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Sent: Thursday, March 10, 2022 6:07:55 PM
Subject: Inputs from Tejas Networks on TRAI Consultation Paper

Dear Sir,

With reference to the TRAI Consultation Paper, please find attached our inputs on the subject for your kind perusal and needful action please.

Thanks & Regards
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TRAI Consultation Paper

- 1. Is the PLI scheme in its current form effective enough to address the needs of promoting NATEM in India? Are any amendments or extensions required to the current PLI scheme to make it more effective? Please provide details.**

Ans: PLI is an excellent scheme announced with an outlay of Rs. 12,195 crores (US\$ 1.65 billion) for a period of five years until FY26. It aims to form global champions in the Indian telecom sector that can potentially scale up by leveraging cutting-edge technologies and penetrate the global value chain.

The existing PLI scheme for telecom and networking products may be strengthened through the following amendments:

- Indigenous R&D needs to be promoted for Design-led manufacturing and there should be no distinctions or cap between capital investments in R&D versus that in plant and machinery.
- Since manpower costs constitute majority of R&D costs, all such expenses that are allowed under Indian accounting standards for capitalized R&D, should be permitted. There should be no limits on this.
- PLI incentives should be linked to the amount of domestic value-addition being done. The scheme should provide higher incentives of 9% if the entire design as well as manufacturing for that product is being done in India and the IPR is owned by the Indian company.

- 2. Whether going beyond PLI scheme, a range of financial and fiscal incentives needs to be put in place to promote NATEM in India? Please elaborate your response.**

Ans: The impact of the PLI scheme in promoting NATEM in India may be further enhanced by introducing the following financial incentives:

- Product Design Incentive: A dedicated R&D corpus may be established in order to accelerate R&D investments in developing indigenous products with Indian R&D, know-how, know-why and IPR. As announced in this year's budget, "Product Design Incentives" may be granted on a 1:1 matching basis for R&D investments made by Indian companies for developing any of core telecom products such as those needed for 5G networks.
- IPR Incentives: Indian NATEM companies should be provided special financial support for filing domestic and international patents in the form of reimbursement of up to 50% of the costs on filing and maintaining patents. Adequate funds should be made available for participation in global standards bodies such as ITU, 3GPP, IEEE etc. so that we can drive future standards. Travel grants to the tune of 50% may be given to cover such costs.

- 3. Does the Electronic Development Fund (EDF) meet the requirements of promoting NATEM in India? What are the limitations in EDF for the NATEM sector and how can its scope be enhanced?**

Ans: A specialized telecom R&D corpus may be carved out of EDF to promote NATEM in India. Besides supporting R&D activities, there should also be a set-aside for a Sovereign Patent Fund (SPF) similar to countries like South Korea, France, Japan and China that will be used to negotiate licenses for essential/background patents/IPR from global players for 5G and 6G technologies on FRANDS terms. SPF can also be used to reimburse 50% of patent filing costs by Indian NATEM companies.

- 4. Is there a need for creation of separate funds on lines of EDF or those earlier recommended by TRAI (like TEPF and TMPF) for promoting NATEM in India? What institutional mechanisms should be put in place to govern the fund(s)? Give justification and elaborate on its possible impact on the sector.**

Ans: In order to maximum return from Government investments, a 1:1 matching grant model should be adopted for this telecom R&D fund which ensures that up to 50% of eligible project expenses are borne by the awardee. Eligible R&D expenses should include expenditure related to manpower salaries, test equipment and software tools, prototype creation, testing and certification and demo units for field trials which are capitalised as per Indian accounting standards.

To use this fund to develop certain customized products for Indian Rural environment and use the same in PPP or other upcoming USOF projects.

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- Q5: What additional measures are suggested for promoting and supporting the Start-up ecosystem in the telecom sector in India.**

NA

- Q6: Which of the financial instruments related to project financing, contract financing and credit default insurance currently available in India are being used by the stakeholders and to what extent? Suggestions to further improve these financial instruments?**

Ans: New policies and insurance schemes have their own limitations and associated costs. Commercial Banks could introduce such mechanisms to extend 5 to 6% of interest subvention in select sectors. We propose to promote EXIM bank to finance some of the mission critical or projects of national importance at same LOC terms and interest rates. We also propose to categorise some of such important project as deemed export as well to provide incentive and support to NATEM.

