

TVR/COAI/484  
26 November 2001

**Shri Shyamal Ghosh, IAS**  
Chairman, Telecom Commission and  
Secretary, DoT  
Sanchar Bhawan  
20 Ashoka Road  
New Delhi – 110 001

Dear Sir,

**Re. : Budget Proposal for the year 2002-2003**

The government has given due importance to the telecom sector and as a first step to ensure rapid growth of this sector the government announced the National Telecom Policy 99. Since then the economic health of the industry is improving because of the various positive steps taken by the government in this respect from time to time. One of the most visible change in the sector is that cellular services are becoming more and more affordable and is no more a service confined to the elite. Keeping the above in view we would like to submit the budget proposal for the year 2002-2003 for your kind consideration and support.

**1. Custom duty issues**

High CVD only Contributing to a Booming Grey Market but huge Revenue losses to the Government.

The CVD of 16% immensely adds to the price, which not only acts as a barrier to entry for new cellular subscribers but also gives an impetus to a thriving smuggled market in mobile handsets in the country. Smuggled handsets sold in the grey market are estimated to account for more than 80% of all mobile handsets sold in the country. They are available at 60-70% of the cost of genuine imports, the differential largely being accounted for by the composite duty and local tariff.

Budget 2000 reduced the import duty on mobile handsets from 25% to 5% but left the countervailing duty (CVD) unchanged at 16%. Representations made by the industry before Budget 2001 for a reduction/ removal in CVD went unheeded.

The industry has repeatedly argued that the CVD on imported mobile handsets is unjustified and needs to be abolished since there are no indigenous manufacturers of mobile handsets who need to be protected at this stage.

At present total customs duty rate on mobile phones is 26.67% (including basic import duty of 5%, CVD of 16% and special additional duty of 4%).

The COAI seeks an abolition of the 16% CVD imposed on imported mobile handsets, on the grounds that there is no rationale for this imposition in the absence of a domestic industry manufacturing cellular handsets.

## **2. TELECOM SOFTWARE**

As per the recommendations of the National Task Force for IT & SW, the telecom equipments are IT products, and therefore telecom software should be treated identical to IT software and should be eligible for NIL duty. As all the cellular operators have already imported most of their software requirements there are a number of cases pending in the custom authorities due to a lack of clarity on the telecom software to be treated identical to IT software. It is therefore recommended that this should be made effective with retrospective effect.

## **3. TELECOM HARDWARE**

Microwave Transmission equipment used for Access Backbone form and integral part of Cellular Mobile system and is deployed primarily to provide cellular service in Semi-Urban and rural areas. Import of these equipments should also attract the custom duty of 21.8% as applicable for MSC, BSC and BTS.

## **4. DIRECT TAX ISSUES**

In addition we have also given our recommendation on direct Tax issues like Tax relief under Section 10(23G), Tax Holiday U/s 80-IA, Application of MAT U/s 115JA, Carrying forward of Accumulate losses etc. Detail of all these items are enclosed.

We seek your kind support on the various proposals listed in the Annexure. Implementation of the same will not only result in the higher growth of the sector but also in lowering the prices of telecom service to the consumers. It would also bring in higher revenues to the government.

Although the points discussed in the budget proposal cover most of the issues facing the industry, we would get back to you if there are any additional points to be taken up for your consideration.

Thanking you in anticipation.

Kind regards,

Sincerely yours,

**T. V. Ramachandran**  
**Director General**