

## Contents

US, EU, Japan pile pressure to remove local content clause .....	2
Telcos may have to buy critical parts only from local makers .....	3
India against trade pact on electronics .....	4
India says no to inclusion of more items in WTO list by US, EU .....	6
Indian ICT firms passionate about Nigerian market .....	7
Govt to bring in 'negative list' for electronics imports .....	8
US objects to India sourcing IT products locally .....	9
India to Defend PMA Extension to Local Tele Gear Companies .....	10
Telcos Want PMO to Fix Gear Policy.....	12
National Security Council backs go-local policy on telecom gear.....	14
Rules for 'Sensitive' Electronic Goods Import Likely Soon.....	15
IT Ministry pushes through with 'go local' procurement policy .....	16
DoT to make 100% local sourcing of telecom gears mandatory .....	17
Electronics sector sees setback as govt suspends 'buy India' policy .....	18
India not to join US-led electronics trade pact for duty free products such as cellphones, tablets and flat-panel TVs .....	20

## US, EU, Japan pile pressure to remove local content clause

Amiti Sen, Economic Times

July 20, 2012, New Delhi: India's major trade partners—the US, the EU and Japan—have stepped up pressure to remove local content requirement clause in the ambitious national solar mission project and manufacture of certain electronic products.

However, New Delhi is preparing to defend its policies strongly at the World Trade Organization right till the dispute panel level.

"There is a possibility that US may launch a formal dispute against India, especially for the domestic content clause in the National Solar Mission, but we will fight it," a commerce department official told ET.

The US, the EU and Japan recently asked for a special meeting of the Trade Related Investment Measures or Trims committee of the WTO to address concerns on domestic content requirement or compulsory local-sourcing clause in some policy measures in India, Brazil, Indonesia and Russia.

India's decision to grant preference to domestically manufactured electronic products on security grounds, taken earlier this year, and the 30% mandatory domestic sourcing requirement in the JNSSM were strongly criticised by the three members.

The US expressed concern about telecom licensees in India having to purchase telecom equipment locally and wanted to know if the domestic sourcing requirement covered all private agencies.

"The US wanted to know which clause of security exceptions was being invoked and how security concerns are addressed by domestic content and value addition requirement," the official said.

India maintained that security issues are sacrosanct for all WTO members, and a detailed discussion was not possible since these issues are sensitive and confidential and are dealt on the basis of advice from security agencies.

The EU asked for a timeline on when detailed guidelines of the IT policy was expected, but India refused to give any date.

"We do not expect much trouble on electronic goods sourcing as we are well within our rights to take such measures for security reasons," the official said.

The ground, however, may be a bit wobbly when it comes to defending the requirements under the JNSSM that asks all investors to compulsorily use solar modules manufactured in India and source at least 30% of input locally.

The Trims does not allow any member to impose sourcing restrictions without ample justification. New Delhi is now waiting for the next Trims committee meeting to see what the US, the EU and Japan plan to do on the matter. "We are prepared to fight it till the end, and we will do so," the official said.

[\[Back to top\]](#)

## Telcos may have to buy critical parts only from local makers

Thomas K. Thomas, Hindu Business Line

New Delhi, August 14, 2012: Telecom companies may have to procure SIM cards, broadband modems and 16 other items from local manufacturers starting April 2013.

An expert committee set up by the Department of Telecom has identified 18 hardware items, used for telecommunications, which will be put under a preferential market access category. These items will be marked as sensitive from the security point of view in order to comply with the WTO norms. The DoT is expected to finalise the recommendations made by the expert group and announce the policy shortly.

Under this policy, the DoT will make it mandatory for all telecom companies to procure at least 30 per cent of all electronic equipment that are locally manufactured. Some items such as SIM cards, modems used for WiFi or 3G broadband services and EPABX boxes will have to be procured completely from manufacturers in India.

The policy will be applicable to both private and public sector telecom companies. All products manufactured by entities that are registered and established in India will be considered for the preferential access. This includes entities in Special Economic Zones, original equipment manufacturers and contract manufacturers. In addition to manufacturing in India, the companies will have to ensure that there is some amount of local value addition. According to the proposed policy, the minimum value addition should be 25 per cent in the first year and 45 per cent in the fifth year.

The proposal to give preferential treatment to 'Made in India' products was first mooted by a committee formed by the National Manufacturing Competitiveness Council (NMCC) and the Advisor to Prime Minister on Public Information, Infrastructure and Innovation.

The policy was being opposed by foreign players, including Nokia, Siemens and Ericsson, on grounds that it would give unfair advantage to local players. They had cited provisions of the international trade treaties to prevent the policy from being adopted.

### *Local players to benefit*

However, the Ministry of Communications wants to bring out this policy in a bid to address balance of payment issues as currently India imports telecom equipment worth billions of dollars every year. The proposal is backed by local players such as Shyam Telecom, Tejas Networks and Coral Broadband. The Telecom Equipment Manufacturers Association has given a list of Indian manufacturers who are ready to supply telecom equipment ranging from fourth generation (4G) wireless systems to security and surveillance communication systems.

