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Response from ITU-APT Foundation of India on "Consultation Paper on Promoting Networking And Telecom Equipment Manufacturing in India" is attached

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Response from ITU-APT Foundation of India on "Consultation Paper on Promoting Networking And Telecom Equipment Manufacturing in India"

Reference on TRAI's Consultation paper dated on 11/02/2022

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Chapter 1:Introduction to ITU-APT Foundation of India

The ITU-APT Foundation of India (IAFI) is a registered non-profit and non-political industry association registered under the Cooperative Societies Act of India. IAFI has been recognized by the International Telecommunication Union (ITU), the UN Organisation for ICT issues, as an international/ regional Telecommunications organisation and has been granted the sector Membership of the ITU Radio Communications Bureau (ITU-R), ITU Development Bureau (ITU-D) and ITU Telecommunication Standardisation Bureau (ITU-T). IAFI is also an affiliate member of the APT.

IAFI has been working for the last 20 years to encourage the involvement of professionals, corporate, public/private sector industries, R&D organisations, academic institutions, and other agencies in the activities of the ITU. For more details on IAFI please visit https://www.itu-apt.org/.

Chapter 2: Responses to TRAI Questions

Q.1. Is the PLI scheme in its current form effective enough to address the needs of promoting NATEM in India? Are any amendments or extensions required to the current PLI scheme to make it more effective? Please provide details.

Answer:

The Production Linked Incentive (PLI) Scheme provides a financial incentive to boost domestic manufacturing and attract investments in the target segments of Telecom and Networking Products. It is estimated that full utilisation of the Scheme funds is likely to lead to incremental production of around ₹ 2.4 lakh crores with exports of around ₹ 2 lakh crores

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over 5 years. It is also expected that the Scheme will bring in investments of around ₹ 3,000 crores and generate huge direct and indirect employment. The scheme provides 4-7% incentive on incremental sales (over base year) of goods manufactured in India and covers the following Telecom and Networking Products in India:

- **Core Transmission Equipment**
  - Dense Wavelength Division Multiplexing (DWDM), Optical Transport Network (OTN), Multi Service Provisioning Platform (MSPP), Synchronous Digital Hierarchy (SDH), Packet Transport Network (PTN)/ Multi-Protocol Label Switching (MPLS), Gigabit Passive Optical Networks, (GPON)/ Next Generation- Passive Optical Network (NG-PON) Optical Line Terminal (OLT), Digital Microwave Radio
- **4G/5G, Next Generation Radio Access Network and Wireless Equipment**
  - 4G/ Long Term Evolution (LTE)Radio Access Network (RAN) Base Station & Core Equipment; 5G RAN Base Station & Core Equipment; Edge and Enterprise Equipment; Wireless, Telecommunication Equipment in Access and Backhaul
- **Access and Customer Premises Equipment (CPE), Internet of Things (IoT) Access Devices, and Other Wireless Equipment**
  - Unified Communications Platforms, IP Multimedia Subsystem, Soft Switch, GPON Optical Network Terminal (ONT), Wireless Fidelity (Wi-Fi) Access Point and Controller, LTE CPE, 5G,CPE, Short Range Devices and Associated Electronics in new technologies like 4G/5G/Fibre to the Home (FTTH) etc.
- **Enterprise equipment: Switches, Routers**
  - Switches, Routers, Internet protocol (IP) and Packet Switching and Routing Apparatus

While, the PLI scheme is a major step towards promoting domestic NATEM, it can also be argued that just a single scheme is not enough as it may not cover different requirements of the telecom industry. There are many issues involved in promoting NATEM and TRAI recommendations of 2011 and 2018 on the subject have dealt with them in detail.

PLI scheme should also be further focused to promote design led manufacturing, rather than only support assembly of telecom equipment and it is recommended that local design based NATEM should be given higher incentive, say 10%

Further there should be higher PLI incentive for manufacturers that utilize much large percentage of locally made components

Q.2. Whether going beyond PLI scheme, a range of financial and fiscal incentives needs to be put in place to promote NATEM in India? Please elaborate your response.

