



# Cellular Operators Association of India

RSM/COAI/143  
July 12, 2012

**Shri. J. K. Roy**  
Member(T),  
Department of Telecommunications  
Sanchar Bhawan, 20, Ashoka Road,  
New Delhi.

Dear Sir,

**Subject: DoT Guidelines on Preference to Domestically Manufactured Telecom Equipment in Procurement due to Security Considerations and in Government Procurement**

**References:**

- i. Government of India Gazette dated 10<sup>th</sup> February, 2012
- ii. E-mail from Shri. R. K. Pathak dated 13<sup>th</sup> June, 2012
- iii. UASL Amendment dated 31<sup>st</sup> May, 2011 concerning security requirements.

1. At the outset, we would like to thank DoT for giving us an opportunity to meet on June 12, 2012 and discuss the issues related to preference to domestically manufactured electronic goods in procurement due to security considerations and in Government procurement.
2. The government as notified a Preferential Market Access (PMA) policy in this regard, which details out targets for purchase of equipment fulfilling certain local Value Add domestically.
3. We would like to reiterate that industry fully understands the perspectives of the government of India in promoting the domestic manufacturing of high tech items. The industry stands committed to working in partnership with the Government to further a sustainable manufacturing agenda.
4. We understand that the stated intent of the government in promoting local manufacture of communications equipment is driven by considerations of cyber security, and curbing import dependency arising out of forex considerations
5. While a potential import bill of ~ USD 400 bn in 2020 has been mentioned in this context, we would like to bring to your notice that both TRAI and also a study done by Booz & Company, commissioned by the industry, indicates a figure of USD 17-20 bn in 2020 as the market size for telecom equipment. This represents ~ 3% of the global demand, making India a noticeable but minor player in the field. We would like to reiterate this point, as we are keen important policy decisions are made on correct facts and will help Industry and Government to look at issues in same perspective. The Government may consider undertaking an ABC analysis of the electronic industry and we believe bulk of the market will be consumer electronics.
6. In 1991 India signaled to the world that it had moved away from the "license and permit raj" to a market economy. This policy paid rich dividends with India growing at over 8% for many years. In this regard, as has been mentioned in numerous forums by industry, any such coercive protectionist policies goes back to a pre1991 mindset and have typically have failed to work, due to a number of reasons. The industry functions on a seamless global basis. It is now widely recognized that no nation can produce only for its market, but will have to produce on a global basis.



7. For India to become a centre for manufacturing of such equipment, rather than rely on coercive measures such as PMA, the government needs to implement policies which address acknowledged existing drawbacks (e.g., land, power, labour, infrastructure, etc.). Further, the COAI and Booz & Co. study (along with other such government studies in this respect) has highlighted the existing cost disadvantages, arising out of not just infrastructure constraints but also industry specific issues such as lack of component ecosystem, and which constitute a cost handicap of ~ 7-12%. The government should come out with a time bound package of incentives to alleviate this constraint. Details of such proposed incentives (and constraints) have been mentioned in the COAI and Booz & Co. report, a copy of which has already been sent to DoT.
8. The service providers are already required to comply with the DoT License Amendment Dated May 31, 2011 related to network security. This amendment has clauses whereby all equipment in the network has to comply with "Safe to Connect" requirement. This, by itself, takes care of all the aspects of security related to various equipments in the telecom networks. We believe that the attempt to link the local manufacturing to security consideration is inappropriate as security cannot be guaranteed simply by requiring equipment to be manufactured in India.
9. We understand that PMA does not apply to the private service providers. We reiterate that there is no correlation between security and manufacturing and therefore we strongly believe that PMA should be consistent with WTO guidelines.

WTO Compliance for Commercial Procurement: Relevant Clauses from GATT are as follows:

*Paragraph 1: The [Members] recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.*

*Paragraph 5: No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources. Moreover, no contracting party shall otherwise apply internal quantitative regulations in a manner contrary to the principles set forth in paragraph 1\*.*

*Paragraph 7: No internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions shall be applied in such a manner as to allocate any such amount or proportion among external sources of supply. We suggest that this should be initially implemented with the Government's procurement requirements and not for private industry.*

10. Industry is completely in agreement with the government's urgency to secure the nation's communication infrastructure and ensure adequate cyber security. This is also a priority globally with other countries. We like to bring to your attention to the following:
  - a. Multiple nations have realized that ensuring cyber security has limited overlap with the location of manufacturing; instead, what is required is a multi-pronged approach which involves the establishment of a comprehensive security framework, certifications and testing programs which are consistent with international standards and *ipso facto* work across networks of all kinds.
  - b. Government needs to develop a comprehensive CIIP (Critical Information Infrastructure Protection) framework across all networks under threat – financial, utilities, Government etc. classifying action by critical services sought to be protected.