[\[Back to top\]](#)

## India against trade pact on electronics

Surabhi Agarwal / Asit Ranjan Mishra, Livemint

30 October 2012, New Delhi: India plans to oppose the second instalment of the World Trade Organization's (WTO) information-technology agreement that proposes to do away with import tariffs on consumer durables and electronics items.

Signing the pact could result in a further disadvantage to the domestic electronics manufacturing industry, which lags because the country signed the first version of the agreement in 1996 and companies had little incentive to manufacture in India, officials of the department of electronics and IT and commerce said.

The new pact intends to include more consumer durable products such as air conditioners, refrigerators and washing machines under the label of IT products.

"India is resisting such moves," a government official said, requesting anonymity. "We will not be part of any such agreement."

The cabinet had just cleared the country's electronic policy that provides incentives for promoting indigenous manufacturing.

"If we bring down customs duty on such items to zero at this stage, we will only be shooting ourselves in our foot," the official said.

India's electronics manufacturing industry is suffering today because it signed the first instalment of the international agreement, another government official said, also declining to be named.

The argument in favour of pact is that it reduces prices due to economies of scale besides enabling developing countries to reap the benefits of cheaper technology. However, it also leads to concentration of technology in the hands of a few companies and, therefore, countries, the second official said. "It's an agenda driven by a few companies and we have taken a position to not join it this time."

India's electronics manufacturing industry is projected to grow at an annual pace of 22% to \$125 billion (Rs.6.8 trillion) by 2014 and \$400 billion by 2020, according to official estimates. However, if local manufacturing is not provided incentives, India's cost of importing electronics may exceed its crude import bill—\$300 billion by 2020.

Participants to the agreement have grown to 70, representing about 97% of world trade in information technology products, according to information available on the world trade body's website.

The talks for second instalment began earlier this year.

Each country will propose a set of items that should be included in the pact before a final list is drawn up. An official with a lobby group, who is aware of the country's anti-pact stand, said it could invite pressure from large multinational technology companies, especially from the US, which see India as a huge market. He too requested anonymity.

Developed countries are trying to achieve some of their non-agricultural market access aspirations in the guise of the latest proposal, said Biswajit Dhar, director general at Research and Information System for Developing Countries, a New delhi-based think tank.

While developed countries have been pushing developing countries such as India and China to accept

heavy tariff cuts in some of the industrial sectors under the languishing Doha round of trade talks, India has been maintaining that any such tariff reduction has to be voluntary and cannot be forced upon developing countries.

The government last week approved a national electronics policy, which includes incentives for semiconductor fabrication units and industrial clusters for manufacturing electronics. The cabinet had in July also approved a Rs.10,000 crore package of incentives for makers of electronics products and components under the so-called modified special incentive package scheme.

The policy also specifies standards for electronics imports to stop spurious goods from entering the country. A proposal for electronics clusters has also been approved. The government will offer incentives of Rs.50 crore each to 200 clusters set up by manufacturers.

Moreover, the government has also reserved 30% of all its electronic procurement for companies that can add at least 25% of domestic value to products in the first year of the policy being implemented.

[\[Back to top\]](#)

## India says no to inclusion of more items in WTO list by US, EU

Amiti Sen, Economic Times

10 November 2012, New Delhi: India has opposed a move by the US and the European Union to expand the list of electronic items under the World Trade Organisation's IT Agreement, which will result in elimination of import duties on mobile handsets, printers, fax machines and consumer electronic goods.

The government is of the view that inclusion of more items in the list would have an adverse impact on the "fledgling" domestic industry.

"India placed on record its serious reservations on this matter at ITA committee's meeting in Geneva late last week," a WTO official said. "It said that in consultations with stakeholders, it sees problems regarding relevance of the proposed products, their multiple uses and possible difficulties in processing at customs."

South Korea along with the US and EU are pushing for inclusion of these items in the ITA's product list. They have sought negotiations on the issue when talks begin on the second instalment of ITA from January.

The existing ITA was signed between 29 WTO members, including India, in 1996. The membership has since increased to 70. The original agreement sought to eliminate import duties on 217 items like parts of microscope, semi-conductor equipment, spraying appliances and other laboratory instruments. India claims that its industry was hit by the decision to eliminate duties on these products.

"As per government's estimates, India's share in world trade of these items came down from 0.3% to 0.2% after signing the agreement," an Indian government official said. The commerce department had extensive discussions with the department of IT as well as the Planning Commission on whether it should be a signatory to the proposed second tranche of the ITA. The common wisdom was that India would not gain from it, the official said.

"Since the ITA-2 talks about adding 357 items like mobile sets, printers, fax machines, flat screen TVs and consumer electronics, there is an apprehension that it may affect our fledgling domestic industry. The broad message that emerged from our internal consultation is that we should be very careful before taking on additional commitments," the official said.

