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Dr. Guruprasad Mohapatra
Secretary
DPIIT

Subject: Study on India's import to boost Set Top Box manufacturing in India

Respected Sir,

Greetings from ***MAIT***, the apex body of the Electronic Hardware Manufacturing in India!

This bears reference to the Study on India's import by TFP Division, DPIIT dated 17th June 2020 where DPIIT has raised concerns that some of the current FTAs which were signed by India are creating a disadvantage for Indian manufacturing industry. In this regard, products (at the HS code 8-digit level) facing import surge particularly through the FTA route need to be identified. At the same time, other details like the preferential rates under the FTA, domestic production capacity, the possibility of an inverted duty structure case, etc. are required.

Since 2008, the STB industry started growing in India, and therefore the digitization of Set-Top Boxes was approved in the Parliament to help promote Make in India Set-Top Boxes. The Government took cognizance of the strengths and weaknesses of the STB industry and introduced import duty from 0% to 5% - 10% in 2013 and finally 20% in 2017.

ASEAN FTA treaty was signed in 2015 which mentions that from 1st Jan 2016 the import duty would be 2% which further came down to 1% and finally at 0% in subsequent years. As a result, many companies planning to invest in the STB industry in India withdrew. Thus, the STB industry started requesting the Ministry of Commerce to impose the anti-dumping or safeguard duty for Set-Top Boxes. However, safeguard duty can only be imposed on a product when the domestic industry of the product suffers. There is no denying the fact that ASEAN FTA has crippled the domestic STB industry in India and there is an immediate need to address this issue using Safeguard Duty.

Presently India has an estimated market of 24 million STBs yearly amounting to Rs.2700 crore and 90% of which is met by imports. The problems which the Indian STB industry faces today can be summed up as follows:

1. ASEAN FTA Agreement: Currently, 90% of electronic goods are being exported from countries like Thailand, Vietnam, Indonesia, etc who are part of the India ASEAN Free Trade Agreement. These countries import components from China, etc. and assemble the products in their respective countries and export to India. The stipulated value addition of 35% is not achievable. The value addition of these companies should be investigated and duty-free imports from ASEAN countries should be withdrawn. For example, the average monthly import of Set-Top Box is about 2 million of which, about 1.6 million is from FTA countries (Thailand, Vietnam, Indonesia).

2. Finance provided by Chinese banks for components: The Chinese companies which manufacture in Vietnam to import to India, get loans for exporting components from China to Vietnam. The Chinese companies leverage this credit to give trade credit to Indian importer.

3. Buyer's credit given to Indian importers of STB: As per RBI circular, Indian importers are allowed to avail buyer's credit for import of capital goods for a period of three years. Foreign branches of Indian banks are providing buyer's credit to Indian STB importers. This makes it lucrative for

Indian STB importers to import rather than buy from Indian suppliers as Indian banks do not provide buyer’s credit for STBs.

4. OTT industry – The new technology STB with OTT facilities like FireTV stick etc. are being designed and developed as well in India, but the wrong HS classification in different HS code of these products has led it to be 0% duty for imports from China. This technology is very new and surfaced only a few years back so it cannot be part of any ITA-1 or any such treaties.

5. Loss of Employment: The Indian STB industry generated about 80000 jobs till 2013 when the digitization process was at the peak. The employment level in the STB industry has dropped as STBs are imported.

Key Recommendations by STB Industry:

1. Safeguard Duty must be imposed on STB - ASEAN FTA has crippled the domestic STB industry in India, it is suggested that Safeguard duty may be imposed on STBs.

2. OTT STB is being imported under the wrong HS Code 85176960 at 0% duty. OTT STB should be classified under HS code 85287100. Indian STB manufacturers with R&D facilities have developed and launched the latest, new age media devices such as Android OTT STB and Alexa Voice-enabled connected STB. Despite their efforts, they are not able to acquire market share because OTT Set-top boxes are imported in India under the HS Code 85176960. There is 0% duty applicable for this HS Code under ITA-I. However, an OTT Set-top Box cannot be imported under HS Code 85176960. HS Code 85176960 is for “Set-Top Box for Access to Internet” wherein the Set-Top Box is supposed to have a modem in-built in it. An OTT STB that is being imported under HS 85176960 does not have modem in-built and therefore, does not qualify to be imported under the HS Code 85176960. OTT STB is technically a normal Set-Top Box and it should be imported under HS Code 85287100.

