



Cellular Operators Association of India

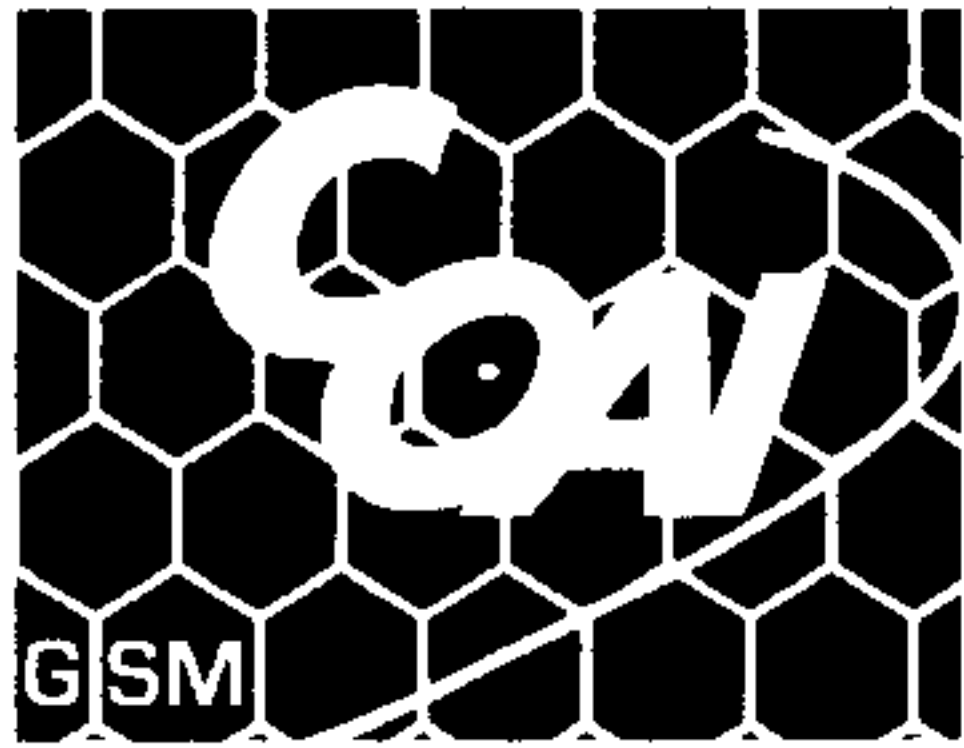
RSM/COAI/070
April 25, 2012

Dr. Ajay Kumar,
Joint Secretary,
Department of Information & Technology
Electronics Niketan, 6, CGO Complex,
Lodhi Road, New Delhi: 110003

Dear Sir,

Subject: Preference to domestically manufactured electronic goods in procurement due to security considerations and in Government procurement

1. This is with reference to the Notification No: 8(78)/2010- IPHW dated February 10, 2012 on the above mentioned subject. In this regard, please find enclosed our inputs on the draft guidelines as **Appendix 1**.
2. We would also like to mention that COAI and its members support measures required to enhance telecom equipment manufacturing in India, and are committed to the overall vision of the Government in making India a center for telecom equipment manufacturing. The progressive policies that have been announced will certainly benefit the country and as is well known, access to cost effective IT and telecommunication services translates directly to economic growth and enhancing the quality of life of the common man.
3. The matter of Telecom Manufacturing in the country has been debated in various forums and it is evident that several actions are needed to support this vision. For India to become a center for telecom equipment manufacturing, there are many issues that need to be tackled realistically. The government will have to holistically promote the overall eco-system within the country which has to be plugged into the global supply chain.
4. In this regard, COAI had commissioned a study with M/s. Booz and Company to better understand the requirements based on the proposals by the Government, and present a report on **“Telecom Manufacturing Policy – Developing an Actionable Roadmap”**, which was sent to you vide our e-mail dated March 21, 2012. We request you to consider this along with our submissions in **Appendix 1**.
5. The preferential market access as put forth by the Government will require many issues which are Inter-ministerial and also dependent on State policies to be aligned simultaneously to enable the implementation of the targets specified. As you are aware, the current manufacturing ecosystem in the country is small and needs to be rapidly ramped up if these provisions are to be met.