Nicaragua and El Salvador are other ITA members that expressed their reservation on expansion of the agreement and said the matter was still under consideration in their countries.

South Korea, however, reported some progress on technical discussions it hosted early last week on expanding the product coverage of the ITA. It said that as many as 17 participating members are moving towards more discussions and that a revised consolidated list of products proposed for inclusion in ITA expansion would be circulated in mid-December.

The US asked delegations to examine the next version of the product list and be prepared to negotiate in January. Japan, the EU and Costa Rica were other members that expressed support.

[\[Back to top\]](#)

## Indian ICT firms passionate about Nigerian market

PTI

27 November 2012: A 13-member delegation of Indian Electronic and ICT firms participating in a buyer-seller meet here have expressed optimism in Nigeria emerging as a major market for products and services from India.

The companies are participating in a three-day business tie-up summit organised by the High Commission of India in Nigeria and the Electronics and Computer Software Promotion Council of India.

"There is a huge business opportunity in Nigeria and India SMEs are ready to do business in Nigeria because the country has a big telecoms market and the next generation will make a huge difference." head of the delegation from India and Managing Director of Telematic4u Services Ltd, Pratap Hedge told PTI after the interaction with Nigerian businessmen.

According to him, the major advantage and facilitator of business between both countries is English as a common language.

He said sectors like telecoms are growing at fast pace in Nigeria.

He added that the large population of the oil rich African country is a big advantage citing instance from India which also has a large population that became advantageous.

"Our Council is in Nigeria to interact with Nigerian buyers of ICT products and services, as well as explore the possibilities of business cooperation and strategic alliances with them," he said.

"As a catalyst for the India ICT industry, our council is here to develop a new mechanism of making our products accessible and affordable to Nigerians," he added.

Managing Director and CEO of Airtel Nigeria, a subsidiary of Bharti Airtel, Rajan Swaroop while sharing his experience in Nigeria with the businessmen said the country has the potential to surpass India in the ICT sector.

"In 1990, India was in the same position Nigeria found itself today but the potential of this African country is huge," he said.

"Information Technology (IT) is one of the thrust areas identified by the Department of Commerce of the Government of India for enhancing trade between India and Nigeria," the High Commission in Nigeria said in a statement before the meeting.

With bilateral trade at over USD 17.3 billion, India is currently Nigeria's second largest trading partner.

[\[Back to top\]](#)

## Govt to bring in 'negative list' for electronics imports

Shruti Srivastava, Indian Express

12 January 2013: The information technology department is in advanced stages of firming up guidelines to make it mandatory for government departments to procure "at least 30 per cent" of their electronic product inputs such as personal computers and dot matrix printers from domestic manufacturers under the recently-approved National Electronics Policy (NEP) 2012.

For the private sector, the government is understood to be working on a 'negative' list of items that cannot be imported due to "security concerns". Once ready, the final list of items is likely to be banned by the Director General Of Foreign Trade (DGFT), a government official told The Indian Express, adding that the guidelines are expected to be made public before April.

The move, if implemented, will be a huge blow to the manufacturers importing items, or simply components, at a time when nearly 90 per cent of electronic hardware products are imported in the country. Global equipment manufacturers and vendors in segments such as telecommunications and electronics have already raised the alarm over the proposed move.

"The department is defining security threat and a clear list of instruments which may entail security concern. Each government department has been asked to prepare a list of items that have security implications for them. After studying the list, a comprehensive final list would be prepared to be sent to the DGFT," the government official said, adding that the move is WTO-compliant.

According to Article 21 of the General Agreement on Tariffs and Trade (GATT), a country can ban import of items perceived to be security threats.

The mandatory sourcing norm is aimed at giving preferential market access for electronic products manufactured and designed in the domestic market, including mobile devices and SIM cards, to address strategic and security concerns of the government.

The official said that the department is working on the guidelines for the NEP and the "mandatory sourcing norm for government departments" forms a part of the policy. To start with, the department has put personal computers and dot matrix printers under the category of mandatory sourcing from the local manufacturers. As the policy takes shape, more items will be included in the list.

The NEP was approved by the Cabinet in October 2012 with the aim of raising the turnover of the electronic design and manufacturing sector to \$400 billion by 2020 and provide employment to around 28 million people at various levels.

The policy envisages the setting up of Semiconductor Wafer Fabs and its eco-system for design and fabrication of chips and chip components, creation of electronic development fund to promote innovations, incentivise setting up of over 200 Electronic Manufacturing Clusters (EMCs) and provide attractive fiscal incentives across the value chain of ESDM sector through a Modified Special Incentive Package Scheme (M-SIPS).

The policy aims at eliminating the "disability costs" in manufacturing on account of infrastructure gaps relating to power and transportation. The policy also entails setting up of a National Electronics Mission with industry participation and promote the country as a electronic hardware manufacturing hub.

