



Cellular Operators Association of India

RSM/COAI/2013/089
April 30, 2013

Shri. Manmohan Singh,
Hon'ble Prime Minister of India,
Prime Minister's Office,
South Block, Raisina Hill,
New Delhi

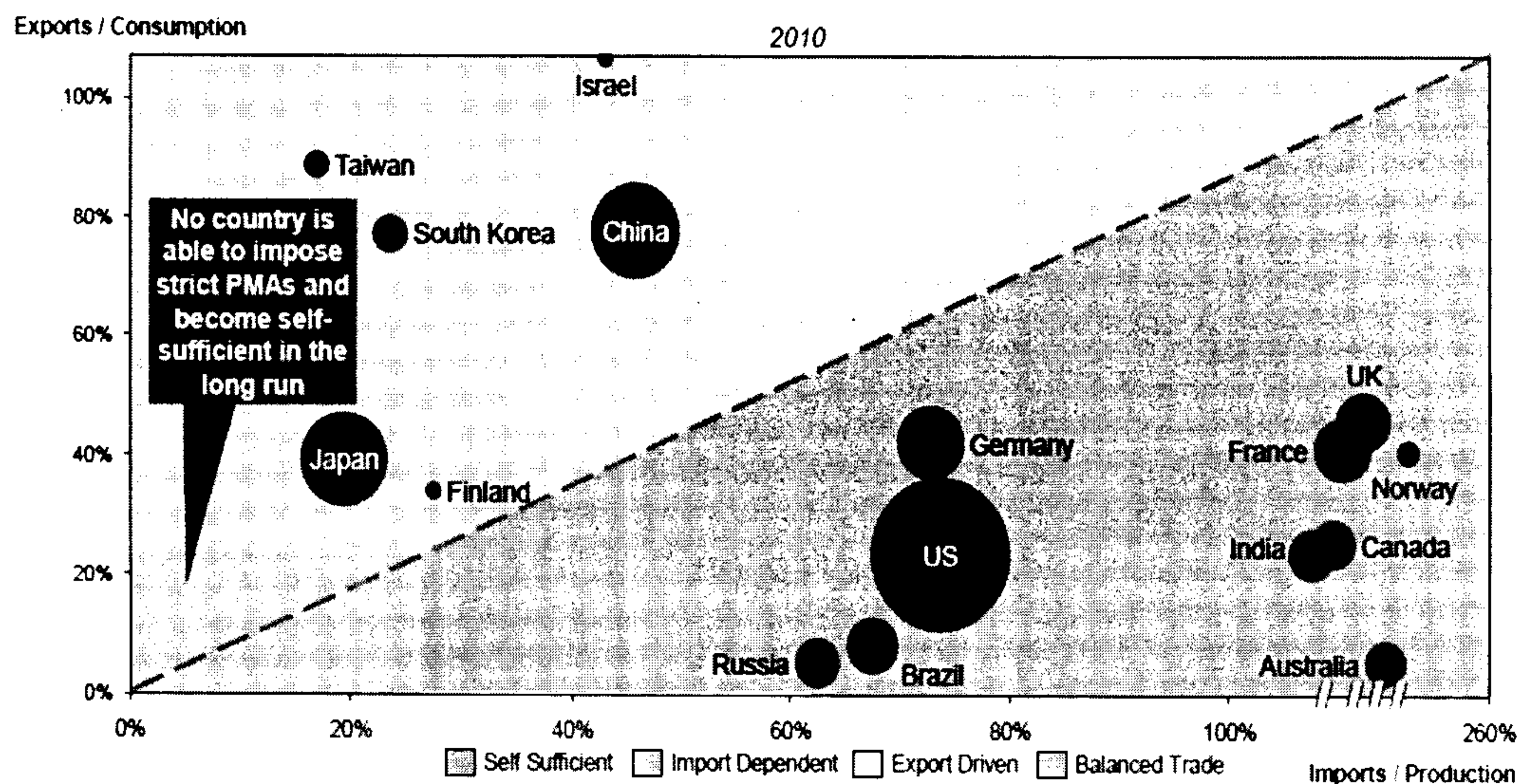
Respected Sir,

**Subject: Policy for Preference to Domestically Manufactured Telecom Products
in Procurement due to Security Considerations:
PREFERENTIAL MARKET ACCESS POLICY (PMA)**