- Q7: Whether the existing schemes relating on CAPEX and interest subvention are meeting the requirement of finance for NATEM in India? Suggest modifications/ new schemes needed if any with details.**

Refer to the answer of the above question

- Q8: Whether the existing financial assistance for MSMEs that are into NATEM are sufficiently catering to their requirement or a separate dedicated scheme is required for the sector? Please provide a detailed response along with suggested schemes, if any.**

NA

Q9: Whether any cost disadvantage is experienced by domestic NATE manufacturers as compared to global counterparts due to various limitations discussed above? If yes, what is percentage cost disadvantage to domestic NATE manufacturers vis a vis other country? The details of calculations and methodology adopted for the same may be provided.

Ans: Independent study by E&Y have clearly established that Indian companies making generic NATE equipment face up to 26% fiscal disability compared to their global peers in high value-added telecom manufacturing. The key drivers contributing to this disability are- high cost of interest; higher cost of power, additionally components of the equipment are not readily available in India. It needs to be procured from foreign countries that adds up to the cost.

Further, the disability rises to 29% for those product categories where buyer's credit is available on imports for a long period of time.

Q10: Whether schemes allowing tax holidays/deferment of tax are available for NATE manufacturers? If yes, are they meeting the requirement? If no, what modifications are required? Please justify and provide details.

Ans: Prior to 2015, all DSIR certified R&D organizations were given a 200% weighted R&D deduction for tax purposes. Considering the strategic importance of domestic R&D in the telecom sector, the incentive should be reinstated for the next 5 years.

Q11: Is the PMA/PMI scheme in its current form comprehensive for promoting NATEM? Are there any suggestions for modifications? How can the challenges associated with implementation of PMA/PMI be addressed? Please elaborate.

Ans: Comprehensive PPP MII policy designed to give preference to domestic manufacturers in public procurement is an excellent policy which can single handedly revive domestic manufacturing. Most of the time there is policy evasion by big buyers like NBCC, CPWD, Railways, Dedicated Freight corridors, ONGC, Defence, Purchases by NIC NIXI STPI under Ministry of Electronics. Scope of policy needs to be enhanced to include state Government projects / world bank funded projects / Lines of Credit. Rather than create new policies to boost procurement from domestic companies, it would be desirable to ensure proper implementation in the desired spirit and prevent large scale policy violation by large buyers. Multiple grievances have been submitted to DPIIT as well as DOT, yet issues remain largely unaddressed.

Majority of the projects in Non – Telecom sectors such as civil, power, railways or other even USOF projects has small portion of active telecom equipment. The PMI policy must state the Local Value Addition in such projects must be counted for only Active Telecom products without including value addition made in Civil, services or other passive infrastructure (USOF LWE projects, Central Vista, many LOC projects, Power and Railway projects are typical example).

GeM is an excellent tool for consolidation of domestic market demand and this digital platform can be used to ensure / monitor proper implementation of policies designed to promote domestic manufactured goods. Incorrect and unsubstantiated certificates of domestic value addition are put by suppliers and remain unchecked. Grievances are flagged but remain unaddressed for various reasons.

Circumvention of PPP MII policy is largely because large buyers tend to interpret various clauses of the policy differently hence industry has been requesting for issue of an FAQ (Frequently Asked Questions) to clarify on interpretation of various phrases used in the policy. Elaborate well-articulated

FAQ should minimise disputes on policy circumvention by large buyers. FAQ formats have been prepared submitted to DOT as well as DPIIT in the last two years but that is not issued. It will mitigate the problem of policy circumvention. Grievance redressal committee to hold regular meetings in DOT to address concerns of the manufacturers.

Department should declare appropriate telecom products as "security sensitive" and their purchase should be governed as specified in the cybersecurity policy, i.e. such security sensitive products should be procured only from Indian technology owners where IPR, Technology, Design should be Indian. If domestically developed products are available, the same should be procured for all security-sensitive and mission-critical applications. Requirements to have many indigenously developed products (multiple bidders) may be relaxed in such cases.

Q12: Whether the incentives to Telecom Service Providers to deploy indigenous manufactured products in their network will be helpful in promoting NATEM in India? Please justify with reasons. What incentivization model is suggested?

Ans: Yes, the incentive scheme in the form of license fee for TSPs to deploy indigenous manufactured products in their network will be helpful in promoting NATEM in India.

Over 75% of domestic spend on Indian equipment is done by private sector TSPs. Government of India should leverage India's large home market demand to help domestic NATEM companies to achieve economies-of-scale.