[\[Back to top\]](#)



## US objects to India sourcing IT products locally

Amiti Sen, Business Line (The Hindu)

New Delhi, 3 February 2013: The US Government has objected to India's plans of making it compulsory for Government agencies to source electronic products, including personal computers, printers and tablets, from domestic manufacturers.

It has also expressed "grave concerns" about private companies being mandated to domestically source IT products in some instances due to security reasons.

"The US may give a non-paper to India listing out its concerns and how those might be addressed," an Indian Government official told *Business Line*.

The US Under Secretary of State for Economic Growth, Environment and Energy Robert Hormats, in his recent interaction with Commerce and Industry Minister Anand Sharma, argued that the domestic sourcing regulations would be a huge setback for US IT companies that want to set up shop in India, the official, who also attended the meeting, said.

Since the domestic sourcing regulations would force some companies to let go of their global supply chains that they have developed over the years, steps needed to be taken to address this area of grave concern, the US official stressed.

### *Notification*

The Ministry of Communications and IT, last Thursday, put out a notification making it mandatory to give preference to domestically manufactured laptop PCs and tablet PCs in Government procurement. Notifications were issued in December for providing preference to domestically manufactured desktop PCs and dot-matrix printers in Government procurement. The time-line prescribed for adhering to the notifications, in most cases, is March 2014.

The proposed rules are meant to help develop a robust Indian technology manufacturing sector, the Indian Government said in a recent statement.

Wherever domestic sourcing restrictions have been placed on private companies, the Government has cited security concerns as the deciding factor.

"The Commerce Minister, too, explained to the US Under Secretary that the move is required to boost domestic manufacturers that were still struggling to grow," the official said.

Technology hardware exporters based in the US and the EU have already written to the Government deploring the move, especially because it would not just apply to Government agencies but also private companies in some instances. Some have indicated that it could violate World Trade Organisation norms.

### *'No norms breached'*

Indian Government officials, however, are confident that no international norms are being breached. "India is not part of the Government Procurement Agreement of the WTO and thus is free to impose any procurement conditions on government agencies. The WTO also allows countries to impose sourcing restrictions for security reasons," another official, who deals with WTO issues, said.

[\[Back to top\]](#)

## India to Defend PMA Extension to Local Tele Gear Companies

Joji Thomas Philip, The Economic Times

New Delhi, 15 April 2013: India will cite the examples of US, Australia and Taiwan to ward off criticism against its new policy that gives preferential market access (PMA) to domestic telecom gear makers for government contracts.

International business lobbies, including the US-India business council, Information Technology Industry Council, Digital Europe and the Telecommunications Industry Association of US, amongst several others, have warned that India's plans of extending the PMA provisions to private mobile phone companies, would represent an unprecedented interference in the procurement of commercial entities and would also be inconsistent with the country's obligations to the World Trade Organization.

The telecom department (DoT), in its draft response, in an internal note, reviewed by ET, has said that various countries had put restrictive clauses against foreign vendors on security grounds."The US Committee on Foreign Investment had blocked Huawei's attempt to take over Server Company 3Leaf Systems.

Australia recently blocked Huawei's from taking part in that country's National Broadband Network.

Taiwan had earlier blocked Chinese companies from participating in telecom networks in that country," the department's note added.

The DoT internal note also points out that a recent report by the US Congress Panel had said that the two Chinese vendors - Huawei and ZTE - have ties to that country's government and military and must be barred from mergers and acquisitions in the United States.

India in its response will also point out that the US Congress Panel had said that government systems, particularly sensitive systems, should not include Huawei or ZTE equipment, and the report had further added that 'private sector entities in the US should be strongly encouraged to consider long term security risks in doing business with these Chinese vendors for equipment or services'.

Its response will also add the country's new telecom policy (National Telecom Policy - 2102) states that domestic production of telecommunication equipment should meet up to 80% of the sector's requirements by 2020.

The policy further states that India will provide preference to domestically manufactured telecom products that had security implications consistent with its WTO commitments, the department's internal note added.

The DoT has further justified its move stating that that rules to buy from domestic manufacturers 'does not provide price preference to them over imported products and also that there has been no dilution of technical requirement's.

The department is also of the view that this provides sufficient transparency on its part before unveiling the new norms for security sensitive products.

Security agencies here too had a role to play in the formulation of the new rules, as they have warned multiple times that malicious codes could be implanted to networks, before or after manufacturing, and that testing of equipment alone may not solve the problem.

*Redefines 'Security Sensitive' Products*

The government has redefined "security sensitive" telecom products in the run-up to implementing 100% domestic sourcing of such telecom gear, reports Kalyan Parbat from Kolkata.

In a bizarre round of policy-making, the department of electronics & IT (DeitY) says "electronic products with security implications are those which are necessary for protecting human, animal or plant life and health, apart from protecting the country's security interests," in an internal note, a copy of which was reviewed by ET.