1. The Department of Information Technology (DeitY) had issued a Notification No .8 (78) /2010- IPHW dated 10th February, 2012 for providing preference to domestically manufactured electronics products as part of procurement process for the electronics products that have security implications for the country and the DoT was to specify the Telecom products required to be notified for the PMA under this Policy.
2. This is with reference to the recent media articles (copies enclosed) stating that your office has sent a Note to the Ministry of Communications and IT (MoC&IT) asking for comments on how the PMA policy aims to link manufacturing requirements to national security.
3. Sir, while COAI supports the encouragement of Domestic manufacturing as a National priority, we are happy to see that your office has noticed and raised appropriate concerns in the draft PMA policy. We have been raising these concerns with various Ministries and we also strongly believe that there is no co-relation between mandating Preferential Market Access (PMA) and security of telecom networks and services. 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 through a mandate of PMA. Indeed, it is not where but how a product is manufactured that matters.
4. With specific regard to security of the national telecom networks which the DoT indicates as Critical Infrastructure, it is also important to note that the private licensees are already required to provide security on the network in compliance to DoT License Amendment No. 10-15/2011-AS.III/(21) dated 31st May, 2011. This amendment has clauses whereby all equipment in the network (and not just 14 equipment as proposed by DoT) has to comply with "Safe to Connect" and international standards certification, requirements. The Amendment also mandates yearly audits of the network of the telecom service providers. Thus, it takes care of all the aspects of security related to various equipment in the telecom networks.
5. Implementation of PMA as envisaged presently by the Government will significantly hamper the growth of manufacturing industry in India and will add impediments to the growth of India's telecommunications sector, slow down network rollout and add a considerable pressure on monitoring and reconciliation of the manner of procurement.



6. It is important to keep in mind the current economic scenario both in the country and internationally. As is quite evident that the telecom sector is already facing a significant crisis of investor confidence caused by an increasingly uncertain regulatory environment and mandates such as PMA will further undermine the prevailing investor confidence levels.
7. PMA, as defined in the draft policy, is based on unrealistic manufacturing capabilities and has not taken into account the existing and proposed manufacturing set up and its dependence on the yet to be established eco-system. Moreover, extension of PMA to private sector procurements would severely impact the business models of international information and communications technology (ICT) competitors and reduce the competitiveness of India's own ICT sector.
8. Applying the PMA to private sector procurements, however, constitutes an unprecedented interference and significant disruption in the global telecommunications marketplace, while raising significant questions about India's commitment to the rules-based trading system established under the World Trade Organization (WTO). Details given in **Annexure – 1**.
9. 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% domestic manufacturing.



Source: Global Insight and Booz & Company analysis

10. You will well appreciate that no high-technology 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 products. No Manufacturing entity manufactures the entire portfolio and note that:
 - 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 – especially products with high complexity and low to moderate consumption in India market.



11. We take this opportunity to convey that the industry fully understands the perspectives of the Government of India in promoting the domestic manufacturing of high tech items and believe that there are various ways to encourage domestic manufacturing in India, which are listed in **Annexure – 2**. We request that these be attended to on priority by the Government to enable the achievement of the objectives envisaged for the enhancement of the domestic electronics manufacturing sector.

In conclusion we would like to submit:

- a. We support Government of India's objective on setting up manufacturing but strongly believe a strategy of creating conducive eco-system coupled with incentive schemes is the way forward and not PMA.
- b. We are for encouraging manufacturing in India but the Government needs to create an enabling environment for manufacturing in India and make electronics and telecom equipment manufacturing in India sustainable and economically viable.
- c. Security and Manufacturing are distinct topics, efforts to mix the two is misleading. Clearly there is no co-relation between mandating Preferential Market Access (PMA) and security of telecom networks and services.
- d. We understand that PMA will not be applied to the private sector. Applying the PMA to private sector procurements constitutes an unprecedented interference and significant disruption in the global telecommunications marketplace and will impose further breaks on an already beleaguered Indian telecom industry.

