



Association of Unified Telecom Service Providers of India

AUSPI/12/2011/009

21st January, 2011

Dr J S Sarma,
Chairman,
Telecom Regulatory Authority of India,
Mahanagar Door Sanchar Bhawan,
Jawaharlal Nehru Marg,
New Delhi.

**Sub: AUSPI's Response to TRAI Consultation Paper No.17/2010 on
'Encouraging Telecom Equipment Manufacturing in India'**

Dear Sir,

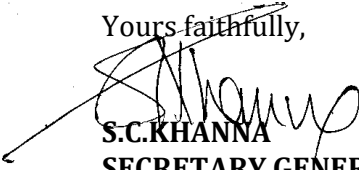
We congratulate the Authority for coming out with a consultation paper on 'Encouraging Telecom Equipment Manufacturing in India' at an appropriate time when the telecom equipment requirement in our country is getting its momentum.

We believe that any manufacturer developing telecom equipment must ensure conformance to global telecom standards to meet the ever evolving technological innovations and suit the requirement of Indian service providers, who have state-of-the-art network using latest technology and should not fall in a trap resulting in roadblock for the entire sector.

AUSPI's Response to the specific issues raised in the consultation paper is attached herewith and requests the Authority to kindly take these views into consideration.

Thanking you,

Yours faithfully,


S.C.KHANNA
SECRETARY GENERAL

Encl: As above

Copy to:

- 1) Shri R. Ashok, Member, TRAI
- 2) Prof. H S Jamadagni, Member, TRAI
- 3) Shri R. K. Arnold, Secretary, TRAI
- 4) Shri Lav Gupta, Pr. Advisor (TDRA), TRAI
- 5) Shri Arvind Kumar, Advisor (I&FN), TRAI



AUSPI'S RESPONSE TO TRAI CONSULTATION PAPER NO.17/2010 ON 'ENCOURAGING TELECOM EQUIPMENT MANUFACTURING IN INDIA'

Research & Development

- 3.1 What should be the objective and focus of the R&D effort for 2020?**
&
3.2 Flowing from the above, what should be the objective and focus of the R&D effort for 2015?

We have seen massive growth in telecom sector in the last one decade in our country. Consumer demands and needs are changing rapidly with time as new technologies are coming up in the world with lot of new features and innovations that attracts the consumer. To match the pace of growth and demands of consumer a robust infrastructure for R & D is required in our country.

For a sector to prosper and grow it must get ahead with innovation which hinges on research and development (R & D). Research seeks to make basic discoveries and uncover new principles or facts so far unknown or unrecognized. Development concerns the most economically feasible method for applying the facts. Industry future growth depends to a large extent on today's research and the fact that money invested now in R & D probably will generate income in the years to come.

Any manufacturer developing telecom equipment must ensure conformance to global telecom standards to meet the ever evolving technological innovations & suit the requirement of Indian service providers, who have state-of-the-art network using latest technology. We should not fall in a trap resulting in roadblock for the entire sector. In this regard, we quote from DoT Committee report, which is self explanatory.

Quote

"Rapid technological changes leading to obsolescence and inadequate focus on R & D. C-DoT and other R & D institutions could not develop new technologies, resulting into closure of units' set-up for manufacture of their earlier products due to decline in demand."

Unquote

Specification and standardization process in R & D have to be seen at a macro level internationally so that innovative products and technology can be introduced immediately following the international developments.

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Research & Development is also required to deal the telecom issues related to national security. There is a need for development of computational approaches using artificial intelligence techniques, biometric devices, crypto analysis, voice recognition technologies, grid surveillance, encryption/decryption, and mining of data bases etc. for security of the telecom and data networks and to provide useful inputs to the national security agencies.

There is an urgent need to start research activity on centralized communication security research and monitoring and subsequently set up “Centre” under the aegis of a Government organization. The “Centre” must have central connectivity for each service provider and LEAs. All concerned Government security organizations involved in such activity should have state-of-the-art equipment and requisite technical skills to undertake the activity. It will ensure efficient, secure, transparent and mediation of intercepted information.

In view of the fact that there is a lot of duplication with different LEA having their own processes and the present limitation to share the information with other authorities. This results in a major void in tracking undesirable activities. Further, they do not have evolving technologies to satisfactorily monitor and minimize the security hazards. It is utmost important that there should not be any duplication.