The new clause will be at the heart of the final preferential market access (PMA) norms likely to be notified on April 20.

The new definition of telecom products with security implications was discussed on April 8 during a closed door interaction between communications minister Kapil Sibal and all major telecom industry bodies.

Over 90% of telecom gear classified as security-sensitive comprises electronics.

[\[Back to top\]](#)

## Telcos Want PMO to Fix Gear Policy

The Economic Times

New Delhi, 2 May 2013: The industry lobby representing GSM operators has sought the intervention of the Prime Minister's Office to try and stop the implementation of the proposed policy which gives preference to domestic manufacturers of electronic and telecom network gear.

The policy also mandates a minimum 30% local sourcing of all crucial components.

The PMO had recently raised concerns on the draft Preferential Market Access (PMA) norms and suggested that the 'security' and 'manufacturing locations' be delinked from the policy, while also warning that the new rules could create market distortions.

The GSM industry lobby, too, has taken a similar stance. "Implementation of PMA as currently envisaged will hamper manufacturing in India and add impediments to the growth of her telecommunications sector, slowdown network rollout and add considerable pressure on monitoring and reconciliation of the manner of procurement," the Cellular Operators Association of India (COAI) said in its April 30 communication to the Prime Minister's Office.

The industry body also said that attempts to "link the local manufacturing to security consideration is inappropriate and security could not be guaranteed by mandating that equipment be manufactured in India".

It also pointed out that the telecom sector was currently facing a significant crisis of investor confidence due to the increasingly uncertain regulatory environment, and warned that new rules such as PMA would further undermine prevailing investor confidence levels. "Applying the PMA to private sector procurements, however, constitutes an unprecedented interference and significant disruption in the global telecommunications market place, while raising significant questions about India's commitment to the rule-based trading system established under the WTO," added COAI.

The PMO, too, had raised similar concerns. It had said that security objectives could be met through audits, while also suggesting that these issues must be handled separately, in addition to recommending a moratorium on the implementation of this policy until satisfactory assessment of domestic manufacturing capabilities had been made.

ET recently reported that the communications ministry, in its reply to the PMO, had said that telecom was an important critical information infrastructure where any disruption would impact all economic and strategic sectors in the country and added that security of such networks were of paramount importance.

The COAI also demanded that global hitech companies having a broad portfolio should be allowed to continue importing, especially products with high complexity and low- to moderate consumption in India.

*Distress Call*

The draft preferential mkt access policy also mandates minimum 30% local sourcing of crucial network gear components PMO had raised concerns on the PMA norms and suggested that 'security' and 'manufacturing locations' be delinked from the policy.

[\[Back to top\]](#)

## National Security Council backs go-local policy on telecom gear

Thomas K Thomas, Business Line (The Hindu)

New Delhi, 14 May 2013: The National Security Council has backed the Department of Telecom's proposed policy to encourage local manufacturing of telecom gear against the backdrop security concerns.

Citing a report from the Intelligence Bureau, which has warned against Chinese equipment manufacturers, the NSC has said that the best way to deal with the issue was to make sure that India speeds up the process for establishing manufacturing facilities within the country.

"There are IB reports on Chinese telecom majors such as Huawei Technologies and ZTE Corporation being part of the Chinese People's Liberation Army 863 programme of 1986," the NSC said in a paper titled 'Security implications of foreign equipment in critical infrastructure.' "Huawei in fact is one of the biggest vendors in Pakistan. This heightens security concerns," the paper added.

NSC said that though a number of countries, including the US and Australia, have blocked the Chinese vendors from supplying equipment, it may not be practical for India to impose any ban on any international player as it could lead to creation of monopolistic cartels in the market. Instead, it has proposed a two-pronged approach to deal with the issue including encouraging domestic manufacture of telecom equipment and strengthening measures to test and certify equipment to mitigate security vulnerabilities.

This is in line with the DoT's proposed policy that makes it mandatory for equipment suppliers to set up local manufacturing units.

### *Screen Equipment*

According to the telecom department, the law enforcing agencies will be able to screen equipment for spyware if it is made in the country. But under this policy, even the European and American vendors will be forced to set up manufacturing facilities in India.

The Commerce Ministry has, therefore, raised objections on grounds that the policy would not conform to international trade treaties. The Prime Minister's Office had also asked DoT to explain how it proposes to link security concerns with the go-local policy. This is despite the fact that the NSC falls under the PMO's purview.

Indian law enforcement agencies have been expressing concern over the widespread use of imported equipment, especially from China. The primary fear is that Chinese agencies can embed spyware into this equipment which would not only allow them to snoop into conversations but also get the ability to shut down telecom networks in India. Companies including Huawei and ZTE have repeatedly denied the allegations of being spies for the Chinese government.

John Suffolk, Huawei's Global Security Officer, had told Business Line earlier that the company was ready for verification by an independent agency.