The Telecom industry humbly requests that the proposed PMA policy for electronics and specifically the manner in which this is being applied for Telecom products be reviewed.

Kind regards,

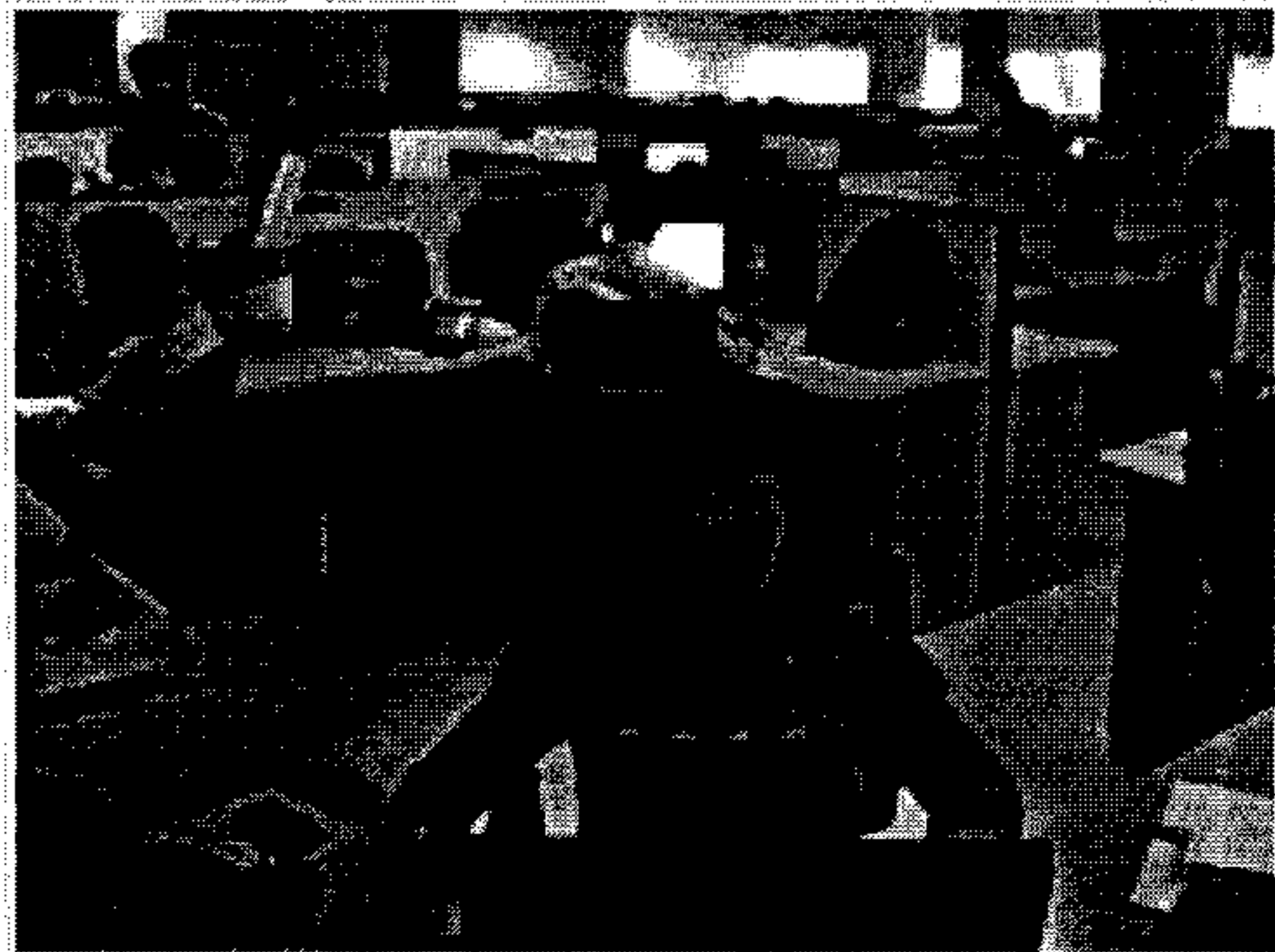
Rajan S. Mathews
Director General

CC : Shri. Pulok Chatterji, Principal Secretary to the Hon'ble Prime Minister

Surajeet Dasgupta | New Delhi April 26, 2013 Last Updated at 19:25 IST

PMO moots changes to preferential market access policy

Suggests delinking security issues and manufacturing location



The Prime Minister's Office (PMO) has suggested substantial changes to the preferential market access (PMA) policy guidelines for information technology and electronics products, including delinking "security" issues and "manufacturing location".

