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New policy to earmark purchases from domestic electronics firms

Surabhi Agarwal, Livemint

14 September 2011, New Delhi: India is considering a move that would make it mandatory for all government departments to make at least one-third of the annual purchases of computers and other electronic equipment from domestic manufacturers, according to an official at the department of information technology (DIT) who did not want to be identified.

The move is aimed at giving a boost to electronic manufacturing in India. While parts of the initiative may be in breach of international trade rules, the government is looking at ways of ensuring compliance, the official said.

The government is one of the biggest buyers of hardware in India. According to market research firm International Data Corp., 6-8% of the $10 billion (Rs. 47,000 crore) that will be spent on computers, servers and other hardware in India in the current fiscal to March will be accounted for by the government.

The idea has been welcomed in some quarters, but several experts said it’s impractical because India lacks the electronic components industry backbone that would make local manufacturing work. Most companies that manufacture in India merely assemble components imported from China and Taiwan.

There are several who consider the move a bad idea and some of them, according to the DIT official, have begun lobbying against it. Mint couldn’t independently ascertain this.

In 2009-10, India’s electronics import bill was $29 billion and this is expected to rise to $323 billion (at current growth levels of 16%), which in turn will lead to a trade deficit of $296 billion in fiscal 2020, according to a report by Avendus Capital Pvt. Ltd.

The draft DIT policy has been sent out for comments to other ministries, the DIT official said.

The ministry’s policy note is based on recommendations by the Telecom Regulatory Authority of India. A government task force on manufacturing also said in a report that India will spend $400 billion on electronics in 2020, up from around $45 billion in 2009. In a recent interview to Business Standard, minister of state for planning Ashwani Kumar said that it was possible that by 2030, the import bill for electronic equipment will outpace the petroleum, oil and lubricants segment unless domestic manufacturing kicks in. India spent around $106 billion on oil imports in 2010-11.

According to the same newspaper report, the Planning Commission had proposed 30% preferential access, or reservation, be given to domestic manufacturing in government procurement.

According to the policy being considered, companies that are selling products not based on patents registered locally, can sell to government departments only if the products have had 25% of their value added locally in the first year. This has to increase to 45% by the fifth year. In the case of companies selling products based on local patents, the corresponding proportion has to be 40% and 60%.

Although most technology multinationals have research and development facilities in India, few make products locally and even those that do, will be hard-pressed to meet the criteria laid out in the policy.

“Even companies that manufacture in India are mostly assembling components imported from mainly China and Taiwan. No company manufactures everything themselves or has all suppliers in one country,” said an executive at one of the top IT companies operating in India, who spoke on condition of anonymity.

The executive added that there are hardly any component makers in India and that in the case of some products, such as servers, there is little scope for localization.

“The maximum localization that can be done in any product is 10%,” said a second executive at another IT company, who too didn’t want to be identified. He added that even though India has a large domestic market and cheap labour, the reason IT manufacturing isn’t a thriving activity is because of poor infrastructure and logistics, besides the tax regime and labour laws. “Why is the government forcing companies to set (up) shop; they should just fix these issues and companies will come on their own.”

The DIT official said that the government would aim to ensure that the support systems are also established.

“We are setting up semiconductor fabs (fabrication units), which command 10-40% of the value of the product, giving incentives to the industry and setting up clusters, which will be islands of good infrastructure,” countered the DIT official. “And for the rest, there are electronic manufacturing services companies such as Foxconn, Flextronics, which manufacture products across the board in bulk. Currently, their operations are very small in India, but if they expand, then the industry can procure from them.”

The department’s only concern is that some aspects of the policy could violate World Trade Organization (WTO) norms. “Government procurement is exempt from the WTO framework,” the DIT official said. “However, private procurement is not. Some of the government-licensed agencies may fall into that category, so we have to figure out how to include them in the policy.”

PoornimaShenoy, founder and former president of the India Semiconductor Association, said the proposal does not look like it violates any of WTO terms. “The government is only saying that if it gives business worth thousands of crores to these companies, then some part of it has to be returned to the country in the form of investment,” she added.

