

WHITE PAPER COVERING TELECOM SECTOR issues with FINANCE, BANKING and REVENUE DEPARTMENTS

This paper brings out a series of Telecom sector issues as relevant for discussions with Finance Ministry **addressing Financial Budget, BANKING and REVENUE including duties and custom Departments.**

We are open for more detailed discussions with the Ministry on any of the following issues. This White Paper is the 10th in the series that are shared with the Government after the interactive session of Indian design/ IPR/ Technology companies with Secretary (T), DoT on 14th October 2021 in addition to new updated draft on Public Procurement (Preference to Make in India) Order 2017 in track change mode.

ISSUES RELEVANT TO FINANCE REFORMS IN TELECOM SECTOR

ISSUES RELEVANT TO possible 'FINANCE REFORMS' covering TELECOM SECTOR are as below:

1. Non-take-off of Line of Credit Projects in Telecom Sector despite announcements at highest level

Line of Credit Guideline requirements had needed a change on 'Sovereign Guarantee' issue guidelines for Telecom Sector at least after US \$ 1 Billion Line of Credit was announced by Prime Minister in ASEAN-INDIA SUMMIT in 2015.

US \$ 1 Billion Line of Credit was announced by Hon'ble Prime Minister during ASEAN-India Summit in year 2015 for ASEAN DIGITAL Connectivity. With more than 6 years being over, not a single Project meeting requirements of Line of Credit requirements issued by Finance Ministry has materialized.

Informally some of ASEAN countries have informed that they have difficulties in SOVEREIGN GUARANTEE as Governments are no longer the Service Provider. Telecom is now in a multi-operator competitive environment in all countries including private sector and at best Government Banks in requesting country can extend letter of comfort. This is the input industry was able to gather after close interaction with various ASEAN authorities. Alternatives to Sovereign Guarantee like Letter of Comfort from Government Banks in requesting country was suggested by some countries at least for Telecom Sector LOCs.

India is already facing an embarrassing situation in ASEAN Summits as there is no new progress. It is high time, we need on urgent footing to tie up all loose ends with no coordinated efforts between various government departments, ministries, and the industry.

1.1 STATUS on "DIGITAL CONNECTIVITY US \$ 1 BILLION ASEAN CREDIT LINE"

a. DIGITAL CONNECTIVITY US \$ 1 BILLION CREDIT LINE

During 13th ASEAN-India Summit Hon'ble Prime Minister of India, Hon'ble PM Shri Narendra Modi stated on 21st Nov 2015

"We also propose to commit a Line of Credit of 1 billion US dollars to promote projects that support physical and digital connectivity between India and ASEAN."

b. Again, Hon'ble Prime Minister, Mr. Narendra Modi attended the 14th ASEAN-India Summit and the 11th East Asia Summit held in Laos PDR on 8 September 2016 and stated

"Seamless digital connectivity between India and South East Asia is a shared objective. India committed to Master Plan on ASEAN Connectivity."

c. Republic Day Celebrations with ASEAN HEADS OF STATE AS STATE GUEST: January 2018

As ASEAN India commemorated the 25th year of Dialogue Partnership, India had taken a very unique step and the Republic Day Celebrations was organized with all ASEAN HEADS OF STATE invited as STATE GUESTs on 26 January 2018. Agreements were finalized with CLMV countries for additional Telecom Projects under Grants in aid category. These also are yet to see the day of light. China's track record under similar projects is very fast as was indicated by ASEAN countries during their interactions with domestic telecom stakeholders.

d. 25-January-2018: Delhi Declaration of the ASEAN-India Commemorative Summit to mark the 25th Anniversary of ASEAN-India Dialogue Relations

"Reaffirm our commitment to enhance physical and digital connectivity in line with the MPAC 2025 and the AIM 2020 by, among others, availing of the US\$1 billion line of credit announced by India to promote physical infrastructure and digital connectivity."

e. Informally some of ASEAN countries have suggested that they have difficulties in SOVEREIGN GUARANTEE as they are not the Service Providers. Telecom is now in a multi-operator competitive environment in all countries including private sector and at best Government Banks in requesting country can extend letter of comfort. This is what the industry can gather after close interaction with various ASEAN authorities Line of Credit Rules especially on Sovereign Guarantee on Digital Connectivity Projects.

f. Not a Dollar is spent on Telecom Sector Line of Credits for Bangladesh so far. Proposals from Mongolia, Nigeria also is yet to be taken up.

Recommendation:

It is high time, we go into details and see why we have failed miserably on Telecom LOCs. If required issues like alternative options to Sovereign Guarantee in Telecom sector can be identified.