It said encouraging indigenous manufacturing at the cost of new and better products would lead to distortions in the market. Instead, it suggested audits, certification and setting up standards to handle security issues and a dialogue with the industry on ways to address security concerns.

In a note for discussion with the Department of Telecommunications (DOT) and the Department of Electronics and Information Technology, the PMO suggested a moratorium on implementation of the policy till adequate assessment of manufacturing capability for products that qualify for domestic value addition was made.

The note also suggested incentivising capability building for products not made in India.

The PMA policy stipulated that the government would have to procure a certain percentage of its requirements from domestic manufacturers based on a timetable. Similarly, domestic manufacturers have to value-add to production other wise they would be considered imported products.

The policy was notified in October 2012. Detailed guidelines are yet to come. The thinking behind the policy was to give a fillip to domestic production as well as assuage the concerns in the government on security threat from imported products.

The PMO note said the domestic value-added criterion, key in manufacturing, was onerous and not based on any study. It argued that as component manufacturing in India was limited, the capability needed to be created first.

Value addition calculations based on bill of materials were complex and could lead to creative accounting and put large compliance burden and bureaucratic oversight, it said.

The note has also said the PMA policy should not be extended to the private sector but should be limited to government procurement only. It's response was to PMA policy stating that it will cover procurements by the government and also by its "licencee", which effectively meant it would be applicable on private telecommunication companies and banks.

The substantial changes suggested by the PMO came in response to strong opposition from foreign companies. A few months back, the US-India Business Council and 37 business groups and companies from around the world had asked the Indian government to rescind the PMA policy and avoid “market-distorting policies”.

The PMO said the policy stipulates high percentage of value addition over a short period, not allowing time for manufacturing efficiencies. It said there was no nodal agency to lay down specifications and identify specific products. This should be addressed first and the uncertainty over which product should be notified first cleared.

Involvement of multiple agencies and allowing any government department to notify its list of PMA products, it said, opens avenues for graft, bureaucratic delays and compliance issues.

It had argued that manufacturing in India was not cost competitive with global manufacturing benchmarks, as domestic players had six% to eight% landed-cost disadvantage. Therefore, import duty issues and poor infrastructure have to be addressed. Special incentives for private sector would be required to help build manufacturing capabilities.

PMO flags security link to IT Ministry's go-local policy

THOMAS K. THOMAS

New Delhi, April 26:

The Prime Minister's Office is worried about the IT and Communication Ministry's policy of encouraging domestic manufacturing.

The PMO has sent the Ministry a note asking for comments on how the policy aims to link manufacturing requirements to national security.

'Market distortions'

"Efforts to link manufacturing with security is questionable. It will lead to distortions in the market. Security objectives can be met through audits, tests and need to be handled separately," states the note sent by the PMO.

The Communications Ministry has proposed a policy that makes it mandatory for companies, government institutions and telecom players to buy at least 30 per cent of their electronics and hardware requirements from manufacturing facilities in India.

The policy also stipulates that manufacturers must ensure that value addition happens locally.

The PMO's note assumes significance in the light of the protests by the US Trade Representatives and the European Commission on grounds that the policy goes against WTO agreements.

Most foreign hardware vendors have also raised objections saying the policy is tantamount to forcing them to set up a manufacturing unit.

The Commerce Ministry had also said the policy would be hard to defend under international trade treaties.

The Communications Ministry has, however, pushed ahead with the policy on the ground that India needs to safeguard its national security and local production would enable law enforcement agencies to better monitor for bugs and spyware embedded in the equipment.