This isn’t the first time the government is trying to give a push to the domestic manufacturing of electronic equipment. In 2007, it unveiled the Special Incentive Package Scheme to turn India into a chip production hub. Under the policy, the government offered to underwrite 20-25% of the capital expenditure. Not only was the policy ill-timed—it coincided with the global economic crisis—but domestic industry found the threshold limits for investment unreasonable.

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Now, EU raises concerns over telecom manufacturing policy

Business Line (The Hindu)

30 September 2011: The European Union has raised concerns against the proposed telecom manufacturing policy on grounds that it may flout WTO norms.

In a letter to the Secretary, Department of Telecom, the EU said that though India has the right to define a domestic manufacturing policy, it should respect the obligations under international law.

The Ministry of Communication and IT had floated a proposal to reserve 30 per cent of all electronic equipment procurement to items manufactured in India. This includes telecom gear and IT peripherals. When the policy is announced, telecom companies, both private and public sector, will have to buy 30 per cent of their hardware from those that have manufacturing base in the country or face penalty. The policy also gives fiscal benefits to local products in terms lower taxes.

If implemented, it will have major impact on European manufacturers, including NokiaSiemens, Ericsson and Alcatel-Lucent.

"The proposed preferential access measures favouring Indian manufactured products appear to run counter to Article III:4 of the GATT 1994, as such measures would result in imported products facing a less favourable treatment than that given to domestic like products," the EU letter said.

The letter signed by the Ambassadors of Italy, Finland, Denmark, France, Germany and Sweden has also been sent to the Commerce Ministry.

US seeks clarification

The US Government had also raised similar concerns over this issue earlier as the proposed policy will also impact American manufacturers such as Cisco, HP, Motorola and Dell. The US has specifically objected to bringing procurement by private companies within the ambit of the new policy.

The US has asked, "Could India please clarify how the preference regimes for domestic purchases carried out by private sector enterprises that are licensed by the Government qualify as 'products purchased for Governmental purposes' so as to constitute government procurement under the terms of the GATT Article III-8a?"

The US has asked this as part of the fifth Trade Policy Review of WTO. Under international trading protocols, WTO members are not allowed to give protection to local products except when procured by governmental agencies.

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India needs to develop better standards in electronics manufacturing: CII

Economic Times,

25 September, NEW DELHI: India needs to develop better standards to push the domestic manufacturing of electronic products in line with international practices, the Confederation of Indian Industry (CII) said Sunday. CII said the trade of information technology and electronic products would increase, as the World Trade Organsiation (WTO) had eliminated all import duties on a wide range of items, but it also meant they would also come under increased scrutiny for quality. "Under the WTO-ITA-I agreement, with tariffs being reduced to near zero, international electronic and electrical products trade would increasingly be subjected to higher technical regulations and conformance standards," said CII. "Already, the number of these regulations and standards has increased significantly in recent years, especially relating to consumer protection, national interest, quality, environment protection, and corporate social responsibility," it added. The lobby urged the government to revise regulations and ensure conformity of standards for developing the domestic information communication technology and electronics (ICTE)manufacturing sector. "Standards, testing, labelling and certification requirements for quality are also rising. Electronics companies must conform to these standards or risk loss of business," said CII. Globally, the electronics industry is valued at about $1.75 trillion and is one of the largest and fastest growing manufacturing sectors in the world. Electronics products are among the top three globally traded products with robust value chains linking factories across the world. The ICTE sector in India has been growing at a compounded annual growth rate of 16 percent in the last five years, but in comparison to global levels, its value at $26.6 billion remains considerably small. About 60 percent of India's demand for ICTE products is met through imports.

According to a report of the task force of department of information technology, ICTE production in the country could grow to $400 billion by 2020, including $80 billion of exports. "There is need to develop and mandate conformance standards for locally manufactured as well as imported ICTE products in harmony with international practices and benchmarks. Offering incentives to companies to adopt such standards would help integrate Indian companies with the global supply chain," added Inderdeep Singh, chairman, CII national committee on ICTE manufacturing.

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Telecom manufacturing policy sends negative signals, says EC

Thomas K Thomas, Hindu Business Line

New Delhi, Nov. 21: The European Commission has told the Communications and IT Minister, Mr Kapil Sibal, that the move to give preferential treatment to domestic manufacturers of telecom equipment raised questions about India's commitment to open and fair conditions of doing business.