DPIIT Make in India Public Procurement Order is in place for the Central Govt procurement but this procurement is less in the field of Telecom and Networking. As a result, domestic manufactures are being deprived of market access within our own country, hence to make our nation self-reliant we must promote domestically manufactured products in TSP/ISP which are Govt of India Licensee.

It is recommended that license conditions of telecom operators be modified to give them incentive equal to 50% of the value of Made-in-India products as specified in DOT PMI (Preference to Make in India) policy. All licensed telecom operators, whether in the private or public sector, should be eligible to avail this benefit as an option to reduce their license fee obligations in a non-discriminatory manner. So if any operator, who is buying Rs 300 Cr of 'Make in India' products, the annual license fee obligation of the telecom operator will be reduced by Rs 150 Cr.

Q13: What should be the incentive structure (fiscal and infrastructural) for Telecom Product Development Clusters (TPDC) set up within the EMCs or separately?

Ans: An important component that can vastly enhance the utility of TPDCs is the creation of common testing infrastructure and testbeds (e.g., IITM testbed for 5G, 6G) within these clusters. GoI should provide access to this shared infrastructure at a reasonable cost to industry with replication at multiple locations and enabling remote access. As we move into the next-generation technologies for 5G advanced and 6G we can extend the Testbed to enable maturation, testing, PoCs, pilots of research ideas to enable development of SEPs based on Indian IPR. This needs to be a platform to foster collaboration, joint development and joint research between Indian Academia, Indian Startups & Companies. The testbed should also provide a pre-trial platform for Indian NATEM vendors and service providers.

Q14: Whether NATEM is facing any limitation affecting competitiveness of Local manufacturers due to misdeclaration of HS codes, inverted duty structures, landed cost differential etc.? Please provide specific details. What are the suggestions for improvement? Please elaborate.

Ans: Misdeclaration of HS codes to evade hassle of customs duty is very common and should be addressed. Proper HSN codes to be implemented for all the products ICT, telecom, broadcasting, electronics and automation sector. All these sector do not have specific category of HSN codes, due to which 75% of the products are being imported under unspecified category or others category such as 85176290 or 85176990.

BCD on finished telecom equipment was introduced by Customs on the Non – ITA products vide notification No 57/2017 dated 30th June 2017 and 75/2018 dated 11th Oct 2018 to support the domestic Equipment Manufacturing Industry of India. However, as regards the import duty on the components used in the manufacturing of certain products under 8517, there was an exemption under Not 50/2017 dated 30th June 2017 subject to a condition specified under 9 of the Not 50/2017, namely “If the importer follows the procedure set out in the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017”.

The effect of this notification was that all components, irrespective of their classification, used for non-ITA products, falling under 85176290 and 85176990, such as Optical Transport Equipment, OTN products, POTP or POTS products, PTN products etc. got the benefit of exemption.

Vide Notification 02/2020 dated 2nd Feb 2020, duties on the PCBA for many Non-ITA Telecom equipment products under 8517 has been introduced. However, vide Notification 03/2021 dated 1st Feb 2021, the S. No 8 (v), (vi) and (vii) of Not 57/2017 got omitted which means that for importing components used in the manufacturing of non-ITA products full duty has to be paid. However, S No 5 of Not 57/2017 still provides exemption to components used in manufacturing of all goods. But the drawback is that such components must fall under tariff Item 85177090. Therefore, items, which are classifiable under 85176290 or any other HS Code, if imported for use in non-ITA products such as POTP equipment, the same would not get the benefit of the Not 57/2017.

This is a big setback for the domestic telecom equipment manufacturers who are sourcing components from abroad because of non-availability of components in India. This adds up to their product cost enabling the foreign OEMs to sale the same products at a lower cost.

It is recommended that till the time there is no component Industry available in India, no duty should be levied on the components for goods falling under 851762 or 851769, for the domestic manufacturers who own the finished products IPR in India.

Q15: Whether the current schemes/ measures or policy support for exporters of Indian manufactured equipment are sufficiently meeting the requirement to promote the global competitiveness of Indian NATE exporters? Are the Schemes/instruments in India consistent with the international schemes for exporters in leading manufacturing countries? Please suggest measures to bridge the gap if any.