Import savings

The Ministry's position is backed by local manufacturers which say that the Government should be concerned about the huge import bill arising from importing hardware worth billions of dollars every year.

The PMO, however, wants to know how the policy will be implemented.

"There is no nodal agency to lay down specifications or identify products that should be taken up first and, more importantly, there is uncertainty on which product may get notified," stated the note.

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(This article was published in the Business Line print edition dated April 27, 2013)

It is vital to link domestic manufacturing with national security, says DoT

By Joji Thomas Philip, ET Bureau | 30 Apr, 2013, 05:00AM IST

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NEW DELHI: The telecom department (DoT) will inform the Prime Minister's Office (PMO) that it is vital to link domestic manufacturing with national security, as it attempts to address concerns that its new policy that mandates a minimum 30% domestic sourcing of all telecom and electronic products, would lead to distortions in the market.

The Prime Minister's Office had recently raised concerns on the draft Preferential Market Access (PMA) norms and suggested that the 'security' and 'manufacturing locations' be delinked from the policy, while warning the new rules could create market distortions.

The PMO had also said that security objectives could be met through audits, tests and these issues needed to be handled separately, even as it suggested a moratorium on the implementation of this policy until satisfactory assessment of domestic manufacturing capabilities had been made.

As per the proposed policy, 80% of all security-sensitive telecom and electronic products must be sourced domestically by 2020.

The DoT, in its draft reply to the PMO, a copy of which was reviewed by ET said that telecom is a critical information infrastructure where any disruption would impact all economic and strategic sectors in the country, and added that security of such networks were of paramount importance.

While noting the PMO's argument that audits and testing could address security issues, the department said it is 'important to ensure that the environment in which the telecom product is manufactured is under sovereign control so that the problem is controlled at the root itself'.

"Thus, linkage of local manufacturing, development of IPR for new technology and security is justified for greater assurance. It is clarified that 100% foreign direct investment is permitted for manufacturing and there is no compromise either on quality or price preference to domestic units. Under PMA, there is no distinction between Indian and foreign company. All companies manufacturing in India are judged on value addition criterion to qualify as domestic... ideally, 100% manufacturing of these products (that have major security implications) should take place indigenously. However, realising the fact that this cannot be achieved in one go without disrupting the supply, in most cases, phased approach has been proposed to be adopted," states the DoT's draft communication to the PMO.

Trade lobbies across the globe have asked India to clarify whether PMA given to domestic telecom gearmakers on security grounds will only apply to government contracts or also include private procurements.

The draft response to the PMO adds the rules will apply to both government contracts as well as orders by private companies, but states that the 'list of products having security implications were being decided by an expert committee with rationale, and only active wireless products that are vulnerable to security of network' would have to be manufactured indigenously.



The Prime Minister's Office had recently raised concerns on the draft Preferential Market Access (PMA) norms and suggested that the 'security' and 'manufacturing locations' be delinked from the policy, while warning the new rules could create market distortions.



India's commitment to the rules-based trading system established under the World Trade Organization (WTO)

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.



**Industry Suggestions to Encourage Domestic Manufacturing of
Electronics and Telecom Products in India**

1. In support of the government's efforts in promoting domestic manufacturing, we believe that this can be encouraged in the following ways:
 2. Develop specialized telecom clusters while addressing infrastructural, fiscal and legal issues, including labour laws.
 3. Fiscal initiatives are the key for accelerated development. Currently, the lack of a local cluster imposes an effective 6-8% 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.
 4. 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:
 - a. Electronics heavy Electro-mechanical – e.g., power supply, magnetics, ferrites, thermals, etc.- constituting ~25%
 - b. Silicon – e.g., HDD, optics, memory, IC, ASIC – constituting ~50%
 - c. 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.
 5. 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.
 6. Initiatives providing seed funds and infrastructure for early stage ventures need to incorporate global best practices.
 7. 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
 8. A fund which allows local players to offer competitive contract financing options to buyers should be established
 9. Operators may be incentivized via license fee rebates
 10. 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.
 11. Labour laws to be simplified and SEZ to be declared "essential services" and NO strikes should be permitted under any circumstances.
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