2. Pending implementation of Telecom Finance Corporation

Implementation of Telecom Finance Corporation that was visualised in National Telecom Policy 2012 document by the Government is yet to be taken up though it could have supported Atma-Nirbhar Bharat through easy financing for CAPEX induction by domestic telecom manufacturers.

With Banks having taken a hit on Telecom Service Provider front loans, they are reluctant for another telecom sector entities of Telecom manufacturing. The Policy statement is still relevant and could be the starting point for India to be a Global ICT player in coming months.

Section 12 in NTP 2012 as below directly refers to TFC.

"12. FINANCING OF TELECOM SECTOR

12.1. To create a **Telecom Finance Corporation** as a vehicle to mobilize and channelize financing for telecom projects in order to facilitate investment in the telecom sector.

12.2. To endeavor to include telecom sector projects within the ambit of financing from existing entities.

12.3. To rationalise taxes, duties and levies affecting the sector and work towards providing a stable fiscal regime to stimulate investments and making services more affordable.”

The implementation has relationship with many other Policy issues are very slow in being addressed by concerned authorities and include Design in India, Domestic R&D, Make in India, Digital India, Indian IPRs, low levels of procurements by Indian Licensed Operators, big difference between Exports & Imports, real danger of ICT sector imports being higher than petroleum sector in coming years unless TFC along with associated **rationalisation of taxes, duties and levies affecting the sector along with changes in line with NTP2012 and National Digital Communication Policy that can** stimulate investments, are fully supported.

3. **Banking and Financial Sector : ‘Networking Implementation Plans’**

Banking and Financial Sector are witnessing massive **‘Networking Implementation Plans’** deploying Switches, SDVAN, Routers etc. In the background of Security, maintaining secrecy of transactions and related issues, these implementations should take place through domestic telecom networking players with Indian designs, software, IPRs, R&D etc so that real ;MAKE in INDIA’ and Atma-Nirbhar Bharat implementations only take place.

4. **Direct Funding Support for SMEs in Telecom Sector**

Financial norms, accountability rules are required to be framed so that direct funding support for SMEs in the private sector is made available in telecom sector that has a long gestation period.

5. **R&D FUNDING Framework for Telecom Sector**

R&D funding framework exclusively in telecom sector for new technologies taking note of risks involved and success not guaranteed. Indian market size by virtue of sheer population is very important as success will ensure manifold returns on R&D investments made. A detailed White Paper on this is already submitted as a follow up of 14th October 2021 meeting with Secretary(T), DoT.

6. **Turn Key Project Implementation**

Department of Expenditure under Ministry of Finance is critical of implementation of Public Procurement (Make in India) policy on "turnkey projects" on the ground that it could delay implementation of large projects involving diverse products. They also argue that implementation agencies may have difficulty in evaluation of domestic value addition on each item of purchase. Problem with turnkey projects is that they involve large amount of civil work that often constitutes more than 50% of the value and is traditionally domestic. In such situation implementation agencies consider civil work as significant domestic value addition and end up buying all the imported electronic and telecom equipment. To address issues for both sides it is suggested that department of Expenditure, under Min of Finance, must issue instructions that in all turnkey and works projects, implementation agencies must ensure that all such items that are earmarked by nodal ministries for procurement from domestic companies because sufficient competition and capacity is available in the country must be procured from domestic manufacturers only.

7. Treatment of Telecom as stressed and high-risk business

As per RBI circular of 18th Apr 2017, telecom sector is considered as stressed and high-risk business. Banks use this classification and manufacturing companies suffer on account of being classified under this category. Telecom product manufacturing companies that cater to Customer Premises Equipment (CPE) or Enterprise products also suffer because of this classification. Telecom manufacturers supply telecom products to Corporates, Railways, Défense etc and some of the SME units don't supply anything to the telecom network operators but they suffer because of such classification. This needs correction.

8. Waiver of Multiple Bank Guarantees

Waiver of Bank Guarantee for Telecom Service Providers recently. It needs to be extended to PSUs like BSNL wherein each tender has its own Bank Guarantee and that too for all Licensing areas. It gets repeated when it is new product. Huge funds get blocked.

9. Timely payments in Government Telecom Projects

Projects like Bharat Net have very poor track record of no payments, delayed and blocked payments especially when PSUs like BSNL are involved.

10. Demand Creation through idle Spectrum Bands

There are many Spectrum Bands that are lying spare. Can we not make use of these bands say for time periods of say 5 years and allow industry to do design & development activities around these bands and trigger generation of demand.

