



## **VNL Response to the Issues raised in the Consultation Paper on Promoting Networking And Telecom Equipment Manufacturing in India**

**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.**

### **VNL Response to Q1**

The existing production linked incentives scheme envisages a financial incentive to boost domestic manufacturing and attract investments in the target segments of telecom and networking products in order to encourage “Make in India” and expected to boost export of telecom and networking products “Made in India”. Hence, it is more focused on manufacturing based on assembly than design based manufacturing.

1. As the Government is now focused on “Design led manufacturing”, there should be additional benefits for the companies involved in design led manufacturing, who are engaged in design & development of target products in their DSIR recognized R&D centre. In order to be more focused on creation of domestic designs, we feel it is important that Capital expenditure on R&D Manpower in accordance with Indian Accounting standards for non-tangible capital expenditure should be considered as part of R&D expenditure.
2. Furthermore, no capping on R&D expenditure should be allowed as design led manufacturing needs more research & development and the expenditure on manpower will be much much higher compared to mere assembly based manufacturing.
3. Additional incentives 1%, 2%, 3% & 4% should be given to the companies who achieve higher local content more than 40%, 50%, 55% and 60% respectively and it should be linked to R&D cess which is proposed in answer to Q 12 @ 5% of AGR

**Q2. 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.**

### **VNL Response to Q2**

The existing indigenous production companies who had invested crores and crores in R&D over the past three-four decades will not get any benefit under new PLI scheme as the basic framework of PLI scheme envisages only incremental investment & incremental Sales.



In order to encourage existing domestic companies registered with DSIR and continue investments in R&D, the R&D investment already made for developing the products i.e., audited R&D investments as declared to DSIR, should be considered as the investment threshold and only incremental sales portion should be met by those companies. For example, those companies invested in R&D of 4G/LTE which are part of R&D projects declared to DSIR, should be considered as PLI investment for 4G/LTE, only incremental sales requirements need to be complied by such companies.

**Q3. 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?**

**Q4. 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.**

#### **VNL Response to Q3 & Q4**

Most of the domestic companies feared to enter into basic research & development of new technologies because of lack of visibility for successful commercialization of the outcome product. In order to build confidence to these companies, a portion of all procurements in Government funded projects, should be reserved for those companies/products, who are involved in DSIR recognized R&D of such products.

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

#### **VNL Response to Q5**

We should clearly understand that in telecom there are following 3 types of products:-

- 1. SW based applications – Investment needed from 1 lakh to few crores.**
- 2. SW based products using COTS IT equipment:- Like 4G & 5 G core. Investment needed is tens of crores & 2-3 years time.**
- 3. HW based products like eNodeB for 4G & NR for 5G – Hundreds of crores needed & minimum 4-5 Years time.**

As far as start-up companies are concerned, there is a limitation in the initial investment for product development, especially those incubations in the IITs & IIMs. Only after successful commercialization of products, these companies attracted by the investors.



**Failed Handholding through TSP** - It is important to put on record that in past (2007 onward ) TSP were supposed to promote products, apps of Indian start ups & for this each TSP got associated with one of the premier IIT of India.

**About 7 TCOE ( Telecom Centro Of Excellence) were opened & each has one IIT & one TSP.**

These TCOE developed 30 products (approx.), but none were inducted by any TSP in the network.

**Q6. a. 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?**

No comments

**Q6. b. Are these financing instruments able to cater to the needs of NATEM in India?**

No comments

**Q6. c. Are there any suggestions to further improve these financial instruments or are there any new proposed financial instruments that can cater to the needs of NATEM in India? Please provide full details along with justification.**

No Comments

**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.**

No Comments

**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.**

No Comments

**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.**

No Comments



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

No Comments

**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.**

**VNL Response to Q11**

The existing PMA / PPP-MII framework notified by DPIIT and subsequently the telecom products notified by the DOT will be effective only when the same is implemented in the true letter and spirit of the policy. The policy is mostly diluted and / or get ignored in many Government projects .

Even the mobile connectivity projects floated by the USOF in the past five years, are perfect examples of misuse or ineffectiveness of this. In all these tenders either the policy is mentioned but not implemented in the right spirit. For example, the PPP-MII Order 2017 notified by the DOT vide clause 9 mandates that each of these products shall comply with the latest TEC GR /IR if such GR/IR have been issued. However, in any of these projects, except for tower, which is a passive portion of the tender, no active equipment was asked to comply with TEC GRs.

In order to make it strong and effective, besides compliance to PPP-MII, it should also be mandated that all active equipment that goes into the Indian network executed under government funding should be TAC/TSEC compliant & certified against the respective TEC GR.