3.3 *What is the level of ‘Indian Products’ that we should attempt to achieve at the end of 2015 and 2020?*

Focus should be in areas where India can take a lead and not follow the rest of developed countries. We should leverage our existing strengths and focus on software applications, content relevant to India and developing world. Focus should not be on hardware which is competitively available. Also, The R&D budgets resources should be prioritized apportioned as under:

- a) Educational institutions, research programmes, projects for long term capability building.
- b) Current issues faced by the country and industry viz security/LI.
- c) New technologies which are just beginning to emerge worldwide.
- d) Applications and relevant content.

3.5 *Which Institutions, whether in the Public or private sector, are best suited to carry out these effort? And why?*

The R&D centers should be governed by the collaboration of Industry Govt Departments like CDOT, TEC etc. And reputed educational Institutions like IISC,



IITs etc. or may collaborate with some international institutions so that we can develop world class products.

3.6 *What can be the linkages established with Institutions or Indians abroad? Will this reduce time delays?*

Govt to Govt level sponsored institutional collaboration support for R&D funding support should encourage the collaboration between the industry sponsored Indian institutions for the development of world class products as per the future needs of the industry. The institutions like IITs, IIS Bangalore, TEC, CDOT and other government agencies have strong capabilities subject to availability of budgets for R&D. We can also take the support of NRI forums who are ready to contribute towards the cash incentive R&D in the home country.

3.7 *What should be the role of the Government and the Industry in regard to the R&D effort? In particular, what should be the investment, if any, by the Government?*

There should be a coordinated approach for the R&D activities. Active participation of the private sector in many of the projects would enable the flow of benefits of research to both public as well as private sectors. At least two world class research and development centres in public – private partnership mode may be promoted. One centre would be exclusively for developing products for rural applications in PPP mode. This centre may be funded by Government and C-DoT may be restructured to perform these functions. The other centre may be responsible for driving global standards in international bodies such as ITU/ISO etc. suited to Indian industry, collaboration with leading institutions like IISc, IITs, etc. for research, commercial development of future technologies/ applications, etc. and continuous up-gradation of technologies and manufacturing process for the converged telecom services. Premier technical institutions would also be encouraged to undertake R&D activities sponsored by the telecom service providers and equipment manufacturers to develop multi-dimensional technologies in telecom sector. In order to expeditiously convert new product designs to manufacture and launch in domestic and international markets, it is recommended that an Advanced Prototype facility having world class facilities of CAD, CAM, etc may also be set up under a strategic alliance with developed countries. This centre will be funded by all stakeholders like service providers; equipment manufacturers etc. and it will have flexibility for hiring the best talent available in market at attractive remuneration. The current efforts by operators to setup Telecom excellence centres in collaboration with IITs/IISc are more focused on operators needs/issues and may not be intended towards local manufacturing the R&D efforts have to be IPR and Manufacturing oriented. Make R&D and



manufacture attractive by incentivizing on land, taxation, labor policies, financing, and exports

3.8 *Should an R&D fund be set up? If so, how can the fund be managed effectively to meet its objectives?*

Yes the R&D fund should be set and it should be focused on basic research/development efforts and inclined to the research institutions and universities

3.9 *What could be the fiscal incentives to be offered by the Government? Should such incentives be linked to any outcome?*

The current efforts by operators to setup Telecom excellence centers in collaboration with IITs/IISC are more focused on operators needs/issues and may not be intended towards local manufacturing and the R&D efforts have to be IPR and Manufacturing oriented. Make R&D and manufacture attractive by incentivizing on land, taxation, labor policies, financing, and exports. For new emerging technologies the R&D budgets of 7-10 % of capex are the trend in developing countries.



Sourcing of Inputs

3.10 *What are the components that can be manufactured in the country with due consideration to commercial viability?*

For achieving higher degree of local value addition and making optimal use of India's capabilities in software, design, and system integration, it is essential to have chip manufacturing capabilities within India. Government may have strategic alliance with some of the leading vendors (LG, Samsung, Nokia, Huawei etc) and facilitate setting up of FAB by announcing special package of incentives. It is learnt that 20 new FAB would be built up in China between now and 2008. Worldwide silicon shipments have grown to 10% in 2003-04 and 20% to 2004-05. Taiwan and Korean models are relevant for setting up of FAB units manufacture for manufacture of semiconductor components in India.

