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For Immediate release

Telecom Regulatory Authority of India

TRAI releases recommendations on “Telecom Equipment Manufacturing Policy”

New Delhi, 12th April, 2011 - The Telecom Regulatory Authority of India (TRAI) has released its recommendations on “Telecom Equipment Manufacturing Policy”. These recommendations propose policy targets, measures to achieve the targets, plan of action, financial implications of the measures proposed and benefits of the policy.

2. The devices connected to global telecom networks are projected to grow to 50 billion by the year 2020. With the growth rate that India currently enjoys and also assuming that India would have among the largest share of non-telephony connections, it would be fair to assume that India would have at least 10% or 1.5 billion connections by 2015 and 5 billion connections by the year 2020. This would necessitate expansion of telecommunications networks and increase in demand for various types of telecom equipment. The demand for telecom equipment in India was Rs 54,765 crore in 2009-10 which was about 5.5% of the global demand. This is projected to grow to Rs 96,514 crore in 2015 and Rs 170,091 crore in the year 2020. Besides, the Asia Pacific region accounting for a major share of the growth of telecom in the future, the potential for India to become a manufacturing hub for export is also bright.

3. Despite the high demand for telecom equipment, the domestic telecom equipment manufacturing industry has not been able to keep pace. The contribution of all domestic products towards meeting the country’s demand for telecom equipment has only been 12-13% in the year 2009-10 while Indian products could meet just 3% of the Indian demand. Much of the equipment used for expansion of the Indian network is being imported from other countries. From the industry data, it is clear that the telecom ecosystem has so far failed to adequately spur the manufacturing segment and as a result, the domestic telecom

equipment manufacturing segment has not been able to meet the demand forcing the telecom operators to import most of the required equipment.

4. There is currently no telecom equipment manufacturing policy in place. Although the New Telecom Policy of 1999(NTP '99) contained stipulations regarding promotion of domestic products, promotion of exports and utilisation of indigenous equipment, no plans or schemes for implementation of these aspects of the policy have come to light. These recommendations propose to fill this void.

5. The proposed policy aims to significantly enhance the share of the domestic manufactured products i.e. products manufactured by companies registered in India. They can be either Indian Manufactured Products (IMP) or Indian Products(IP) based on where the IPRs resides. While for the IMP, the IPRs resides outside India, for the IPs IPRs resides in India. In both the cases, the product must also satisfy a minimum value addition as indicated in the Table below. The share of the Indian Products in the Domestic Manufactured products is also proposed to be progressively enhanced to cater to at least 50% of the demand by the year 2019-20. Following are the targets in terms of raising production to meet domestic telecom equipment demand and the minimum value addition that should be achieved:

	2012-13	2014-15	2016-17	2019-20
Demand	100	100	100	100
Imported /LVAP*	70	55	40	20
DMP	30	45	60	80
IMP	15	20	25	30
IP	15	25	35	50
Value addition -%	25	35	50	65

(* LVAP= Low Value Added Products, where the value added is below the stipulated percentage.)

6. In order to achieve the above objective, the following measures are proposed.

A. The Domestic Manufactured Products are proposed to be given preferential market access i.e. market pull, to the extent of the percentages indicated for them. All Government licensees i.e. those licensed by the Government are required to

- give preference to the IP/IMP (in that order) before accessing the LVAP or the imported Products.
- B. All Domestic Manufactured Product manufacturers with annual turnover less than Rs. 1000 crore would get subsidy for equity capital and working capital for a period of 5 years @ 6% for IP manufacturers and 3% for IMP manufacturers.
- C. The following fiscal incentives have been proposed
- i. The total incidence of Excise Duty and VAT on domestic manufactured products to be limited to 12%.
 - ii. CST of 2% on domestic manufactured product to be removed or an equivalent tax/Duty to be imposed on imported products.
 - iii. For mobile handset industry, comparative tax disadvantage to be removed for domestically manufactured products by reducing VAT and placing tax/Duty equivalent 2% on imports.
 - iv. Exemption to be given to the manufacturers of domestic manufactured products, in the Handset manufacturing industry, from countervailing duties on imported capital equipment and excise duty on domestically sourced capital goods for the domestic handset manufacture
 - v. Deferment of Excise/CST/VAT/GST for a period of 5 years at nominal interest, to Domestic Manufactured Product manufacturers with total turnover of less than Rs. 1000 crore.
 - vi. A 10-year Income Tax holiday for manufacturers of domestic manufactured telecom products with annual turnover less than Rs. 1000 crore. Exemption would also be from the Minimum Alternative Tax obligation.
- D. Requirement of “provenness” to be waived for domestic manufactured product manufacturers with annual turnover of less than Rs. 1000 crore for products certified by the Test and Certification Organization to be IP/IMP. Such manufacturers will be eligible for order upto 10% by quantity, subject to matching of price.