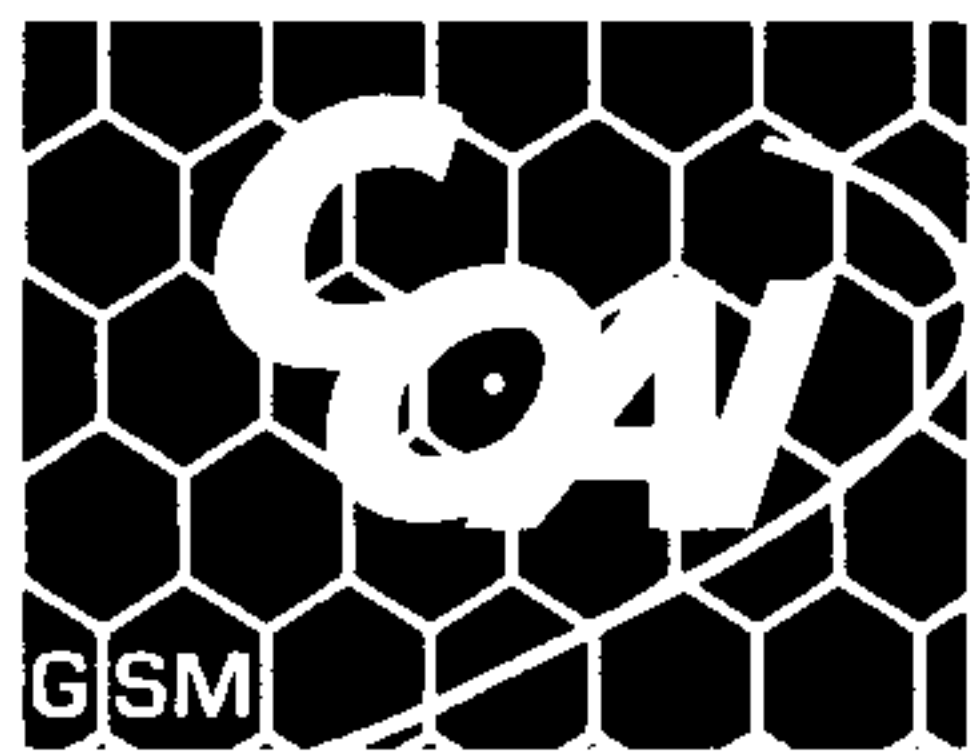
6. No country is wholly self-sufficient in telecom equipment; at best they dominate only select aspects of the value chain. India will have to make itself attractive as a global manufacturing hub. Further, the current PMA notifications do not take into account dependencies from other markets- without local IC design and fabrication it is difficult to exceed ~5-10% local value add, this emphasizes the need to develop a local IC design and FAB to be built at the earliest.
7. The Government should consider revising any applicable preferential market access guidelines to incorporate the concept of substantial transformation. This would adequately recognize transformation activities in the country in line with globally accepted standards

We hope our submissions will merit your kind consideration and we would be happy to meet you in case there is need for any further discussions or clarifications.

Kind regards,

A handwritten signature in black ink that reads 'Rajan S. Mathews'.

Rajan S. Mathews
Director General



COAI Comments on DEITY Draft Guidelines

File No: 8(78)/2010- IPHW

Summary Feedback		
General Comment		
Cl. No	Clause	Comments
		Mandating higher fixed % of value addition in case of Telecom Equipment to qualify is not only difficult but impossible in the absence of reliable components available locally through clusters as technology advancement is happening very rapidly hence its localization and also due to given nature the disparate and staggered nature of network upgrades which is a standard practice in the industry etc. With current suppliers available in India, possible Value addition is only up 5-10% in Telecom domestic manufacturing. We therefore request that a) it shall be promoted with incentive instead of mandating it. b) We would also urge that a study be carried out by an agency to determine the level of localization and possible maximum % of value addition before any guidelines are issued on its mandate.
2	Definitions: "Bill of Material sourced from domestic manufacturers": BOM sourced from domestic manufacturers would be the sum of the costs of all inputs which go into the product and which have not been imported. An imported material or service, sold by a domestic trader or intermediary, shall not be considered as a domestically sourced BOM	<ul style="list-style-type: none"> a) Monitoring trading activities across all inputs at all stages will pose an administrative challenge across the ecosystem. b) Also, definition of trading is ambiguous and subject to exploitation c) Instead domestic components may be defined as those where India was the last port of substantial transformation



3.2.1	Each Ministry / Department shall notify those electronic products for which preference will be provided in procurement to the domestically manufactured products as per the policy	Leaving the specifications of such products to each Ministry will pose an administrative challenge and result in potentially inconsistent requirements. DeitY should appoint a central agency which ensures consistency of description of such products
3.3 (c)	Specify, product wise, the quantum of domestic value addition which qualifies the product to be domestically manufactured	<ul style="list-style-type: none"> a) Leaving specification of extent of value addition to each individual Ministry will result in many administrative challenges and adversely impact the ease of doing business with the government. b) Also a detailed study is recommended to be carried out by an external agency to determine the level of localization and possible maximum % of value addition before any guidelines are issued on its mandate. COAI carried out a study and in Telecom, and with current suppliers available in India, possible Value addition is only up 5-10% in Telecom domestic manufacturing. A copy of the Study has already been sent to you. c) Mandating higher fixed % of value addition in case of Telecom Equipment manufacturing in absence of reliable components available locally through clusters is not possible. Also value addition varies as technology advancement happens too rapidly in today's time hence its localization and also it is dependent on the given nature the disparate and staggered nature of network upgrades which is a standard practice in the industry etc.
4.1.1	Each Ministry/ department, within its domain, shall notify the electronic products, which have security implications for the country and are necessary to protect human, animal or plant life and health. The rationale for such items being covered as essential security interest may also be clearly detailed in order notifying these items	<ul style="list-style-type: none"> a) Leaving specification of security sensitive items to each Ministry/ department may lead to inconsistent definitions and an administrative challenge b) Inclusion of the words "...animal or plant life and health" may be deleted as these remain unclear and ambiguous c) Security is a matter of National concern and as such these classifications should not be