11. Inverted duty structure for specific components

Exemption under Notification 50/2017 dated 30th June 2017

- The import duty on the components used in the manufacturing of certain products under 8517, stated that “If the importer follows the procedure set out in the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017”. The effect of this notification was that all components, irrespective of their classification, used for non-ITA products, falling under 85176290 and 85176990, such as Optical Transport Equipment, OTN products, POTP or POTS products, PTN products etc. got the benefit of exemption.
- Vide Notification 02/2020 dated 2nd Feb 2020, duties on the PCBA for many Non-ITA Telecom equipment products under 8517 have been introduced. However, the exemption for other components provided under Not 50/2017 and 57/2017 continued subject to following procedure set out in the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017.
- **But vide Notification 03/2021 dated 1st Feb 2021, the S. No 8 (v), (vi) and (vii) of Notification 57/2017 have been omitted** which means that for importing components used in the manufacturing of non-ITA products full duty must be paid. It may be argued that S No 5 of Not 57/2017 still provides exemption to components used in manufacturing of all goods. But the hitch is that such components must fall under tariff Item 85177090. Therefore items, which are classifiable under 85176290 or any other HS Code, if imported for use in non-ITA products such as POTP equipment, the same would not get the benefit of the Not 57/2017.

Recommendation

Till the time there is no component Industry available in India, no duty should be levied on the components for goods falling under 851762 or 851769, for the domestic manufacturers who own the finished products IPR in India. For the same Government may continue to grant exemption “If the importer follows the procedure set out in the Customs (Import of Goods at Concessional Rate of Duty) Rules, 2017”.

12. Issues related to Custom Duties

Non implementation of the Custom Duty (2014) notification is an issue faced by industry. At that time all items under HS classification 8517xxx were exempt from payment of duty. This notification made an exception by exempting VoIP, Optical, RF and Carrier Ethernet products from payment of duty which effectively meant that import of these products were to be subjected to customs duty from the applicable date. This custom duty was initially 10% and subsequently as per notification dated 11 Oct 2018 was increased to 20%. Objective of the notification was to promote domestic manufacture of these new technology telecom products based on technologies that did not exist when ITA 1 agreement was signed by India.

Problem is that notification has levied customs duty based on functional parameters of the product and in the same HS classification there are products with these functional parameters and without these parameters. VoIP switches & Carrier ethernet products are imported under 8517 69 30 (router) which is exempt from duty, similarly GPON & VoIP phones are imported as 8517 69 50 (subscriber end equipment) which is also exempt from payment of duty. There exists no specific HS classification for items covered in notification of 2014 and 2018.

To implement the spirit of these notifications, there is a need to specifically highlight this aspect in the custom tariff against 8517 69 30 (router) 8517 69 50 (subscriber end equipment) where custom tariff specified in column 4 is "Free". Description of goods in column 2 of the tariff for HS 85176930 will have to

specifically write "Routers not including those supporting voice communication" and description of goods in column 2 of the tariff for HS 85176950 will have to be "subscriber end equipment not including those supporting voice communication"

An example is given below through customs data that show import of VoIP PBX as 'Intelligent data router'. Description includes words like FXS & SIP which is nothing but VoIP PBX, but goods are cleared without payment of customs duty.

BE_Date	HS Code	Product Description	Importer Name	Exporters Name	Standard Qty
25-Nov-19	85176930	INTELLIGENT DATA ROUTER 32 FXS 96 SIP (IPX22K-9032LW) (USED IN ROUTER, DATA ROUTER & VOICE ROUTER)	CLIXXO BROADBAND PVT LTD	GUANGZHOU ONETOUCH BUSINESS SERVICE CO. LTD.	100
02-Jan-20	85176290	INTELLIGENT DATA ROUTER 32 FXS 96 SIP (MDL-IPX22K-9032LW) (USED IN ROUTER, DATA ROUTER & VOICE ROUTER) (USE IN WIRED)	CLIXXO BROADBAND PVT LTD	GUANGZHOU ONETOUCH BUSINESS SERVICE CO. LTD.	100
02-Jan-20	85176290	INTELLIGENT DATA ROUTER 32 FXS 96 SIP (MDL-IPX22K-9032LW) (USED IN ROUTER, DATA ROUTER & VOICE ROUTER) (USED IN WIRED)	CLIXXO BROADBAND PVT LTD	GUANGZHOU ONETOUCH BUSINESS SERVICE CO. LTD.	100

13. Other Issues

There are some issues that need direct interaction of Finance Ministry with domestic IoT solution providers. They can have more inputs from industry on FinTech & other IoT linked payment schemes:

- a) UPI needing 4G is bottleneck at times.
- b) Payment gateway integration for FastTag – access to FastTag credentials for IOT solution providers.
- c) Google/ PayTM apps using UPI interface show value data for these companies like account balance which is without user consent and undesirable.
- d) RF ID sensing vs Smart networking combined with GPS based location
- e) Alternate FastTag improvements that can remove congestions and traffic jams at tolls.