3.11 *What should be the degree of indigenous manufacture of components that we can reasonably achieve a period of 5/10 years?*

The degree of indigenous manufacture of components is likely to improve in a period of 5/10 years if they are well supported by timely approvals and budgetary support which should be given to the manufacturing units. Special R&D economic zones be created where all taxes rebates be given for R&D units. We have got the live example of Software unites how Govt gave incentives to all the Software developments and now India is recognised World Power House in Software Developments. It is due to the foresight of the Govt of India during the last one decade. Now Govt shall endeavour to facilitate for the R&D revolution and make India a recognised World Power in R&D.

3.12 *What, do you think, is the feasibility of setting up of commercially viable fabricating units to manufacture chips, ICs?*

For achieving higher degree of local value addition and making optimal use India's capabilities in software, design, and system integration, it is essential to have electronic component manufacturing capabilities within India. Government may have strategic alliance with some of the leading vendors and facilitate setting up manufacturing facilities by announcing special package of incentives by creating SEZ 's for manufacture of Semiconductor devices and required devices for the industry. The failure of Semiconductor Complex Limited a Govt of India may be evaluated and corrective steps required for setting up such units may be taken.



3.13 *Is the Duty on components currently being levied high? If so, on what components can the duty be reduced? What are the financial implications and the corresponding benefits?*

Yes.

3.14 **Should electronic Manufacturing service companies be incentivized? If so, how?**

Yes, the benefits in exports should be given, so that the industry may compete with global market easily.



Manufacturing of equipment

3.15 Should the concept of mandatory use of Indian products/Indian manufactured products be introduced in the Indian context? If so, can this be introduced immediately or should it be introduced at a later date? If so, by what date?

AUSPI does not subscribe the concept of mandatory use of Indigenous developed products in view of the fact that every operator is very conscious of delivering better quality of service to his customers and thus gets the best equipment available globally and ensures robust network in order to address large volume of customers and to meet their demands. Hence operators should be allowed to use all products globally available and indigenous developed products so as to have latest equipment and network system.

Indian products must compete with the international products in terms of price and quality. Protection does-not help growth of the sector. It only promotes inefficiencies and retards innovations. All possible incentives must be given to promote manufacturing and R&D in India. Non-tariff barriers to restrict imports is not in the interest of telecom sector and also not consistent with WTO requirement.

Government has also started imposing anti-dumping duty to telecom items like SDH which should be avoided.

Mandatory use of Indian products may not be in line with GATT. Use of Indian equipments in the telecom networks should not be Regulated/Mandated and it should be left for the market forces.

3.16 What could be the percentage to be stipulated for both these categories?

There should not be any mandate as Indian telecom equipment industry is still in the run to provide robust equipment matching global standards to address large volume of subscribers which India is catering. In addition , domestic telecom equipment manufacturers have to compete with the global players as there is no protection to the domestic industry after implementation of ITA under WTO.

AUSPI view is that there should not be any percentage mandated for the use of Indian/Imported equipments.



3.17 *What should be, if any, the incentives to be given to individual service providers for use of Indian equipment?*

If the imported telecom equipment is subjected to zero import duty, reciprocal tax breaks can be provided. Any incentive that negatively discriminates imported equipment against the Indian equipment would lead to issues of level playing field.

3.18 *Likewise, what could be the disincentives, if any, for use of imported equipment? This is compatible with international agreements?*

There should not be any disincentives for the use of imported equipment. Any disincentive would not be in line with GATT as well as Indian commitment under the Information Technology Agreement (ITA).

3.19 *What could be the duty structure to be imposed on imported goods?*

India has committed in the Information technology Agreement that there should be NIL basic custom duty on import of specified IT items which include most telecom items. Countervailing duty should not be more than Excise duty so that there is level playing field between Indian and foreign manufacturers.

Imposing any other duty will result in deep adverse effect on the telecom industry and will impact economics, quality and timeliness of the service provided and would inevitably result in increases cost to the final consumer, delay in effective roll-out of services. However duty can only be imposed on those goods that are not covered under the ITA as per India commitments for telecom equipment.



Promoting Domestic Manufacture

3.20 *Should a percentage of the Indian market be reserved for the Indian manufacturers? If so, what should be the percentage?*

&

3.21 *What, if any, could be the implications of such a step?*

No Sir, it will be discriminatory. Protectionist policies do not promote manufacturing. Indian manufacturing should grow on its strength and by competing against global manufacturers. Any protection extended to one category of manufacturers would not be in the interest of healthy growth of telecom sector.



Setting up of Special Zones or Telecom Clusters

3.22 What, if any, are the advantages of setting up of clusters for manufacture of Telecom equipment within the country?

India has always been an attractive destination for international companies across the world. With its rapidly growing economy, India is making developments in the entire sector especially in telecom. The telecom sector is gaining momentum with the advent of private players in the field.