In a letter to Mr Sibal, European Commission's Vice-President, Ms Neelie Kroes, said that the proposed manufacturing policy sent negative signals to the international business community and warned India of losing out on future innovations.

“The proposals fail to appreciate the way research and development is conducted and intellectual property developed, in today's world of widely distributed knowledge. By imposing local registration of IPR, India risks losing out on future innovation by shutting doors on innovation taking place interdependently across our economies,” Ms Kroes said in the letter.

Second letter

This is the second letter from the European Union on the issue. In September, the Ambassadors of Italy, Finland, Denmark, France, Germany and Sweden had raised concerns against the proposed telecom manufacturing policy on grounds that it may flout WTO norms.

The Ministry of Communication and IT had floated a proposal to reserve 30 per cent of all electronic equipment procurement to items manufactured in India. This includes telecom gear and IT peripherals. When the policy is announced, telecom companies, both private and public sector, will have to buy 30 per cent of their hardware from those that have manufacturing base in the country or face penalty. This goes up to 80 per cent by 2020. The policy also gives fiscal benefits to local products in terms lower taxes.

If implemented, it will have major impact on European manufacturers, including Nokia Siemens, Ericsson and Alcatel-Lucent.

“We strongly believe that implementation of these proposals will not only have the potential to harm the EU and its ICT industry, but it will not be in India's own interest. Indian consumers and SMEs will pay higher prices than needed if domestically manufactured telecom products are given preferential market access,” the latest letter from EC said.

The US Government had also raised similar concerns over this issue earlier as the proposed policy will also impact American manufacturers such as Cisco, HP, Motorola and Dell.

Local manufacturers

On the other hand, local manufacturers are pushing for more concessions in the proposed policy. According to the Telecom Equipment Manufacturing Association of India, the Government should be concerned about the huge import bill arising out of importing telecom gear.

They have also presented a case for creating an R&D fund that will be used to creating Indian IPR. Indian products account for just two per cent of the overall demand in the market estimated to be worth Rs 54,700 crore.

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New telecom policy to have reservation for local manufacturers

The Economic Times

10 December 2011: ET had reported last month that India has decided to give preferences, including tax cuts, to indigenously manufactured telecoms equipment, despite concerns raised by the United States and the European Union, which had said that such concessions would violate WTO commitments.

Last month, the department (DoT) committee, examining the issue, had concluded that these concessions as well as reservations for local mobile equipment manufacturers were necessary from a national security perspective. This committee has cleared the proposal that mandates domestic operators to source 65% of their annual hardware and network-related equipment from Indian companies by 2020.

The reservations for domestically-manufactured equipment will be part of the new telecoms policy 2011,that is scheduled to be unveiled by December this year.

Earlier this year, sector regulator Trai had proposed that mobile phone companies be mandated to source 80% of their network equipment and other related infrastructure from domestic manufacturers by 2020. But this also includes network and other hardware produced by the manufacturing units of foreign vendors located in India.

Trai had also recommended that companies owned by Indians and located here get 65% of all telecom network orders by 2020. Put simply, the regulator had sought that manufacturing arms of international vendors such as Ericsson, Huawei, Nokia, Siemens and Alcatel-Lucent amongst others to account for only 15% of all equipment orders by 2020.

Trai also sought that these proposals be implemented in a phased manner. For instance , it had said that by 2015, mobile phone companies be mandated to source 45% of all telecoms equipment domestically. Off this, Trai wants Indian companies to account for 25%.

In addition to recommending that domestically manufactured products be given preferential market access, it had also proposed a slew of incentives to kick-start telecoms equipment manufacturing in India.

The five-member DoT committee has endorsed Trai's proposals.

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Quality norms for electronics may shut out Chinese goods

Surabhi Agarwal & Asit Ranjan Mishra, Livemint

Jan 4, 2012,New Delhi: In a move that could spell trouble for Chinese electronics manufacturers in India as well as local firms sourcing electronics from that country, the government is proposing mandatory quality norms for 16 electronic items, including mobile phones, computers and television sets.