Answer:

Going beyond the PLI scheme, there are several issues hampering the growth of domestic NATEM. In order to address these issues, following seven additional initiatives are recommended:

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i. For the B2B part of Telecom equipment, where the customers are limited to licensed telecom operators, specific rules are required governing local procurement by private telecom operators, similar to what has been done for Government procurement.
ii. For the B2C part of Telecom equipment, where the customers are general public, import duty protection is critical to discourage under invoiced or cheaper imports of commonly available consumer telecom items of mass public consumption. Such duty protection should however be limited to a few items of low per unit cost (e.g. items costing less than $200 each) and not apply to higher value professional telecom user equipment.
iii. Funding to support and promote participation of Indian non-government delegates in ITU and APT meetings
iv. Delicensing of spectrum needed for R&D and manufacturing
v. Spectrum allocation of 5G mid band spectrum for Manufacturing units
vi. Delicensing of new technologies such 6 GHz Wi-Fi and V band to promote innovation in India to capture global market.
vii. Merging of CMRTS and wireless licenses into a single license for telecom manufacturing units, as the current CMRTS licenses take more than one year.

Q.3. Does the Electronic Development Fund (EDF) meet the requirements of promoting NATEM in India? What are the limitations in EDF for the NATEM sector and how can its scope be enhanced?

Response:

1) The EDF does not have exclusive focus for the Telecom Sector and therefore, is not sufficient to take care of the need for venture funding that is required for promoting NATEM in India. Therefore a separate TRDF needs to be set up, as indicated under Q.4.
2) As 5G and its evolution into futuristic 6G technology is going to be largely software driven, a separate fund for development of telecom related software should be conceptualized for the overall growth of the telecom & networking product ecosystem. **For such innovations, delicensing of wireless spectrum is critical.**
3) We strongly suggest that suitable policy amendments need to be put in place to extend 4G domestic procurement to all TSPs and a scheme for Start Ups on –the lines of support extended to CDOT for BSNL 4G. This is because, biggest difficulty is getting orders and access to market. It needs to be appreciated that marketing is issue even with CDOT for their various technologies and with 4G, they have got success in BSNL only when the Govt. Insisted for local procurement without worrying for price, sufficient competition or sufficient capacity.

Q.4 Is there a need for creation of separate funds on lines of EDF or those earlier recommended by TRAI (like TEPF and TMPF) for promoting NATEM in India? What institutional mechanisms should be put in place to govern the fund(s)? Give justification and elaborate on its possible impact on the sector.

Response: On 12/04/2011, TRAI had made certain recommendations to support domestic NATEM and we support those recommendations regarding the creation of funds to cater to

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the requirement of local players and upcoming entrepreneurs. TRAI stated that 'TRDC should set up Telecom Research and Development Fund (TRDF) with a corpus of Rs 10,000 crore which should be invested in secure deposits and bonds and the interest accruals should be used for financing R&D projects. **We propose that this fund should also promote participations in ITU and APT activities as that will lead to IPR generation.**

We also support the formation of a Telecom Research and Development Corporation (TRDC).

We also support the need to create a Telecom Manufacturing Venture Fund (TMVF) for providing venture capital to start ups in domestic telecom equipment manufacturing

Q.5. What additional measures are suggested for promoting and supporting the start-up eco system in the telecom sector in India

Response:

a. Funding to support and promote participation of Indian non-government delegates in ITU and APT meetings
b. Delicensing of spectrum needed for R&D and manufacturing
c. Spectrum allocation of 5G mid band spectrum for Manufacturing units
d. Delicensing of 6GHz and V band to promote innovation in India
e. Merging of CMRTS and wireless licenses into a single license for telecom manufacturing units, as the current CMRTS licenses take more than one year.

Q.6. a) Which of the financial instruments related to project financing, contract financing and credit default insurance currently available in India are being used by the stakeholders and to what extent?

b) Are these financing instruments able to cater to the needs of NATEM in India?

c)Are there any suggestions to further improve these financial instruments or are there any new proposed financial instruments that can cater to the needs of NATEM in India? Please provide full details along with justification

Response:

There is an urgent need for a banking credit facility for Telecom manufacturers, so that they could supply equipment on credit to licensed Telecom operators. This is to bring them on par with global manufacturers who get credit facility from their own countries banks at low rates. So foreign manufactures offer equipment to India TSP on credit facility without any need for Indian TSP to approach the foreign credit agency. However Indian manufacturers expect TSPs to either pay the amounts or TSP has to arrange credit at their level.

