



Association of Unified Telecom Service Providers of India

B-601, Gauri Sadan, 5, Hailey Road,
New Delhi-110 001
Tel: +91-11-23358585/8989
Fax: +91-11-23327397
Email: auspi@auspi.in
Web: www.auspi.in

Cellular Operators Association of India

14, Bhai Veer Singh Marg,
New Delhi- 110 001
Tel: +91-11-23349275
Fax: +91-11-23349276/77
Email: contact@coai.in
Web: www.coai.in

JAC/2013/027
April 15, 2013

Dr. Ajay Kumar,
Joint Secretary,
Department of Information & Technology
Electronics Niketan, 6, CGO Complex,
Lodhi Road, New Delhi: 110003

Dear Sir,

SUBJECT: ROUNDTABLE CONFERENCE ON PREFERENTIAL MARKET ACCESS (PMA)

1. At the outset, we would like to thank you for giving us an opportunity to present our views during the Roundtable Conference.
2. 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 set up a sustainable manufacturing agenda encompassing the following:
 - a. Healthy competition for all
 - b. No back door entry for a specific segment
 - c. No dilution on price and quality
 - d. Level playing field for all
3. India will account for at least 3% of the global market by 2020 (USD 17 bn). It is pertinent to note that no country is self-dependent in all aspects of manufacturing value chain, and thus takes time to develop the value supply chain that can act as a smart enabler to the nation's need. To the best of our knowledge, even China has only achieved 45%.
4. No hi-tech company can manufacture their entire portfolio in India. Given a global supply chain and wide portfolio, India should aim to become an export hub for select portfolio. No Manufacturing site manufactures the entire portfolio.
 - a. Current India Manufacturing economics & ecosystem, India Manufacturing would be relevant for low to medium complexity products with high volumes
 - b. Consequently, global hi-tech companies who have a broad portfolio should be allowed to continue importing – esp. products with high complexity and low to moderate consumption in India market.

5. With the above background, we would like to make the following submissions on the Draft Guidelines for Providing Preference to Domestically Manufactured Electronic Products Due to Security Consideration and Draft Guidelines for Providing Preference to Domestically Manufactured Electronic Products in Government Procurement:
- a. The service providers have already been mandated 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 equipment 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. We have represented on this issue vide our earlier submission no. RSM/COAI/070 dated April 25, 2012 and stand by it.
 - b. The DeitY needs to define the security implications that may be there with respect to the Products. A suggestive matrix should be drawn to identify the risk and the product.
 - c. We notice that there is a difference in the value added percentage being provided by DoT as well as DeitY. This anomaly needs to be corrected and only realistic
 - d. We believe that the policy should be incentive based and not penalty based. For example, in case the service providers meet the Value Addition as per the policy for specified years, there should be some kind of incentive that should be provided to the service providers, maybe in terms of reduction in license fee for that specified period.
 - e. Kick starting local manufacturing calls for developing specialized telecom clusters while addressing infrastructural, fiscal and legal issues, including labor laws.
 - f. We agree with the Government that while finalizing the vendor, the service provider will ensure that there is no dilution in price and quality, however, along with this, the service providers also need to take care of Financing as well as Indemnification.
 - g. We are also distressed to see inclusion of Health, Animal and Plants in an Electronic Policy. We would like to submit that different Ministries are already taking care of these aspects and moreover even in Telecom, a separate set of guidelines already covers it. Hence, there is no need to include it in this policy.
 - h. The Government has proposed a formula for calculating the Value Addition (VA) in order to meet the requirements for domestic manufacturing:
 - i. 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.
 - ii. Further, to the extent that the government wishes to provide incentives of local VA applicable, we recommend that:



- aa) 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.
- ab) 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
- ac) The existing manufacturing set up, practices and procedures should be recognized and included as part of the operational guidelines.
- ad) We also 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:
- (i) **Stage 1:** Final Assembly & Test (FAT)- to be deemed to constitute value add of 25%
 - (ii) **Stage 2:**FAT + PCBA (Printed Circuit Board Assembly) - to be deemed to constitute value add of 50%
 - (iii) **Stage 3:** FAT+ PCBA + domestic component sourcing - to be deemed to constitute value add of 80%
- i. Our inputs in track change on both the Policy documents are enclosed as **Annexure – 1** and **Annexure – 2**.
- j. We have already stated that each Department should notify its list of products having security implications and the list of telecom equipment should be deleted from the draft guidelines being issued by DeitY. A suggestive list on telecom which was submitted by the industry to DoT is enclosed once again for your ready reference as **Annexure – 3**.

We hope our above submissions will merit your kind consideration.

Kind regards,

Ashok Sud
Secretary General-AUSPI

Rajan S. Mathews
Director General-COAI

CC : Shri. J. Satyanarayana, Secretary, DeitY
: Shri. M.F. Farooqui, IAS, Secretary, DoT
: Smt. Rita Teotia, Addl. Secretary T, DoT