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Dated: 01.04.2022

To,
Shri Sanjeev Kumar Sharma, Advisor (Broadband and Policy Analysis)
Telecom Regulatory Authority of India,
Mahanagar Door Sanchar Bhawan,
JawaharLal Nehru Marg,
New Delhi – 110 002.

Subject: Response to Consultation Paper on Promoting Networking and Telecom Equipment Manufacturing in India

Dear Sir,

This is in reference to TRAI's Consultation Paper on Promoting Networking and Telecom Equipment Manufacturing in India dated 11.02.2022.

In this regard, please find enclosed our response for your kind consideration.

Thanking You,

Yours' Sincerely,
For Bharti Airtel Limited

A handwritten signature in black ink, appearing to read 'Rahul Vatts', is written over a horizontal line.

Rahul Vatts
Chief Regulatory Officer

Encl: a.a



Consultation Paper on “Promoting Networking and Telecom Equipment Manufacturing in India”

Preamble

We thank the Telecom Regulatory Authority of India (“TRAI”) for the opportunity to submit our comments on the consultation paper on ‘Promoting Networking and Telecom Equipment Manufacturing in India’, released on 11 February, 2022.

We note that this consultation paper has been issued for seeking views of stakeholders on various financial incentives and fiscal/non-fiscal incentives that can be offered for promoting Networking and Telecom Equipment Manufacturing (“NATEM”) in India.

Given the global dynamics leading to shortage of semiconductors / chip supplies, it is time that the Indian Government puts a cohesive plan to develop and encourage the entire gamut of manufacturing in India. To this effect, clearly, the government has come out with two important PLI schemes; one by DoT on telecom networking equipment, and another recently by MeitY on setting-up semiconductor facilities in India including design led fab units.

We submit that the creation of a supporting ecosystem and this incentive-based approach will yield the desired results in the long-run in the field of domestic manufacturing of telecom equipment, making it competitive in terms of quality, technology and cost.

As telecom service providers (“TSPs”), we are users of the technology that best serves the diverse needs of Indian networks and consumers’ expectations.

The present challenges in supply chains, critical components (e.g. Chips) has disrupted the telecom equipment landscape.

We believe that to handle such challenges in short to mid-term; India should ensure that while building the long-term competitiveness of Indian manufacturers, the flexibility for procurement of NATE should remain with TSPs and an incentive-based approach may be adopted rather than setting up any mandate.

India is also a big DTH market. Considering nearly 12 Crore domestic DTH and Cable TV subscribers, the manufacturing of Set-top Boxes (“STBs”) within India should be brought under the Telecom PLI scheme. The domestic STBs must be equally supported by all the Distributor Platform Operators without any exception. Further, the PLI scheme must be considered for all OEMs, EMS, Fabrication and contract manufacturers encompassing Global and domestic OEMs who have set up manufacturing facilities in India and have already invested in R&D and developed world-class products.

With the above background, we submit our response to specific questions.

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Q1. 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.

Response:

Yes, amendment in PLI scheme is required, to include STBs; as explained below.

In the list of specified products under the current PLI scheme¹, the Telecom equipment Access and Customer Premise Equipment (“CPE”) and Access Devices are included. The STBs by nature are CPE only with assembly lines very similar to what other CPEs need and hence they are fully eligible to be considered under the said scheme. However, STBs are not covered under the PLI scheme yet.

This is important given the size of Indian DTH market and limited manufacturing and significant dependency of STBs on imports. While due to Atmanirbhar Bharat initiative, the transition to Make-in-India has commenced but lack of any incentives has resulted in the increased cost of the end product.

The major DTH operators have committed their full support in the Government’s initiative to promote local manufacturing of the STBs through assembly lines after importing components in the Semi Knock Down (SKD) form.

Airtel has already initiated action for placing orders for procuring STB’s manufactured in India and we understand that as per the existing manufacturing capability/process Original Equipment Manufacturer (OEMs) will bring components in Completely Knock Down (“CKD”) version and manufacture it with Indian Origin / Based Electronics manufacturing services (“EMS”) partner.

While Airtel has started its journey, it might take some time for local OEMs to match the current standard on quality and ramp up the quantity to meet the current level of demand and hence partial quantity of import must be allowed to the local manufacturers to avoid regular business operations.

We believe that with a mix of right government policies and incentives the industry is capable to boost domestic manufacturing and make India a net-exporter of the STBs to the world.

It is imperative that the STBs should be covered under PLI scheme either by notifying a separate PLI scheme for Broadcasting sector including new broadcasting sector players under the new PLI or by providing an option under the existing Telecom PLI scheme for companies to opt for it.

Therefore, we recommend that STBs should be included in the Telecom PLI scheme in either of the modes suggested above. This must be taken on priority considering the increasing demand of STBs and also in line with the “Atmanirbhar Bharat” initiative. We reiterate that sufficient measures must be taken to ensure that the local OEMs match the current standards on quality.

¹ Promoting Telecom & Networking Products Manufacturing in India, vide Gazette Notification No. 13-01/2020-IC dated Feb 24, 2021.

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We also recommend that this endeavor of “Make in India” to promote domestic STBs must be equally supported by all the Distributor Platform Operators without any exception.

We recommend that the incentives under PLI must be considered for all OEMs, EMS, Fabrication and contract manufacturers who have set up manufacturing facilities in India and have already invested in R&D and developed world-class products, irrespective of whether they are Global OEMs or domestic OEMs.