		<p>left to the individual Ministries and Departments. A national council similar to proposed Telecom Security Council of India (TSCI) as proposed by DoT, with public private partnership, should be there to define them in a right perspective. This will also ensure greater transparency and consistency in the approach.</p>
4.1.3	<p>For the purpose of the notification under this clause, it is not required that the Ministry/ department itself is either a procurer or consumer of the electronic product so notified</p>	<ul style="list-style-type: none"> a) COAI strongly urges the deletion of this clause and make it explicit that this clause should not be applicable to private agencies e.g., licensed telecom operators b) How does the government propose to monitor adherence to such a clause? c) What are the options the government proposes in case the market is unable to provide options which adhere to the degree of domestic value addition as mandated, or are not equivalent in terms of either price or operational compatibility/ standards
4.2.1 (c)	<p>Specify, product wise, the quantum of domestic value addition which qualifies the electronic product to be domestically manufactured</p>	<ul style="list-style-type: none"> a) Leaving specification of extent of value addition to each individual Ministry may result in many administrative challenges and adversely impact the ease of doing business with the government. DIT may wish to consider a central agency which mandates such degree of value addition, along with the formulae for calculating the same. A detailed study is recommended to be carried out by an external agency to determine the level of localization and possible maximum % of value addition before any guidelines are issued on its mandate. COAI carried out a study and in Telecom, and with current suppliers available in India, possible Value addition is only up 5-10% in Telecom domestic manufacturing. b) Mandating a higher fixed % of value addition in case of Telecom Equipment manufacturing in absence of reliable components available locally through clusters is not possible. Also value addition



		varies as technology advancement happens too rapidly in today's time hence its localization and also it is dependent on the given nature the disparate and staggered nature of network upgrades which is a standard practice in the industry etc.
6.1	<p>Bill of Material sourced from domestic manufacturers (D-BOM) may be calculated based on one of the following depending on data available. Each of these calculations should provide similar result</p> <ul style="list-style-type: none"> a. Sum of the costs of all inputs which go into the product and which have not been imported directly or through a domestic trader or an intermediary b. Ex factory price of manufacturer minus profit minus sum of Imported Bill of Material used as inputs in producing the product c. Market price minus freight, insurance and other handling costs minus profit minus sum of Imported Bill of Material used as inputs in producing the product 	<ul style="list-style-type: none"> a) For the purposes of calculating the value addition in India, DeitY may consider adopting the concept of substantial transformation as highlighted in the Booz-COAI study. Substantial transformation is an internationally accepted measure of value add for determining country of origin, and relies on a change in the nature, classification and usage of a product. b) A system of self-certification as already accepted by DeitY should be instituted, rather than any system of third party certification and industry, in order to avoid bureaucracy. c) This would be administratively transparent and easy to monitor as it would be a function of already audited/ verifiable contract price; and would promote value addition in India through increased use of substantial transformation activities undertaken domestically.
6.4	The Department of Information Technology may constitute one or more Industry Committees, which may advise the Department regarding the profit, freight, insurance and handling charges or typical globally accepted value addition norms for each product/ verticals or any other specific references made to it	<ul style="list-style-type: none"> a) An alternate definition of value addition is proposed re cl 6.1 above. b) Given widely varying profitability figures, and the dynamic nature of pricing changes in the electronics industry, any committee would be unable to calculate any industry wide figure and which would hold for any reasonable period of time c) Freight, insurance, handling and taxes may be based on contractual figures for each instance. This would also reduce the extra administrative burden on the industry as well as the DeitY.



7.5	Each Ministry/ department may suggest names of agencies under its control, for example, Telecommunications Engineering Centre (TEC) under DOT, which may be entrusted with the responsibility of assessing domestic value addition of electronic products relating to that sector	<ul style="list-style-type: none"> a) Mandating multiple third party agencies to monitor value addition is a recipe for individual interpretation, with a high potential for misuse, delay and errors. It will additionally impose an avoidable additional layer of bureaucracy on the industry b) The self-declaration and confirmation as per audited statements is well established assessment method and should meet the requirement. c) Self-Certificate by the company whose results are annually audited should be sufficient to meet the requirement and no need for an external agency is recommended. d) Still in case it needs to be in place, we suggest that an external Independent third party auditor would be more appropriate than government technical expert departments STQC/TEC
9.1	Each Ministry/ Department may provide for suitable incentives or disincentives for private players to encourage compliance of the policy. Necessary approvals for such incentives/ disincentives shall be obtained from Competent Authority	<ul style="list-style-type: none"> a) Any incentives and more particularly disincentives should not be left to interpretation of individual ministry/ department. The Competent Authority should be defined with an oversight mechanism. b) Government should come up with a universal action plan comprising of incentives in consultation with industry, and keeping in mind current state of the domestic ecosystem before notifying such a policy. Notification of this policy may be held in abeyance till such time the ecosystem around the components is able to develop/mature.