- c. Basic manufacturing threats and operational attacks can be mitigated by a comprehensive certification and testing program (e.g., Common Criteria) which by design needs to run across all networks of all sorts.
  - d. We are happy to work with the government in a partnership mode in evolving such standards and also bringing in the requisite skill sets for establishing tests and procedures.
11. The Government has proposed a formula for calculating the Value Addition (VA) in order to meet the requirements for domestic manufacturing:
  - a. We believe that such a quantitative measure which ignores current reality, and relies on complicated measurements requiring release of commercially sensitive information, is fundamentally impractical, unrealistic, and will only lead to the re-introduction of the “license/permit raj” which played havoc with our national goals in the past and which we had thought had been successfully left behind. India is already rated amongst the most difficult countries in the world to do business in, and such measures only serve to further detract from its residual attractiveness as a manufacturing location for both domestic and foreign capital.
  - b. Shri. R.K. Pathak’s email as referenced above contains a list of equipment deemed to be security sensitive and hence subject to such local VA requirements. We would request for a detailed discussion of each such mentioned item in terms of its exact security implications, as the rationale has not been specified nor shared.
  - c. Further, to the extent that the government wishes to provide incentives of local VA applicable, may we submit that
    - i. Any such calculations for VA be done at an aggregate level for each network system (e.g., Wireless infrastructure, Wireline, Transport Infrastructure, SIM cards etc) rather than at any individual element as is currently proposed. VA shall also capture a) Material sourced from local suppliers b) Full value of PCB Assembly, in case it is done in-house with SMT/ soldering/process/ testing.
    - ii. The government lays out requirements for VA to be linked progressively to logical evolutionary stages of increasing value add such as Substantial Transformation. This lays a graded evolutionary path towards increasing value addition in a sustainable and non-market distorting manner over a period of time.
12. We propose internationally well accepted and recognised manufacturing practices be adopted. The three stages as laid out in Substantial Transformation should be accepted as meeting the VA criteria in line with the policy. These three stages include:
  - a) **Stage 1:** Final Assembly & Test (FAT)- to be deemed to constitute value add of 25%
  - b) **Stage 2:** FAT + PCBA (Printed Circuit Board Assembly) - to be deemed to constitute value add of 50%
  - c) **Stage 3:** FAT+ PCBA + domestic component sourcing - to be deemed to constitute value add of 80%
13. In support of the government’s efforts in promoting domestic manufacturing, we believe that this can be encouraged in the following ways:
  - a. Develop specialized telecom clusters while addressing infrastructural, fiscal and legal issues, including labour laws.



- b. Fiscal initiatives are the key for accelerated development. Currently, the lack of a local cluster imposes an effective ~ 3% higher end cost on account of freight, etc; Government may wish to consider a time bound (5 years) incentive to overcome this and kick start the coalescence of a cluster in India
  - c. At present, India's component supply base for hi-tech exists primarily in "mechanical" commodities – e.g. metals, wires, chassis, sheet metal, plastics. These constitute ~3-5% of Bill of Material for a typical hi-tech product. In order to move the needle on local BoM sourcing, the Government needs to effect a supply base "lift and shift" strategy across:
    - i. Electronics heavy Electro-mechanical – e.g., power supply, magnetics, ferrites, thermals, etc.- constituting ~25%
    - ii. Silicon – e.g., HDD, optics, memory, IC, ASIC – constituting ~50%
    - iii. Such a journey takes 10-15 yrs (case reference: China, Taiwan, Malaysia) and it's not just 1 or 2 iconic component suppliers but the overall ecosystem thrust is required
  - d. Encouraging foreign investment is the key to transferring know-how and developing capabilities to enable end-to-end product development. Need to strengthen IP protection and infrastructure to facilitate this.
  - e. Initiatives providing seed funds and infrastructure for early stage ventures need to incorporate global best practices.
  - f. Lack of comparable commercial financing options costs local small players significantly in the market. This gap needs to be plugged from both supply and demand perspective
  - g. A fund which allows local players to offer competitive contract financing options to buyers should be established
  - h. Operators may be incentivized via license fee rebates
  - i. To build the ecosystem, we need three or four independent mission mode taskforces to foster partnership between Government, industry & academia and focus on developing commercializable technologies.
  - j. Labour laws to be simplified and SEZ to be declared "essential services" and NO strikes should be permitted under any circumstances.
14. In summary, we request DoT to provide a time bound action oriented plan to facilitate the achievement of the proposed Value Addition targets specified in these guidelines. You will appreciate that both the Government and the industry need to work together in this regard. However, aspects which are under the direct control of the Government have to be put in place in a clear, time bound action plan. We request that before prescribing the proposed PMA and Value Addition as given in the Appendix. DoT provides the industry with clear instructions and guidelines as per the NTP 2012 on:
- i. A road-map to align technology, demand, standards
  - ii. Forecasting of technology and product development.
  - iii. Requisite funding (pre-venture and venture capital), management and mentoring support.



- iv. Indicating specific plans for Electronic Design and Manufacturing Clusters for designing, developing and manufacturing of telecommunication equipment.
- v. An aggressive and globally competitive component supply base “lift and shift” strategy and execution
- vi. Creating funds to promote indigenous R&D, Intellectual Property creation.
- vii. Suitable testing infrastructure for carrying out conformance testing.
- viii. Stable tax regime for telecom equipment manufacturing.
- ix. Provision of incentives to the Indian product manufacturers for domestic deployment and exports.

15. It is requested that the final proposal of the DoT on the guidelines for telecom equipment procurement and preferred market access be shared and discussed with the industry prior to finalisation/ notification for implementation.

We hope our submissions will merit your kind consideration. We would once again like to reiterate, our membership that comprises of all leading Telecom operators and all the significant technology vendors stand committed to working with the Government to evolve a sustainable manufacturing agenda. We look forward to engaging with you on positive and constructive conversation in this regard.

Regards,

**RAJAN S. MATHEWS**  
Director General

**CC : Shri. R. K. Pathak, DDG (IP), DoT**