In this regard, we put forward the following specific recommendations which should be considered as amendments towards the PLI Scheme for Telecom Product Manufacturing:

- 1) For telecom products, since the largest component of R&D expenses is salary of manpower, the same should be included against R&D investments which are a form of capital expenditure.
- 2) PLI incentive % should be fixed for both Domestic and Global OEMs having more than 10% local content / value add being done in India. This can be increased gradually over the next 5 years to provide an opportunity to all such existing manufacturers to increase their local value add.
- 3) PLI scheme threshold for new investment for existing OEMs must be relaxed. Bulk of the capital investment has already been made in setting up manufacturing facilities in India. Hence, for existing manufacturers and OEMs, the new investment criteria should be relaxed and their earlier investments must also be factored. Moreover, the investment thresholds must be same for all OEMs who have already set up manufacturing facilities in India.
- 4) The scheme must have a clear rationale behind defining the incremental sales / production revenue thresholds over a 5year timeframe and ideally should be around 20% of existing sales / production revenue.
- 5) The PLI scheme should be applicable to all companies including OEMs, EMS, FAB vendors and contract manufacturers having manufacturing setup in India. Additionally, the PLI incentive distribution should be purely based on the threshold parameters of investment and incremental sales, i.e. if an OEM does more sales, and qualifies for the PLI Scheme as per the set thresholds, then that OEM should get more incentive accordingly.

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.

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Response:

We understand that domestic manufacturers are approx. 10-15% costlier than the Global OEMs who are manufacturing in China. Major difference as per our estimates and understanding are due to:

- Higher manufacturing value addition cost as compared to China
- Availability of highly skilled manpower and automated manufacturing facilities
- High forex hedging & financing costs
- Duty on certain imported components
- Infrastructure cost – higher operational expenditure (due to low productivity) or other expenses incl. power, fuel etc.

Hence we believe that government should look at these issues to make Indian manufacturing competitive.

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.

Response:

We support the cause of manufacturing of network and telecom equipment in the country, and believe that a long-term, progressive and step by step approach should be followed to create a domestic manufacturing ecosystem, without disrupting services to customers and rollouts.

India is the world’s second-largest telecommunications market with a subscriber base of 1.17 billion. The overall teledensity is at ~86% with wireless at 84% and wireline at meager ~2%. The rural tele-density is still at ~58%. On the digital front, the Indian mobile economy is growing very fast and will contribute substantially to India’s GDP. The government has aimed to achieve \$1 trillion from digital economy.

While a significant part of India’s digital economy and its growth can be attributed to investments and rollouts by TSPs in data capable 4G services that enabled new use cases; the new planned 5G rollout in India will herald new opportunities for consumers and enterprises alike. India was able to achieve 4G success by making best use of OEM ecosystem and suppliers who all could pitch-in to supply necessary equipment to TSPs.

In the present times, there is an emergent reality of supply chain constraints, and other geo-political challenges impacting the equipment/products. Given India’s domestic manufacturing capacity limitations, and the need for sectors’ growth and rollout of services to citizens of India in a timely and effective manner, we believe that existing and planned rollouts of industry should not be constrained/disrupted due to any policy mandates like PMA/PMI.

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Since Telecom is a global industry in nature and TSPs compete globally with the best; we believe no mandates should be prescribed related to procurement of equipment only from domestic sources which could impact the competitiveness of Indian Telecom sector and India itself.

Further, innovation is a continuous process. Programs like Digital India require the benefits emerging out of innovation from around the world. For example, at present, many innovations are taking place around the world, in the field of 5G, M2M and IoT.

The Telecom sector should continue with the flexibility to bring these benefits to Indian consumers at by using technologies, equipment and services from vendors and suppliers around the world.

Moreover, telecom service sector thrives and competes in a truly interconnected and interoperable world. Networks from around the world are interconnected, therefore, the equipment deployed in the Indian networks need to be carrier grade and best in class irrespective of whether it is manufactured domestically or imported. Any mandate with regard to procurement from domestic manufacturers should not impact the interoperability of Indian networks.

Therefore, we urge that there should not be any mandate for the telecom service providers in India to procure equipment from domestic manufacturers. However, the Government may come out with a long term roadmap to progressively map out growth of India’s domestic manufacturing capabilities.

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?

Response:

We submit that being a user of NATE, every TSP is very conscious of delivering best in class services to his customers and thus procures the best equipment available globally and ensures robust network in order to address large volume of customers and to meet their demands.

Hence, TSPs should be allowed to procure/use all products i.e. globally available or indigenous manufactured, so as to have the latest equipment and network system as per technological advancement.

While flexibility for procurement of NATE should be remained with the TSPs, government may consider an incentive-based approach to encourage procurement of indigenous NATE by TSPs. In such NATE procurement cases, an exemption of GST on the procurement of NATE may be provided as an incentive.

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.

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Response:

Inverted duty structure impacts the domestic industry adversely as manufacturers have to pay a higher duty for raw material, while the finished product lands at lower duty and cost. A corrected duty structure will reduce the cost of intermediate inputs imported for manufacturing of exports thereby making the country's exports more competitive. Incentive scheme will boost the local manufacturing and also increase the growth of exports.

In Customs tariff, all the telecom products classified under HS code 8517 with category wise instead of Product level which lead into lot of misdeclaration of HS codes. Customs can map the products with category mentioned in the Customs tariff / Notifications.