**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?**

**VNL Response to Q12**

**No**, No incentives should be given to any TSP in any form. As R&D and IPR creation are critical factors for strengthening the manufacturing sector in the country, we rather propose to introduce 5 % R&D cess on TSPs to create a corpus for supporting R&D for technology development in telecom sector & when TSP start buying the PMII compliant Indian products, this R&D cess should be reduced proportionately.

**Q13. What should be the incentive structure (fiscal and infrastructural) for Telecom Product Development Clusters (TPDC) setup within the EMCs or separately?**



No comments

- 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.**

**VNL Response to Q14 - 12 digit HS code for all imports**

As a manufacturer of telecom equipment, there are various expenditure incurred during the production which results in higher cost hence making domestic production non-competitive against imports. On the other hand, same products are being imported under different HS CODES with BCD as zero.

With the technology advancements, many new products evolved post India signing the ITA-1 agreement, are now being imported under zero BCD under various classifications, including “parts” and “Others” categories, in the absence of specific HS Codes defined for these products. This way the imported products get undue benefits due to zero BCD imports and the domestically manufactured products fail to get a level playing field and face tough competition.

It is proposed that a thorough study of imports under “Others” and “Parts” categories should be initiated and those products in huge bulk should be recommended for separate HS Code classification. A dedicated HS Code will only help to curtail circumvention of duties. **In this regard, we also propose that the Government must consider introducing a 12 digit HS Code classification instead of the existing 8 digit HS Codes.**

- 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.**

No Comments

- 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.**

No Comments?

- Q17. Stakeholders are also requested to comment on other relevant issues, if any.**



## VNL Response to Q17

TRAI had made its recommendations on “Promoting Local Telecom Equipment Manufacturing” in August 2018 which categorically recommends various key measures where definition of Manufacturing activities was one amongst them.

The recommendation as per TRAI recommendations vide Clause 2.70 is captured herebelow.

*2.70 In view of the foregoing, the Authority recommends:*

**(a)** *All telecom products meant for use in the telecommunication network or by consumer and marketed in the country should be classified in following categories:*

**i)** *Fully finished imported products: This category of products are manufactured by foreign registered companies using hardware designs and software technologies developed outside India and have high level of value addition outside India.*

**ii)** *Indigenous products: This category of products are designed and/or manufactured in India by the companies registered in India. Since the ambit of such products would be large, there would be a need to create more granularities in this classification as mentioned below:*

**(aa)** *Made in India Products – Using designs of foreign registered companies, this category of products are manufactured in India by companies registered in India. Such products have imported sub-systems, which use HW and SW technology developed outside India and have very low level of value addition in India.*

**(ab)** *Designed in India Products: Products designed by India registered companies but manufactured outside India.*

**(ac)** *Designed and Made in India Products – Products designed and manufactured by the India registered companies in India.*

Even after four years of TRAI making the recommendations these are yet to be implemented. We feel it is very critical to finetune the recommendations and include the following conditions to define an “Indian Products” and “Assembled in India” product.



**All the products, which do not meet all the following conditions, will not qualify as “Indian Product”.**

“Indian Products” can be defined as those telecom products for which, all the following conditions are met:

1. The company Designs & Manufacture & products under its own Indian brand name.
2. The company is parent company & neither a subsidy of foreign company, nor an only R&D Company.
3. The company is registered with Ministry of Science of Technology & its ‘in-house’ R & D is recognized by DSIR.
4. The company is parent company & neither a subsidy of foreign company, nor an only R&D Company.
5. The R & D should be recognized & have a development track record of at least 3 years, clearly indicating that the approved products were designed as a part of the R&D program declared by the company to the DSIR in its Annual return.
6. The products are as per TEC specifications.
7. A committee of representatives of TEC, DOT/DIT, TEMA & TEPC to certify the products which qualify for being “**Indian Products**”.
8. The R&D is done in India or if anything is outsourced, control and ownership of such R&D should be with the Indian registered company.
  - a. Such an Indian company must have the management and Board consisting of majority Indian citizens (more than 75%).
  - b. This is to ensure that we have local know-how and control in India to tackle any security threats and avoid technology obsolescence.
9. The commercial exploitation & benefits of the Product IPR shall be carried out by the Indian company and all the revenues and commercial value derived from the global sales of the Product/IPR shall accrue in India only.
10. The Global Headquarter of the company is in India only.