DoT should coordinate with Ministry of Finance for making available the following financing options, in line with the practices followed by other export-oriented economies, to indigenous telecom equipment manufacturers:

a) Venture capital in the form of equity and soft loans.

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b) Project finance.
c) Contract financing options.
d) Credit default insurance.

It is noted that the DoT has informed TRAI, that the Digital Communication Commission (DCC) while considering the said recommendations, has asked to seek further details from TRAI on the same.

Q.7. Whether the existing schemes relating on CAPEX and interest subvention are meeting the requirement of fiancé for NATEM in India? Suggest modifications/new schemes needed if any with details

Response: No comments

Q.8. Whether the existing financial assistance for MSMEs that are into NATEM are sufficiently catering to their requirement or a separate dedicated scheme is required for the sector? Please provide a detailed response along with suggested schemes, if any.

Response:

i) Most of the schemes mentioned are general for most sectors. As brought into light telecom needs are special as procurement is generally by licensed operators and product needs are for certification and approval.
ii) MSME are required to compete with foreign large firms and also have to get the support of System Integrators
iii) We firmly suggest the need for a special provision, whereby procurement officer/ TSP's also SI are to give committed preference to MSME products.
iv) In the Emergency Credit Line Guarantee Schemes (ECLGS) announced for 26 sectors, the telecom sector has not been included. There is need to ensure that telecom sector is included in ECLGS & various other relief schemes announced by Govt as also in above scheme.

Q.9. Whether any cost disadvantage is experienced by domestic NATE manufacturers as compared to global counterparts due to various limitations discussed above? If yes, what is percentage cost disadvantage to domestic NATE manufacturers vis a vis other Country? The details of calculations and methodology adopted for the same may be provided.

Response: No comments, since the disadvantages of the same have been adequately covered in the TRAI paper.

Q.10. Whether schemes allowing tax holidays/deferment of tax are available for NATE manufacturers? If yes, are they meeting the requirement? If no, what modifications are required? Please justify and provide details.

Response:

i) The tax incentive on Research and Development which was earlier 200% of expenses, needs to be revived back.

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ii) For promotion of domestic manufacturing, one of successful example is in Automobile sector, where almost every known global Company is in India for manufacturing and localisation is about 70%. The key reason for this is that even today import of automobiles attract Custom duty of 100% for cars costing above Rs 30.00 lacs and 60% for less than that. Localisation policy is ensured by Custom duty.

iii) The deferred tax is not much useful

Therefore, we feel there is need to appreciate the above mentioned and form ways to implement the same in the telecom sector.

Q.11. Is the PMA/PMI scheme in its current form comprehensive for promoting NATEM? Are there any suggestions for modifications? How can the challenges associated with implementation of PMA/PMI be addressed? Please elaborate

Response: Only creation of a domestic manufacturing industry in India is not sufficient, the manufacturers need a sustainable market to remain relevant. Only a sustainable and continued access to market is most relevant.

Recommendations of TRAI have been met for Government procurement, the same cannot be said for Telecom licensed operators. For this we suggest that the necessary implementation should take place.

Q.12. Whether the incentives to Telecom Service Providers to deploy indigenous manufactured products in their network will be helpful in promoting NATEM in India? Please justify with reasons. What incentivization model is suggested?

Response:

i) NDCP 2018 envisages:
   a) Ensuring strict compliance to Preferential Market Access requirements:
   b) Incentivizing private operators to buy domestic telecom products.

ii) **In Para.2.48** In its 2018 Recommendations Authority reemphasized
   a) PMA policy should be made applicable for all public telecom networks to address the national security concerns. (2011 also same recommendations)
   b) Telecom Service Providers should be incentivized for deploying indigenous telecom products, beyond the quantities to be mandated under the PMA, by giving them graded incentives
   c) As of now even though licence conditions specify TSPs to follow Make in India and TEC GRs, but these are not followed. There is no incentive or compliance to follow Make in India.

iv) We reiterate the following earlier recommendations of TRAI:

- 2.43: The Authority stated that: The Department of Telecom should suitably modify the relevant clauses in the UAS Licences issued/to be issued and the Unified Licence to include the stipulations of percentages of market access, value addition and auditing in respect of domestic products.

