 2:

If for a tender where minimum specified LC is 15%, four bidders have been shortlisted for price bid opening and the status of the bidders is as below:

Sl. No	Bidder	Price quoted in Million USD	% of LC quoted
1	L1	200	10
2	L2	206	16
3	L3	210	16
4	L4	215	19

In the above case, L1 bidder has quoted lower than the minimum specified LC. L2, L3 and L4 bidders are achieving/exceeding the minimum LC as per Tender and are within 10% of quoted price of L1 bidder. Hence entire quantity shall be awarded to bidder, to L2 (or if L2 refuses, then L3, L4 in that order). Subject to matching L1 price.

**Subject: Policy to provide Purchase Preference (linked with local content) (PP-LC) in all Public Sector Undertakings under the Ministry of Petroleum and Natural Gas - reg.**

Sir,

Please refer to MoPNG letter No. O-27011/44/2015-ONG-II/FP dated 25.04.2018 on the subject mentioned above vide which copy of "Policy to provide Purchase Preference (linked with local content) (PP-LC) in all Public Sector Undertakings under the Ministry of Petroleum and Natural Gas" was circulated.

2. In this connection, following modifications have been made in the said policy with approval of competent authority:

a. Removal of the word "equipment" from Para 6.1.2 (c), as follows:

*"(c). in the case of working facility, based on the country of origin."*

b. Local content for Onshore Drilling/ Workover Rigs/ WSS units Construction under Fabrication head in Sl. No. C.1.a. in Table 1 of Enclosure-I shall be modified as:

Sl. No	Item	Local Content (%)	
		2018-2020	2020-2022
C	Fabrications		
1	Drilling/ Workover Rigs/ WSS units Construction a. Onshore	30	



c. First bullet under point a) (Price Break-up) in Para 7.1.2 (At bidding stage) shall be substituted as:

• *"The bidder shall provide the percentage of local content in the bid."*

d. **Para 7.1.2 (At bidding stage) (b) & (c) and 7.1.3 (After Contract Award) (a) & (b) shall be substituted with the following clause:**

*"The bidder shall submit an undertaking from the authorised signatory of bidder having the power of Attorney alongwith the bid stating the bidder meets the mandatory minimum LC requirement and such undertaking shall become a part of the contract.*

*In cases of procurement for a value in excess of Rs 10 crores, the undertaking submitted by the bidder shall be supported by a certificate from the statutory auditor or cost auditor of the company (in case of companies) or from a practicing cost accountant or practising chartered accountant (in respect of other than companies) giving the percentage of local content.*

*However, in case of foreign bidder, certificate from the statutory auditor or cost auditor of their own office or subsidiary in India giving the percentage of local content is also acceptable. In case office or subsidiary in India does not exist or Indian office/ subsidiary is not required to appoint statutory auditor or cost auditor, certificate from practising cost accountant or practising chartered accountant giving the percentage of local content is also acceptable.'*

c. Requirement of obtaining the list of items/ services to be procured from Indian Manufacturer/ service providers as per Para 7.1.2 (b) (second bullet) of the Policy shall be omitted.

3. The above modifications in PP-LC Policy will come into force with immediate effect.

Yours faithfully,

  
31/12/18  
(Vijay Sharma)  
Director  
Tel.: 23073069

Copy to: 1) US (Admn), MoPNG

2) Ms. Neelam Naval, PR, System Analyst (NIC): with request to upload this Order on website of MoPNG.



**SPECIAL CONDITIONS OF CONTRACT**  
**(SCC- Commercial)**

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