4. South Asian market - Sri Lanka, Nepal, Bangladesh, etc all going digital and there will be a demand for STBs as they have no local industry. Chinese companies have already started setting foot in these markets. We have preferential trade agreements such as SAFTA, APTA, and SAPTA with these countries. STBs should be included under these agreements for the preferential tariff to help promote Indian STB export to these markets. This will give a boost to our exports. The same is the situation in Africa as well, wherein China is growing its presence and we need to explore what best policy can be implemented to help the Indian STB industry find markets in Africa.

All the data inputs have been provided in the enclosed **DPIIT Revised Format – Inputs on Set Top Box Industry** for your kind perusal.

Requesting for necessary safeguard duty be levied

Look forward to building an Atmanirbhar Bharat.

With regards,

George Paul
Chief Executive Officer

CC: Shri Saurabh Gaur, Jt. Secretary, Ministry of Electronics & IT
CC: Shri S K Marwaha, Sr. Director, Ministry of Electronics & IT

ANNEX

<u>Format for providing Information</u>

I. Domestic Capacity and Inverted Duty

Sl. No.	**Tariff line/Product at the HS-8 digit level)**	**Tariff line Description**	**Import Value of intermediate goods/ raw materials used in the production (in million US$)**	**Existing FTAs/PTAs (Preferential Rates may be mentioned)**							**Nature of Product (Raw material /Finished products**	**Domestic Production Installed Capacity (in million tonnes)**	**Actual Domestic Production (in million tonnes)**	**Inverted duty structure Issue (if any)#**
				SAFTA	CECA India-Singapore	CEPA India-Japan	CEPA India-Korea	ASEAN	ISFTA Indo-Sri Lanka FTA	APTA				
1	85287100	Reception apparatus for television, whether or not incorporating radiobroadcast receivers or sound or video	$ 360 Mn based on current annual production					ASEAN			Set Top Box – FG	24 Mn	1.2 Mn	NIL

		recording or reproducing apparatus: Not designed to incorporate a video display or screen												

II. In addition to the above information, it is requested to highlight issues related to competition faced by domestic manufacturer owing to 'Cheaper Import[@]'

Sl. No.	Imported Tariff line/Product at the HS-8 digit level)	Tariff line Description	Nature of the Product (intermediate/finished goods)	Price of Product in the domestic market (in US$ per unit)	World Price of the Product (in US$ per unit)	If Imported under any FTA/PTA (yes/no)	IF yes mention the name of FTA/PTA and the preference duty
1.	Set Top Box – 85287100	Reception apparatus for television, whether or not incorporating radiobroadcast receivers or sound or video	Finished Goods – Cable TV	$10.45	$ 7.14	Yes	ASEAN

		recording or reproducing apparatus: Not designed to incorporate a video display or screen					

Note:

SAFTA: The South Asian Free Trade Area (SAFTA) is the free trade arrangement of the South Asian Association for Regional Cooperation (SAARC). Members of the FTA are; Afghanistan, Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

APTA: The Asia Pacific Trade Agreement (APTA) is a preferential trading arrangement designed to liberalise and expand trade in goods progressively in the Economic and Social Commission for Asia and Pacific (ESCAP) region. Agreement so far has been implemented by India, Bangladesh, Republic of Korea, Sri Lanka & China.

#Inverted Duty Structure Issue: If under any FTA/PTA the preferential rate on the Finished Product is lower than the intermediate/raw material, the issue may be reported in the column

@Cheaper Imports indicates that price of the product under consideration (PUC) in the domestic market is much higher as opposed to its price in the world market. This price arbitrage leads to import of the PUC from the world market. The import source may be a FTA/PTA partner. In that case preferential duty (or zero duty) rate is applicable leading to further cheaper price. The domestic manufacturers of the PUC in this case, face stiff competition from the world market. This in turn also cripples the domestic installed production capacity. However, if the PUC is an intermediate/ raw material then cheaper import will actually improve India's export competitiveness, provided there is no domestic production capacity of the same PUC.