- E. Export of domestic products should be actively encouraged. Telecom should be included in grant-in-aid programmes and bilateral trade agreements.
- F. Taxes and duties on the components should be lower than that on finished products.
- G. Dual use imported inputs required for telecom equipment manufacture should not be subject to bond payment.

7. Besides the above incentives for the Domestic Manufactured Products, special measures are proposed for promoting the Indian Products.

- A. Preferential market access should be provided for the Indian Products as per the table above.
- B. Actively promote Research and Development and creation of IPRs
 - i. For research activities focus areas have been identified so that the resources are efficiently utilised.
 - ii. The target of R&D is to develop IPRs and commercial products that can meet the country's demand for telecom equipment.
 - iii. Telecom Research and Development Corporation (TRDC) has been recommended to be set up at an investment of Rs. 15000 crore.
 - iv. Of the above sum, an amount of Rs. 10000 crore to be a corpus, the interest derived therefrom to be used to fund research activities by way of soft loans, grants, reimbursement of R&D expenses and IPR fee.
 - v. A Telecom Research and Development Park is to be established within 2 years with a fund of Rs 5000 crore with the objective of carrying out on-site R&D.
- C. Setting up of a Telecom Manufacturing Fund (TMF) with an initial amount of Rs 3000 crore, for providing venture capital to Indian Product manufacturers in the form of equity and soft-loans.
- D. India has not been active in driving global standards and consequently does not have many IPRs in the technologies of current generation. The setting up of a Telecom Standards Organisation (TSO) has been recommended for carrying out all works related to telecom standards, driving international standards and

drawing up specifications of the equipment to be used in the Indian telecom networks, including security standards.

- E. The Authority has also recommended identification of ten telecom manufacturing clusters to promote the TEM, and to remove infrastructural disabilities in these clusters in a time bound manner.
- F. Semiconductors chips are important constituents of all telecom equipment. The India market for semiconductor chips is around US\$ 8 billion. About 30%-60% of the total value of the Bill of Material is taken up by semiconductors. India designs a large number of chips for other countries but does not manufacture chips on its own designs. Semiconductor fabrication facilities become economically important and as for the amount invested in semiconductor R&D and manufacturing, there is a GDP multiplier effect of about 22 times. The Authority has therefore recommended setting up of two Fab units with Government assistance.

8. The cost of implementation of the Recommendations is estimated at about Rs. 100,000 crore, over the next 10 years. This investment is expected to give a return almost 10 times the investment.

9. The proposed Telecom Equipment Manufacturing Policy is expected to result in the following major benefits:

- A. It would provide necessary stimulus to the struggling domestic telecom equipment industry. The industry would be put on a high growth path and would pay back rich dividends in terms of increased production, value addition and exports.
- B. The industry would be geared up to meet the demand for 5 billion connected devices by the end of the year 2020
- C. Increased production would result in increased contribution of telecom manufacturing to the GDP.

- D. The policy would result in increased earning of foreign exchange from exports.
- E. Increased R&D and manufacturing would lead to improved supply of domestic telecom equipment to the strategic sectors like Defence and Space.
- F. Increased domestic manufacturing would mitigate strategic security concerns that go with the imported equipment
- G. The available manpower would get their technological skills enhanced through training and experience.
- H. Increase in production would give rise to employment for hundreds of thousands of people of different skill-sets and educational background.
- I. India would not only achieve greater self reliance but would also become an important source of new technology equipment.

10. A pre-consultation paper on Telecom Equipment Manufacturing was issued in May 2010. Based on the comments received and further study, a consultation paper was issued on 28th December 2010 asking the stakeholders to give suggestions on various issues relating to telecom manufacturing. Pursuant to the receipt of comments on the issues raised in the consultation paper, open house discussions were held on 2nd February 2011. The recommendations contained in this document are being made based on the suggestions made by the stakeholders and further analysis thereon. The detailed recommendations are available on TRAI's website www.traigov.in

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Authorised for Issue

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