Telecom sector has registered enormous growth over the years; as a result it has drawn attention of global players. Global players are setting up manufacturing facilities for wireless equipments and terminals. Other leading companies are also likely to invest in this sector.

Development of domestic market and integrating the Telecom hardware sector with global stream has to become internationally competitive. In view of the special characteristics of Telecom and the elimination of duties on this segment as per commitment to WTO, this sector needs a special sectoral treatment rather than governed by general policy frameworks.

For promotion of telecom equipment manufacturing, Telecom clusters need to be set up across the country as these clusters are an important means of achieving success in the manufacturing sector. Telecom clusters should be bonded areas with each location having its own focus. Industries promoted in these parks should not be seen in isolation but in relation to each other – forward and backward linkages in the value chain.

Since the potential customers/investing industries in these zones may include manufacturers with export operations, MNCs with alternate choices and their investment decisions would be based on achieving global competitiveness through their operation in such proposed cluster parks, the infrastructure in these parks should be such as to support efficiency and competitiveness with similar zones in other countries.

3.24 How can the financing of such clusters be best done, based on international experience?

The government may consider providing financial support in the development of core common infrastructure in such SEZ for telecom equipment manufacturing. An amount equivalent to 5% of the total investment by the SEZ developer and the units to be located in the respective SEZ subject to a maximum of Rs. 50 crore may be provided by the Government. However, only

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those product specific SEZs intending to invest at least Rs. 100 crore in an area of 10 hectares should be eligible for such support from the government. Promotion of such clusters to be encouraged in the Private sector and given the duty free facility as well as income tax benefit as provided to promoters of SEZ.

3.25 What would be the lead time required for setting up of such clusters?

The clusters should be set as soon as possible so that the Indian products should occupy the Indian and global market rapidly.

3.26 What are the considerations for the location of such clusters?

The location of clusters should be near to port (Air port or Sea port) so that the product should be easily exported. Also, the Availability of skills, easy access to market, good infrastructure like road, electricity, water etc, are the points should be consider for developing the industry . The state government policy should be very good for growing up these industries.



Testing, Standardisation and Accreditation

3.27 What, in your opinion, would be the best agency to set up and manage such a Common facilities?

As per the standardisation of products, manufactures must have some level of participation in developing the standards at the already present international bodies and along the way, if a manufacturer from India wants to introduce a change in the standards, firstly they need to be a member of the related standards body. Contribution to the framework is an especially important step towards encouraging local manufacturing of telecom equipment. In addition, it is very important that any manufacturer developing telecom equipment must ensure conformance to global telecom standards.

Regarding setting up of best agency for managing common facilities, it can be done at an appropriate time by the Government in consultation with some international agencies so as to meet the global standards.

3.28 What would be the facilities and the level of investment required in such a facility?

The facilities like the availability of skills, easy access to market, good infrastructure like road, electricity, water etc, are the points should be consider for developing the industry.



Duties and Levies

3.33 What would you suggest should be the tax structure in respect of imported and indigenous manufacture of telecom equipment, keeping in view the international agreements?

Manufacturing of telecom equipments in India is not profitable as quantum of various taxes (CST+ST+VAT) charged on locally produced goods in India is very high.

State Government may be requested to exempt octroi, entry tax, local sales tax etc. on the telecom equipments at least up to 2015 . Free movement of the equipment/raw materials should be ensured. Single window clearance for all State Government approvals should be provided.

Export benefits in India (DEPB) are designed for neutralization of import duties that go into the process of manufacture. At present DEPB takes into account the impact of import duties leviable upon the inputs of the exported products. It does not take into account the other duties, taxes and levies within the domestic tariff area like ST/Octroi/service tax/entry tax etc. India has multiple taxes and neutralization of all must take place before goods are exported. Otherwise, Indian exports from the indigenous manufactured cannot be competitive. Presently, export earnings are given income tax benefits but DEPB is not classified as export earnings. It is worthwhile considering DEPB to be recognized as export earnings as it is seen as a fiscal benefit to motivate trans-national companies to set up base in India.

In addition, some imported telecom equipment is subjected to zero import duty under India's ITA commitment. If the same equipment is manufactured indigenously in India, they can be provided tax breaks to offset any preferential treatment accrued by the imported equipment. This would not violate any international agreements.

Further, any tax incentive provided for R&D expenses of Indian companies to make equipment of high quality and at par with imported equipment would not violate international agreements.
