

**GOVERNMENT OF INDIA
COMMUNICATIONS AND INFORMATION TECHNOLOGY
LOK SABHA**

UNSTARRED QUESTION NO:4776
ANSWERED ON:24.04.2002
DEEMED EXPORT STATUS TO TELECOM
ANANDRAO ADSUL

Will the Minister of COMMUNICATIONS AND INFORMATION TECHNOLOGY be pleased to state:

- (a) whether the Telecom Equipment Manufacturers Association (TEMA) has submitted any memorandum to the Government with regard to granting them deemed export status;
- (b) if so, the details thereof;
- (c) whether the Government have considered their demands; and
- (d) if so, the action taken by the Government in this regard?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY (SHRI SIKDAR)

(a) & (b) Yes, Sir. Details are placed at Annexure.

(c) & (d) The proposal given by Telecom Equipment Manufacturers Association (TEMA) was considered by the Government. In the new Export & Import Policy 2002-2007, Electronic Hardware Technology Park (EHTP) scheme has been modified to extend the following benefits:-

- (i) Positive Net Foreign Exchange earning as a Percentage of Exports (NFEP) to be achieved in 5 years.
- (ii) No other export obligation for units in EHTP.
- (iii) Supplies in the domestic market of Information Technology Agreement (ITA-I) items having zero duty shall be eligible for counting of export obligation.

ANNEXURE

TEMA

PROPOSALS FOR UNION BUDGET 2002-03

1 DEEMED EXPORT STATUS-Modified EHTP Scheme- Lowering Customs Duty on Inputs below duty on final product

Customs Duty on finished Telecom products, as a part of IT Sector, has been gradually reduced over the years without commensurate reduction in the duties on inputs/components/raw materials. The current basic rate on all the finished Telecom products is 15% whereas input duties vary from 15% to 35%. The domestic manufacturing industry is suffering due to this anomaly. All telecom products will be under ZERO duty regime from 2003 as has been announced by the Govt. A calculation table showing disadvantage of 44.8% to the indigenous telecom supplier vis-à-vis imports in case of telecom cables as TABLE 'A' is attached.

To correct this situation, TEMA strongly suggests "Deemed Export Status" be accorded to the Domestic Telecom equipment manufacturing industry for supplies made to all the Licensed Operators including BSNL, MTNL etc, and Government Departments like; Defence, Railways, Space, Power Sector and GAIL etc. so that these important sectors can get the benefit of the indigenously produced Telecom products at international prices. This will also reduce the infrastructure development cost which will ensure the benefits going to the masses. Imported inputs would be available at Zero duty and local suppliers would in turn claim deemed export benefits. This percolation of Deemed Export benefit down the value chain shall ensure that the maximum possible value addition in the manufacturing activity is retained within the country. Granting this status would ensure manufacturing activity in the important area of IT & Telecom where the demand is exploding. Min. of Information Technology (MIT) has estimated hardware demand of USD 165 billion by the year 2008. If the domestic manufacturing industry does not exist the foreign exchange ramification due to imports need to be evaluated.

One of the simpler means of implementing the deemed export facility for Telecom Manufacturing Sector can be the existing EHTP scheme under EXIM policy, which needs only minor modification to provide a level playing field for the domestic industry. The Working Group on Information Technology for the 10th plan under MIT has already recommended that existing and new units in the IT and Telecom Equipment Industry be allowed to register themselves under the proposed "Information and Communication Technology Park" scheme (ICTP scheme). This shall be a modification of the existing EHTP scheme in the following respects:

- a) ICTP Units shall be allowed to sell 100% of their production into the DTA without any Export Obligation. This will provide for global scale flexible manufacturing both for domestic as well as export market in a duty free environment.
- b) Sales to DTA shall be allowed against payment of 50% customs duty and other domestic taxes. This 50% concession is expected to take care of the disability factors like interest, infrastructure etc. for the domestic industry.
- c) The ICTP units should also be allowed to function without physical control and clearance of the goods should be through self-certification only with the monthly/quarterly reports based on a format similar to that allowed under Appendix 16-H of the EXIM policy.

TEMA

TELECOM IMPORTS Vs INDIGENOUS COMPARATIVE CALCULATION OF LANDED COST

DOMESTIC	TELECOM	Budget	Budget	IMPORTED	Budget	Budget
CABLE	2001	TELECOM	2000	2000	2000	2001
2000	2001	CABLE		CIF Price		
INPUTS		100.00	100.00		100.00	100.00

(Copper, PE, Jelly, Steel, Aluminium etc)						
Basic Custom Duty @ 35%		35.00	35.00	Add Custom Duty @ 20%	20.00	15.00
SBD @ 10%			00	SBD		0.00
3.50				0.00		
CVD @ 16%			21.60	CVD @ 16%	19.20	18.40
22.16	139.20	133.40				
SADD @ 4%			6.26	SADD (in lieu of CST)	5.57	5.33
6.43						
@ 4%	162.86					
167.09		TOTAL		144.77	138.73	

Less Modvat on CVD		21.60				
22.16						
144.93	141.26					

Add Excise Duty @ 16% on FINAL PRODUCT		22.60				
168.12	163.86	23.19				

Add Central Sales Tax @ 12%		19.66				
20.17						
TOTAL		188.29	183.52			

DISADVANTAGE TO LOCAL INDUSTRY :

BUDGET	2000 -	43.5%
BUDGET	2001 -	44.8%

THUS, ON INPUT OF RS.100, INDIGENOUS PRODUCT HAS 44.8% DISADVANTAGE OVER IMPORTS.

As against CIF price of imported products of Rs.100/-, the inputs have also been assumed at Rs. 100/- although in the normal course domestic value addition of atleast Rs.10/- out of Rs.100/- should be considered. However, this value addition is what generates Income Tax, Corporate Tax, Wages & Salaries for the Indian workforce, local taxes like Octroi, House Tax collected by the State Agencies etc. It is therefore entirely reasonable to merge the domestic value addition into the input cost.

The effective rate of import duties on telecom cables under H.S. Code Nos. 8544.41, 8544.49 & 8544.51 are 15% basic custom duty as per SI.Nos. 307 & 308 of Custom Notification No. 17/2001-Customs dated 01-03-2001.