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- 2.44: It was recommended that the service provider procuring more than 10% of the market access requirement of telecom equipment in the form of Indian Manufactured Products should get a rebate equivalent to 10% of its licence fee for that year and the service provider procuring more than 20% of its telecom equipment requirement in the form of Indian Manufactured Products should get a rebate equivalent to 20% of its licence fee for that year. It was clarified that for the purpose of this recommendation licence fee does not include USOF contribution of 5% of AGR.
- 2.46: The Authority recommended that For Indian products if a service provider is not able to meet the criteria of market access, then it will deposit an amount equal to 10% of the shortfall in the value of the equipment in the Telecom Research fund or the Telecom Equipment Manufacturing.

Q.13. What should be the incentive structure (fiscal and infrastructural) for Telecom Product Development Clusters (TPDC) set up within the EMCs or separately?

Response: For this we would like to reiterate the earlier recommendation of TRAI

a) Ref in Para 2.63: Authority in 2011 had recommended that "Ten telecom clusters be identified immediately. The Central/State Governments should make all efforts to develop infrastructural facilities in a time bound manner so that the infrastructure related disabilities are removed for the units that are located in the clusters."

b) Ref in Para 2.64: Authority in 2018 further recommended that "Telecom Product Development Clusters (TPDC) within the Electronic Manufacturing Clusters (EMC) should be established. The Government should extend suitable incentives to the TPDCs so as to attract talent and investments into these clusters."

Therefore, **we support the incentives to TPDC as per para 2.66**

Q.14. Whether NATEM is facing any limitation affecting competitiveness of Local manufacturers due to misdeclaration of HS codes, inverted duty structures, landed cost differential etc.? Please provide specific details. What are the suggestions for improvement? Please elaborate

Response:

i) The issue of mis-direction, in duty free HS codes is being attended by DOT in the at most effective manner by recommending revised classifications and training of customer officers. However, there is a need, to put in a mechanism to achieve this in specified time line.

ii) FTA route is openly used to export equipment from other countries by masking as made in FTA Country. There is always a local content condition in FTA, but that is also openly floated, as it depends on declaration by the exporter and there is no verification at the time of imports into India. Therefore, we feel that the Customs (Administration of Rules of Origin under Trade Agreements) Rules, 2020, addresses this issue. There is only need for its proper implementation and it is

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suggested for that a committee of concerned officers and industry needs to be recommended.

iii) With regard to WTO, it is submitted that as an observer to the WTO's Agreement on Government Procurement (GPA), India is not legally bound to comply with GPA provisions. Parties to the agreement are mostly developed countries with mature industries and domestic manufacturing.

iv) As regards inverted duty structure, Govt. has been prompt in addressing the issue, but it is time taking process. There is just need for an institutional mechanism to address the issue within 15-20 days at the most.

Q.15. Whether the current schemes/ measures or policy support for exporters of Indian manufactured equipment are sufficiently meeting the requirement to promote the global competitiveness of Indian NATEM exporters? Are the Schemes/instruments in India consistent with the international schemes for exporters in leading manufacturing Countries? Please suggest measures to bridge the gap if any

Response:

i) There is already a Champion Scheme, as mentioned in para 1.27.6: Champion service sector scheme (CSSS) was announced on 24.03.2021 by the Ministry of Commerce and Industry. A total amount of Rs.3369.75 Crore for 3-5 years has been approved for the scheme by the Expenditure Finance Committee based on the proposals submitted by the concerned Ministry/Department. Under the scheme, in 2020-2021, DoT was allocated Rs.15 Crore for their sectoral scheme . This fund should be used for:

- Funding to support and promote participation of Indian non-government delegates in ITU and APT meetings.

Q.16. Whether the existing incentives/policies issued by DoT and MeitY do meet the requirements for the growth of telecom software products? What additional policy initiatives and enabling regulatory measures are suggested to facilitate integration of telecom equipment and software products that are made in India? What measures are required to enhance exports of such products? Please justify your response.

Response:

a. Delicensing of spectrum needed for R&D and manufacturing
b. Spectrum allocation of 5G mid band spectrum for Manufacturing units
c. Delicensing of 6GHz and V band to promote innovation in India
d. Merging of CMRTS and wireless licenses into a single license for telecom manufacturing units, as the current CMRTS licenses take more than one year.

Q.17. Stakeholders are also requested to comment on other relevant issues, if any.

Response: No response.

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