Ans: In order to promote NATE exports, Government of India should create National Champions in the telecom sector by identifying companies that have the potential to reach global size/scale and help nurture the domestic telecom product eco-system. Due to the capex intensive nature of the ESDM sector and the need for economies of scale, there are typically only one or two global sized companies in every country such as Huawei/ZTE in China, Cisco/Ciena in USA, Nokia/Ericsson

in Europe, Samsung/LG in Korea hence India too should aspire to create such global leaders in the telecom sector. National Champions should be selected through a transparent process and should be supported in multiple ways-

- a) Matching grants/soft loans for R&D and new product development
- b) Commercialization support in the form of assured business in all government telecom projects
- c) In government tenders, even if there is only one "Indian Product", the same should be procured, rather than being imported.
- d) National Champions should be given an opportunity to supply at "fair" prices, based on already discovered global prices (or imports) and/or based on their cost structure.
- e) Active export promotion through a \$10B G2G lines of credit in bilateral trade so that global volumes can be generated.

Q16: Whether the existing incentives/policies issued by DoT and MeitY do meet the requirements for the growth of telecom software products? What additional policy initiatives and enabling regulatory measures are suggested to facilitate integration of telecom equipment and software products that are made in India? What measures are required to enhance exports of such products? Please justify your response.

Ans: We propose the creation of a dedicated Rs 1000 cr export promotion fund for telecom equipment and software products which will be used for hosting events, conferences and international "buyer-seller" meets that will showcase domestic companies to national and international customers. This will also enhance branding of India as a "Technology Product Nation".

**Q17: Stakeholders are also requested to comment on other relevant issues, if any.
Inverted duty structure for specific components**

Ans: To support the domestic Equipment Manufacturing Industry of India, BCD on finished telecom equipment has been introduced by Customs on the Non – ITA products vide notification No 57/2017 dated 30th June 2017 and 75/2018 dated 11th Oct 2018 which is a welcome step for the Industry in line with our nation's objective to become "Atmanirbhar" in the coming years.

However as regards the import duty on the components used in the manufacturing of certain products under 8517, there was an exemption under Not 50/2017 dated 30th June 2017 subject to following condition 9 of the Not 50/2017, namely "If the importer follows the procedure set out in the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017".

Vide Notification 03/2021 dated 1st Feb 2021, the S. No 8 (v), (vi) and (vii) of Not 57/2017 have been omitted which means that for importing components used in the manufacturing of non-ITA products full duty has to be paid. Even though S No 5 of Not 57/2017 still provides exemption to components used in manufacturing of all goods. But such components must fall under tariff Item 85177090. Therefore, items, which are classifiable under 85176290 or any other HS Code, if imported for use in non-ITA products such as POTP equipment, the same would not get the benefit of the Not 57/2017.

This is a big setback for the Indian telecom equipment manufacturing industry since they have to import specialized parts from foreign countries (which are not available in India). On one hand we are promoting domestic manufacturing through 'Make in India', but if there is no provision for the Indian manufacturers to bring components in India at reduced duty rates, no OEM would be left with any incentive to do manufacturing in India.

Therefore, we would like to request, till the time there is no component Industry available in India, no duty should be levied on the components for goods falling under 851762 or 851769, for the domestic manufacturers who own the finished products IPR in India. For the same Government may continue to grant exemption "If the importer follows the procedure set out in the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017".

Effective Implementation of PMI in Letter and Spirit

- Strict enforcement of PMI in all Govt tenders- establish a nodal grievance cell in DoT for timely redressal
- Use of restrictive tender conditions must be avoided
- Enable single domestic bidders if they meet the competitive reference price, quality and technical specifications
- DOT must take prompt action against the defaulters. There is a committee set up by DOT to evaluate the Local Value Addition based on complaints raised by the domestic manufacturers. DOT must set a process to execute the recommendations made by the committee in a time bound manner.
- Majority of the projects in Non – Telecom sectors such as civil, power, railways or other even USOF projects have a small portion for active telecom equipment. The PMI policy must state the Local Value Addition in such projects and it must be counted only for Active Telecom products without any value addition made in Civil, services or other passive infrastructure (USOF LWE projects, Central Vista, many LOC projects, Power and Railway projects are typical example)
- Incentivize private operators to buy Indian products through a rebate in their annual license fees in proportion to quantum of domestic telecom equipment procurements
 - Private telecom operators account for nearly 75% of the total spending, hence should be incentivized to buy domestic products.
 - This was already recommended by TRAI and also in NDCP 2019
- Need to plug loopholes where Chinese products are being assembled/imported
 - Strict action for mis-classifying imports to avoid paying customs duties.
 - Strict enforcement of MTCTE and Trusted Source policies