**On the other hand, “Assembled in India” products are following:-**

- a. Assembled/manufactured in India (*either by an EMS or in-house unit*) but whose Product IPR belongs to a foreign company or brand.
- b. The technology was developed abroad.
- c. The royalties and commercial value from global sales of such products are paid to some other company outside India.
- d. The Corporate Headquarter of the company is outside India.
- e. The SI (System Integrator) is not a manufacturer.
- f. **In other words, these are foreign products that are assembled in India & all benefits accrue to foreign company.**

In this regard, we append herewith the following tables as Annexure I, II & III for your kind information and suitable incorporation while making TRAI’s final recommendations to DOT and Government of India in this important aspect.

**Enclosure :**

- Annexure I Proposed Strategy For WTO & Bilateral Agreements
- Annexure II Proposed basic Custom Duty Rates on All ICT & Telecom Items
- Annexure III Proposed Classification Rules For Promoting Indian IPR owned ICT Products, Systems & Solutions



## Annexure I

Proposed Strategy For WTO & Bilateral Agreements							
<b>Example - Bilateral Agreement is between Second &amp; third country</b> <i>(But Brand is of 1st Country - who has no Bilateral agreement with India)</i>							
	Global Headquarter of 2nd Country						
Type of Import or Manufacturer	Manufacturer	Assembler / Importer	Brand Owner	Technology Provider		Basic Custom Duty on HW & SW, Complete System	GST
				Hardware (HW)	Software (SW)		
<b>Fully Imported in 2nd country from 3rd country</b>	3rd Country	2nd Country	1st Country			<b>75%</b>	<b>As applicable</b>
<b>Assembled in 2nd country (under Transfer of Technology)</b>	3rd Country	2nd Country	1st Country				
<b>EMS Assembler/Manufacturer</b>	3rd Country	2nd Country	1st Country				
<b>Fully imported in 2nd country from 1st country</b>	1st Country	NA	1st Country		<b>As per bilateral agreement for the brands + items produced in 1st Country</b>		
<b>Notes:</b>							
Bilateral agreements are for products/services owned by that country (Brand, IPR & Global HQ is in 1st Country only).							
Bilateral agreements are <u>not for routing of products &amp; services of 1st country</u> through/from 3rd country. Whereas Brand &/or ownership is of 1st Country company.							
This will ensure full compliances of the existing Bilaterals.							
Routing via 3rd country is akin to tax shopping.							



**Annexure II**

**Proposed basic Custom Duty Rates on All ICT & Telecom Items**

	<b>Proposed Basic Customs Duty (%)</b>	<b>2021-22</b>	<b>2022-23</b>	<b>2023-24</b>	<b>2024-25</b>
<b>1</b>	<b>Fully Finished Imported</b>	<b>75%</b>	<b>75%</b>	<b>100%</b>	<b>100%</b>
<b>2</b>	<b>Populated, Loaded or Stuffed Printed Circuit Boards</b> <i>(any kind in any form )</i>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>
<b>3</b>	<b>Active Modules/Sub-systems</b> <i>(any kind in any form)</i>	<b>40%</b>	<b>40%</b>	<b>40%</b>	<b>40%</b>
<b>4</b>	<b>All kind of Passive components</b>	<b>10%</b>	<b>20%</b>	<b>30%</b>	<b>40%</b>
	<i>*Passive means all electronic, plastic &amp; metal components that cannot work stand-alone.</i>				
<b>5</b>	<b>Software - All kinds &amp; types.</b>	<b>Minimum 10%</b>			



### Annexure III

Proposed Classification Rules For Promoting Indian IPR owned ICT Products, Systems & Solutions								
Type of Importer or Manufacturer	Global Headquarter of:					Value Add		
	Manufacturer	Importer	Brand Owner	Technology Provider		HW	SW	
				Hardware (HW)	Software (SW)			
<b>1 Fully Imported</b>	Foreign Entity	Customer	F	F	F	F	F	
<b>2 Local Assembler</b> <i>(under Transfer of Technology - ToT)</i>	India	Indian Assembly	F	F	F	F/I	F/I	
<b>3 EMS Assembler/Manufacturer</b> <i>(EMS: Electronic Mftg Services)</i>	India	Indian Mftg	F	F/I	F/I	F/I	F/I	
<b>4 Assembler (System Aggregator)</b>	India	Indian	F	F/I	F	F/I	F/I	
<b>5 "Proof of R&amp;D in India Certificate"</b> <i>(For that specific product)</i>	India	NA	Indian	Indian	Indian	Indian	Indian	
<i>No ToT from any foreign brand or owned company, no Royalty fees payable in India or abroad</i>								
<b>*F: Foreign</b>		<b>*I: Indian</b>						