The action, which could increase tension in trade relations between the two Asian neighbours, is being taken to eliminate spurious and substandard electronic goods that have flooded the Indian market, mostly made in China.

According to estimates, 30% of the over $45 billion (Rs. 2.4 trillion) electronic equipment market is low quality, posing serious health and safety hazards for consumers. The market for electronic equipment in the country is expected to grow to $400 billion by 2020, of which $300 billion is expected to be imported unless the domestic manufacturing industry scales up dramatically.

To enforce quality standards, the government will set up testing and sampling labs, said a senior official of the department of information technology (DIT). It will also, in consultation with the Bureau of Indian Standards (BIS), announce a policy on the issue. “Through this policy mandate, we will reinforce existing standards, which are internationally acceptable, instead of reinventing any new standards,” said the DIT official, who did not want to be identified as the policy is yet to be notified.

The same person added that the move follows accidents involving such goods. The policy, when released, has the potential to change the dynamics of the industry as local manufacturers and multinational brands are both under intense price pressure from cheap Chinese imports.

Alok Bharadwaj, president of electronics hardware lobby Manufacturers’ Association for Information Technology, said: “We have to decide what should we tolerate.”

He added that when manufacturers conform to standards in other countries, be it for voltage or plugs, they should do so in India as well. “Even though the price is much lower compared with branded goods, the consumer ends up getting a bad bargain,” he said. Bharadwaj is also senior vice-president of Japanese camera and printer m-aker Canon’s India operations.

According to the DIT official, the most significant impact is likely to be on mobile phones. The last four years have seen a significant growth in the number of non-branded phones being sold in the country, most of them imported from China.

According to Gartner, the Indian mobile device market has more than 150 manufacturers selling devices to consumers, with most of them being local and Chinese manufacturers focused on low-cost phones. Mobile device sales in India are forecast to reach 231 million units in 2012, an increase of 8.5% over 2011, according to the market research firm.

A senior commerce ministry official confirmed that such a policy is on the anvil. However, he said that DIT is yet to formally consult the ministry. “We know it is being contemplated. We’ve to evolve the same standards for domestic manufacturers as well,” he added.

The standards will apply equally to local manufacturers as well, said the DIT official. However, most of such products use components imported from China.

The government banned the import of mobile phones without a unique international mobile equipment identity (IMEI) number in 2009. Chinese handsets without IMEI numbers had a market share of about 13% at that time.

India had banned the import of Chinese toys in January 2009, alleging that such products had toxic parts. In June 2009, the ban was relaxed for the import of toys from any country that met international safety standards. Since the move was not World Trade Organization (WTO)-compliant, in May 2010, the government made it mandatory for domestic manufacturers to obtain BIS certification showing that their products conform to toxicity norms.

According to the WTO agreement on technical barriers to trade, member countries can maintain technical standards that are scientifically verifiable, transparent and non-discriminatory, said independent trade analyst T.N.C. Rajagopalan.

“Such uniform standards have to be devised for electronic items as measures like anti-dumping are difficult to impose in these cases,” he added.

India’s widening trade deficit with China and the lack of access for Indian firms to the Chinese market have been contentious issues between the two countries. A proposal to impose customs duties on imports of Chinese power equipment to safeguard domestic manufacturers such as Bharat Heavy Electricals Ltd and Larsen and Toubro Ltd is under consideration.

China is India’s second largest trade partner, behind only the United Arab Emirates. Indian exports to China were valued at $19.6 billion in 2010-11 and imports from that country at $43.5 billion.

Setting up standards for a particular industry cannot be seen as a trade war, even though Chinese manufacturers may be the ones impacted most, said T.S. Vishwanath, principal adviser at APJ-SLG Law Offices.

“As long as these standards are not specific to China— which they cannot be—then it is fine,” he said.

Such measures cannot be used as instruments to address the trade deficit with any country, said Abhijit Das, head of the Centre for WTO Studies.

Vishal Tripathi, principal analyst at Gartner India, said: “On the flip side, the availability of such products keeps the multinational brands on their toes as their margins are under pressure.”