[\[Back to top\]](#)

## Rules for 'Sensitive' Electronic Goods Import Likely Soon

Kalyan Parbat & Joji Thomas Philip, The Economic Times

Kolkata/New Delhi, 24 May 2013: The home ministry will shortly unveil comprehensive guidelines to screen imported electronics, IT and telecom gear deemed 'security sensitive' in its bid to secure India's core information infrastructure. It has identified eight categories of electronics, including cameras, radars, routers, base stations, devices used for data storage/transmission, general computers and biometric/access control devices, that will be subject to a stringent security drill if procured from overseas markets, according to internal ministerial documents reviewed by ET. The home ministry has evolved a template to assess whether a specific electronic item poses a security risk. For instance, "electronics that can be connected to the internet, can be controlled remotely or which radiate energy (excluding cell phones), will be classified as sensitive", says a home ministry note, a copy of which was reviewed by ET. Though there is no specific reference to imported tablets or smartphones, "electronic equipment capable of receiving or transmitting images, voice and data" will also be tagged security sensitive. Justifying its stance, the home ministry has cited the examples of the US and China, claiming that both the countries rely "entirely on indigenous capacity to meet their requirement of sensitive gear and embedded systems". It further said that the UK does import electronic items and added that the British international procurement policies involve risk profiling and management of sensitivity considerations through a mix of "testing, inspection and securitisation". The latest developments come at a stage when the government is about to notify the final preferential market access norms (PMA) that will mandate a minimum 30% domestic sourcing of security-sensitive electronic products by all central ministries, excepting defence. The home ministry's plans could stir a hornet's nest in international business circles, especially at a time when leading global lobbies, including the US India Business Council, Information Technology Industry

Council, Digital Europe and the Telecommunications Industry Association of the US, among several others, have decried India's plans of extending the PMA provisions to private mobile phone companies, claiming that the proposed norms "represent an unprecedented interference in the procurement of commercial entities and would also run afoul of India obligations to the World Trade Organisation (WTO). The home ministry note, however, asserts that India's security-related concerns are in sync with the WTO agreements, "which are based on the premise that it is the legitimate role of the member states and governments to take action that the member country alone in its sole discretion considers necessary for protection of its essential security interests". It further claims that "it is legitimate to include security-related conditions in tender specifications". "Provisions may be invoked on grounds of national security to place embargo on products originating from certain countries and the manner of placing such embargo may be determined in consultation with the commerce ministry," the interior ministry note said. The home ministry's concerns also come in the wake of the National Security Council's recent warning that Chinese gear makers pose a security risk to Indian telecom networks, and that India must expedite steps to overhaul its domestic manufacturing capabilities to "check, investigate and ultimately replace risks that come with foreign electronics equipment".

[\[Back to top\]](#)

## IT Ministry pushes through with 'go local' procurement policy

Business Line (The Hindu)

New Delhi, 14 June 2013: Telecom and IT hardware suppliers such as Cisco and Hewlett Packard will have to set up a full fledged manufacturing facility in India if they want to get Government contracts. The Ministry of IT and Communications has notified the guidelines under which 30 per cent of all equipment supply contract will be reserved for companies with manufacturing base in the country. The quota for locally made goods will increase over the next few years.

The IT Ministry had announced its policy to bring preferential market access for domestic products in February. This was opposed to by both American and European manufacturers. The Commerce Ministry had also raised concerns over the introduction of a quota system.

### *Security Concerns*

However, the IT Ministry has pushed through with the guidelines on grounds of security concerns. According to the IT Department, equipment made outside the country may carry spyware that could allow unfriendly countries to snoop into India's communication networks.

Under the guidelines issued by the IT Ministry on June 12, a list of 18 products has been given for which the preferential treatment would be given to locally made manufacturers. This list includes tablets, notebooks, scanners, mobile handset and servers. A list of 24 telecom related gear has also been given. This includes SIM cards, set top boxes and parts for mobile network.

Manufacturers will also be required to add value locally instead of just assembling the products here. Most of the hardware makers are only assembling the products due to lack of an ecosystem. For instance, they source things like packaging material and plastic locally but key elements such as the semiconductor chipsets and other electronics that goes inside the equipment is sourced from other countries.

Now under the new policy, the manufacturers will be forced to source a specific percentage of materials within the country. The amount of value addition required will be spelt out by individual ministries and departments at the time of procurement.

Manufacturers are supposed to give a self-certificate that their product is made in the country while bidding for a Government contract. If a complaint is received against a manufacturer then it will be investigated by the Telecom Engineering Centre or the Standardisation Testing and Quality Certification.

### *Another Policy*

The Ministry is working on another policy to bring private companies also under the ambit of the local manufacturing regulation. This is being strongly opposed by the foreign players on grounds that such a move would be against international trade norms.

[\[Back to top\]](#)



## DoT to make 100% local sourcing of telecom gears mandatory

Kalyan Parbat, The Economic Times

Kolkata, 28 June 2013: The DoT will shortly amend licence conditions of mobile phone companies under the Indian Telegraph Act to make it "legally binding" on them to buy security-sensitive telecom products from domestic gearmakers. The move comes in the run-up to India notifying the controversial "preferential market access" or PMA policy that progressively calls for 100% local sourcing of security sensitive telecom equipment and electronics from October 2013. The move is likely to send shockwaves throughout the telecom sector since both the Cellular Operators Association of India and the Association of Unified Service Providers of India have claimed that domestic sourcing and value-addition targets mandated by the PMA norms are "unrealistic" since there is no established telecom gear manufacturing ecosystem in India. DoT has resolved to include PMA compliance clauses in a telco's licence conditions after the Department of Electronics & IT claimed that the PMA policy "does not provide any legal framework" for extending the local sourcing provisions to private telecom licensees. In fact, DeITY has suggested that for "the telecoms sector, the licence issued under the Indian Telegraph Act can be a vehicle under which PMA provisions can be mandated," in an internal note to DoT, a copy of which was reviewed by ET. Endorsing these observations, the telecom department has agreed to tweak the licence conditions of private mobile phone companies to enforce PMA compliance on grounds that India's "telecom networks are security sensitive". What's more, since a majority of private mobile operators have outsourced network management operations to global telecom vendors, DoT also plans to bring them within the ambit of PMA on security grounds. "PMA compliance on security grounds will be implemented under an operator's licence conditions since a telecom network is security sensitive. Since certain licensees have also given their network to managed service providers, they will also be responsible for compliance of PMA," says a DoT with ET. Outsourcing of all key operational functions, a concept pioneered by Bharti Airtel, has been at the heart of India's leading mobile carrier's low-cost, high-volumes business model, which has since been embraced by all leading private mobile operators. DoT also wants to extend PMA compliance to private sector telecom gear procurements to check India's telecom gear import bill, which has shot up nearly 34% to Rs 56,421 crore in 2012-13 from Rs 42,249 crore in 2009-10. "The rising import bill of telecom equipment, including mobile phones, parts and telecom cable during the past four years is a concern and needs to be addressed by domestic manufacturing with good value addition," says the telecom department note. The views of the GSM and CDMA lobbies at home have been seconded by leading international trade bodies like the US-India Business Council, Telecommunications Industry Association (TIA), Information Technology Industry Council and Digital Europe who have collectively warned that "India's arbitrary invocation of PMA clauses to private sector procurements constituted an unprecedented interference and significant disruption in the global telecommunications market", adding that the policy was also at odds with the country's obligations to the World Trade Organisation (WTO). In the final PMA policy document, the list of electronics deemed security sensitive also includes cellphones, tablets, notebooks, netbooks, desktops, monitors, photocopiers, scanners, smart cards, storage USBs and memory cards. Telecom network equipment such as 2G/3G base stations, ordinary sim cards, access routers, DWDM-based network transmission gear, GPON devices, microwave radio systems, network management systems, billing software to 4G broadband network and Wi-Fi wireless systems have also been classified "security sensitive".

[\[Back to top\]](#)

## Electronics sector sees setback as govt suspends 'buy India' policy

Pankaj Mishra & Leslie D'Monte, Mint

Bangalore/Mumbai, 9 July 2013: Companies that have proposed investing thousands of crores in India's electronics sector may do a rethink if the government revises its "Buy India" policy, caution industry experts and lobby bodies.

Under the policy, introduced in February, a portion of all electronics products bought by the government have to be manufactured locally. The central government alone, estimate experts, accounts for almost 25% of all buying in the Indian electronics market. State governments, government-run companies and private firms account for the rest.

According to information on the Department of Electronics and Information Technology's website, there is a pipeline of Rs.5,000 crore of investment proposals under the government's modified special incentive programme (excluding investments in semiconductor fabrication units that run into billions of dollars).

Most of these depend on the projected demand for electronic goods under the government's preferential market access (PMA) and special incentive programmes.

India's electronic system design and manufacturing industry is estimated to grow from \$64.6 billion in 2011 to \$94.2 billion in 2015, according to the India Electronics and Semiconductor Association (IESA).

Another lobby group, the Consumer Electronics and Appliances Manufacturers Association, sees demand for electronics hardware in India growing at 22% annually till 2020, which would make it a \$400 billion opportunity.

These projections may go awry if the government revises the PMA policy that will encourage imports.

On 8 July, the Prime Minister's Office said in a statement that the overall PMA policy for domestically manufactured electronic goods "will be recalibrated and submitted to the cabinet".

"The recent announcement from the government that certain clauses of the PMA policy are being 'put on hold' signals an unwarranted policy rethink which could hurt India's Current Account Deficit (CAD) in the short-term, since it will encourage imports and not provide any motivation for domestic manufacturing of electronics," IESA said in a statement on Monday.