It is the responsibility of the government to ensure that the products available are of good quality, since mobile penetration is happening more in rural areas, where literacy rates are lower, said Pankaj Mohindroo, founder and national president of the Indian Cellular Association.

“It is the unbranded segment, which constitutes almost 25% of the market, which will get the most impacted,” he said. “This segment stops at nothing, be it counterfeiting products, making wrong declarations to consumers in terms of specifications, no after-sales service and warranty, etc. There is a major fraud being played on the consumer by this segment, which has to stop.”

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Special treatment to telecom equipment companies violation of WTO rules: Commerce Ministry

Joji Thomas Philip, ET Bureau

Mar 20, 2012: The commerce ministry has warned that India's plans to give preferential access and tax cuts to indigenously manufactured telecoms equipment, and also mandate that mobile phone companies buy a bulk of the networks hardware from domestic companies, violates multilateral agreements and international commitments made by the country.

It has said that plans to give preferential market access to domestically manufactured products was against the provisions of the Trade Related Investment Measures (TRIMs) agreement under the World Trade Organization trade treaty, of which India was a signatory. The commerce ministry has further said that providing subsidies to use domestically manufactured equipment was against the principles of the Agreement of Subsidies and Countervailing Measures (ASCM).

Trade Related Investment Measures, the rules that restrict preference of domestic firms and thereby enable international firms to operate more easily within foreign markets, is amongst the four principal legal agreements of the World Trade Organization trade treaty. Subsidies are also not prohibited under WTO unless there is evidence of injury or damage to the importing country. The Agreement on Subsidies and Countervailing Measures is aimed at preventing countries from giving their firms an unfair competitive advantage through trade distorting subsidies.

The telecoms department (DoT) has already approved sector regulator's recommendations that mobile phone companies be mandated to source 80% of their network equipment and other related infrastructure from domestic manufacturers by 2020. But this also includes network and other hardware produced by the manufacturing units of foreign vendors located in India. Trai had also recommended that companies owned by Indians and located here get 65% of all telecom network orders by 2020. Put simply, the regulator had sought that manufacturing arms of international vendors such as Ericsson, Alcatel-Lucent, Nokia Siemens, Huawei and ZTE mongst others to account for only 15% of all equipment orders by 2020. These new rules, aimed at making the country a mobile equipment manufacturing hub, will be part of the new telecoms policy that is set to be unveiled in April. The DoT has also agreed to Trai's proposal that the new rules be implemented in phased manner. For instance, by 2015, mobile phone companies be mandated to source 45% of all telecoms equipment domestically, and Indian companies must account for 25% of this.

"To suggest that domestically manufacturing 35% or even 80% of the telecoms equipment, security concerns like protection from malwares , denial of service software can be achieved, is an argument that may be difficult to sustain. Clearly, the purpose of Trai's recommendations, stands out as promoting domestic manufacture and not security," the commerce ministry communication (dated March 12) to telecoms secretary R Chandrasekhar added.

The commerce ministry has also suggested that the telecoms department refer this issue back to Trai, 'pointing out the potential violation of international commitments if these proposals were converted into law'.

The proposed new rules also states that mobile phone companies that fail to secure network related hardware domestically will be subject to financial penalties equivalent to certain percent of their imports.

Domestic telecom equipment makers are also slated to get loans for five-year period on subsidized terms in addition to a 10-year income tax holiday and concessions on excise duty and VAT. The government also plans to set up a Rs 10,000crore telecom R&D fund and a Rs 3,000crore mobile equipment manufacturing fund to support local hardware manufacturers.

The European Union, Japan and US has already raised concerns on the proposed policy and has objected to clauses that mandate sourcing from Indian-owned companies. ET had recently reported that US Assistant Trade Representative (south & central Asia) Michael J Delaney in a communication to the telecoms department had said that it was not pragmatic to create the entire supply chain of telecom gear in India, given the globalised nature of the industry.

"With the growing scale of a globally distributed and complex supply chain with interconnected sets of organisations, people, processes, services, products and components, it is not practical to assume the eventual establishment of an entire supply chain of ICT products in India," the US trade envoy wrote in an internal note to the department's security wing chief Ram Narain.

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