In the long-term, the lobby body said, the move will affect India's ability to build competition in domestic manufacturing of electronics, and jeopardize an opportunity to create a \$400 billion electronics system design and manufacturing industry in India.

*Dow Jones Newswires*, in a report on Monday, cited government officials as saying they wanted to address the concerns of foreign companies and governments. International companies had told the government that the policy might prompt them to set up operations elsewhere, the report said, citing Gaurav Verma, head of the New York office of the US-India Business Council.

P.V.G. Menon, IESA president, said that was not the case with the PMA policy. "The policy was also very fair in that it did not discriminate on the ownership of the company (foreign or Indian), and hence in no way violated WTO (World Trade Organization) norms, as was the apprehension expressed by some sections of the industry," he said over the phone.

Ajai Chowdhry, co-founder HCL, who is involved in the electronic policy area with the principal scientific adviser's office as co-chairman of the electronic research and development committee, had a similar view.

“In 2005, there was a zero import duty regime, which made imports very cheap. So PMA was the government’s way of stirring up demand and increasing employment. Every country has a right to protect its manufacturing sector just as governments do it in the US, Australia and China,” said Chowdhry.

T.R. Madan Mohan, founder of management consulting firm Browne and Mohan, which advises technology firms on corporate strategy, said changing the policy will hurt India’s competitiveness globally, especially compared with rival countries such as China.

“The Indian government has abdicated its policy role and pandering to the wishes of investors,” said Mohan.

The chief executive officer of an Indian company that makes hardware said he was disappointed the government had taken the easy way out by using the excuse of an absent ecosystem for hardware manufacturing to “not even make a start”. The person didn’t want to be named.

HCL Infosystems Ltd and Tejas Networks are among a handful of home-grown hardware firms that have the capability to manufacture computer hardware and telecom equipment in India.

There are dissenting voices, though, against the policy.

“PMA makes sense for government purchases, but it’s not sensible to extend it to private telecom operators since the telecom sector is capital-intensive and many telcos are under stress. It won’t help that industry,” said Benoy C.S., director, information and communications technology practice, at Frost and Sullivan.

“It is early days to comment on the issue. We had voiced our concern that the PMA was difficult to implement since there is no electronic ecosystem in the country,” said Anwar Shirpurwala, executive director, Manufacturers’ Association for Information Technology.

“Now that the government proposes to revise the policy, we would like our suggestions to be heard.”

[\[Back to top\]](#)

## India not to join US-led electronics trade pact for duty free products such as cellphones, tablets and flat-panel TVs

Jochelle Mendonca & J Srikant, Economic Times

New Delhi/Mumbai, 26 July 2013: India has ruled out joining negotiations to expand a US-backed trade pact that could pave the way for consumer products such as cellphones, tablets and flat-panel TVs to be traded duty-free among member countries.

The refusal by Asia's third-largest economy to budge despite strong lobbying by the US comes amid a visit by Vice-President Joe Biden for strategic trade talks between the countries. India's pushback also comes a week after the US blamed China for the breakdown of talks to expand the 1996 Information Technology Agreement backed by the US and European Union that could cover international trade worth about \$800 billion, or Rs 48 lakh crore.

"We are not in favour of joining ITA-II. The first version itself has not been very beneficial to us," said Ajay Kumar, joint secretary in the department of electronics and IT. He added that signing up in 1997 was a "mistake".

Talks among the US, EU and 20 member countries of the World Trade Organisation to expand the list of products that can be traded tariff-free stalled a few weeks ago. The negotiations are expected to restart in September.

US lawmakers and trade lobbies were hoping that Biden would be able to convince India to join the talks in September. India's demand for electronic goods is forecast at \$400 billion (Rs 24 lakh crore) by 2020, by when it would be the single-largest item on the import bill. "It is puzzling to hear some in the Indian government express 'buyer's remorse' for joining the initial agreement in 1997. The ITA has played a pivotal role in building India's IT-enabled services industry by providing access to myriad innovative and affordable ICT equipment through tariff elimination," Robert Hoffman, senior vice president for government affairs at the Information Technology Industry Council, told US lawmakers at a recent hearing in the US House of Representatives.

The ITIC, which represents IBM, Microsoft, Google and other tech multinationals, was banking on the bilateral trade talks between US secretary of state John Kerry and Indian foreign minister Salman Khurshid, as well Biden's visit, to smoothen their path.

The government was seen as buckling under pressure from the US when, earlier this month, India said it has suspended implementation of the so-called Preferential Market Access policy, which was perceived as a thorn in the flesh by US technology companies.

The policy would have made it mandatory for government agencies to procure telecom equipment from domestic manufacturers, placing MNCs at a disadvantage unless they had local manufacturing facilities. Industry body US-India Business Council declined to comment on the issue.

According to experts, the main problem with ITA-1, and any possible negotiations to expand the agreement, lies with the fact that the Indian government failed to consult industry when it signed up for the pact.

[\[Back to top\]](#)