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Scientist C
Ministry of Electronics & IT

Ref: PMP for Digital Lifestyle Accessories including Wearables & Hearables

Dear Shri Meena,

Greetings from MAIT!

This bears reference to your mail dated May 10, 2021 where MeitY had shared the draft Phased Manufacturing Programme (PMP) document for Wrist Wearable Devices, Hearable Devices and specified sub-assemblies / parts / sub-parts thereof and sought inputs on various aspects relating to adding/modifying/deleting items, comments on HS Codes, Tariff Rates, Applicable BCDs, Proposed BCDs, % in BOM, coverage, etc.

In the first instance, we thank MeitY's efforts to promote domestic manufacturing/assembly/ increasing value addition for the electronics sector. Undoubtedly, wearables/hearables is an emerging area where growth percentages are quite high. The recent MAIT Study on Wearables/Hearables has found that there were 23.3 million shipments in 2020 as compared to 17.5 million units in 2019 which is ~35% Year-on-Year growth. The Indian domestic market demand for Hearables and Wearables is 5.3% by volume and 1.8% by value of the global demand.

Today, China controls 70 - 80% of the manufacturing of this emerging product category. It is a leadership that they will be unwilling to give up, particularly keeping in mind that this category is the forerunner to the emerging IOT sub-sector. We are already seeing countermoves in terms of blanket assurance on price protection, unwillingness to supply components, etc.

In such a scenario, India has to build an export-led manufacturing capability and capacity to globally compete with China and take its rightful share of the market. This requires an incentive-led intervention that aims for 10 to 20% of the 400 Mn units at 53.5 Bn USD of global production. Only this scale will attract the sustainable ecosystem including local manufacture of components and Design-led manufacturing, which in turn will create Indian IP based products.

To reemphasize this a PLI-led approach is critical, otherwise the India manufacturing will plateau at 17.5 Mn, a level grossly insufficient to attract the shift of component manufacturing into India. Particularly in a product sub-domain where the technology and product change is the most dynamic among all electronic products.

The below recommendations have factored in a PLI of 6% for Wearables being released along with the PMP recommendations.

At the onset, if we study the existing tariff structure, we see there is a differential between the finished product and the components. This in itself should have been sufficient to bring the final product assembly and also the component manufacturing into India by now.

But it is clear that this is not sufficient to make a business case to do the manufacturing in India. India continues to import 100% of its requirements of Wearables, Hearables and their components. In fact, all of Digital lifestyle and IT accessories continue to be 100% imported despite having a tiered BCD structure.

The current status suggests that (a) India's domestic market is currently very small as compared to global. The size of the domestic market may double in next 5 years but still is likely to remain a

fraction of the global market presenting limited market size to any player (b) The domestic consumption is met through imports including from China (c) In order to attract investments from GVCs to India, the policy should provide GVCs a framework which drives scale through exports and provides incentives to address the cost disabilities vis-à-vis other competing economies (d) The NPE 2019 has envisioned the need to develop the entire ESDM ecosystem, which hinges on the pillars of driving exports, stable tax regime and incentives to address the disabilities in a time bound manner.

To understand the root cause for this, MAIT held extensive discussions with industry and the following notes capture the essence of the inputs that will bring manufacturing of these products into India. With your permission we recommend the following in response to the specific points where you have sought inputs: -

- i) Suggestions to add/delete/modify the items covered under both the PMPs. Suggestions w.r.t. modification in the name of the aforesaid PMPs may also be provided, if needed.

MAIT's Comments: - India should divide its strategy into the following stages: -

1. Phase-I 24 months: Bring in SKD manufacturing of Digital Lifestyle accessories into India - Both for domestic consumption and exports.
2. Phase II Beyond 24 months and going up to 48 months: - Bring in CKD manufacturing of Consumer Electronics Manufacturing into India
3. Phase-III: Once the Phase-I goal of final product assembly starts happening in India on a global scale, we have now met the first criteria for attracting component manufacturing into the country. On this foundation of local demand, India at that stage to come out with policies targeted at specific components to bring their manufacturing into the country. It is pertinent to note that when you come to component level, each component is typically a different industry domain requiring nuanced intervention. Additionally, most of the generic component manufacturing succeeds only if it is done at a global level.
4. Some of the components to begin with for local production would be plastics & straps (mechanics). This is achievable from 12-18 months onwards.
5. At the end of 4 years, the local scenario can be evaluated and the specific components like microphones, speakers, sensors, etc. can be identified for local manufacturing

Coming to your specific question, MAIT recommends expanding the scope to include all digital lifestyle accessories as the competitiveness (At this stage we refer to manufacturing as in Phase-I above) is a function of volumes and we must enable the companies to maximize the volumes done under one shed.

Therefore, MAIT recommends that the scope of the PMP and upcoming PLI to include the sub-category as a whole. This will make it easier for Indian assemblers (including PCB Assembly) to achieve critical mass and we recommend that the product range be extended to include:

- a. Wired earphones – 85183000 – (Currently 15%)
- b. Wired headphones – 85183000 – (Currently 15%)
- c. Wired Speakers -85182100/ 85182200/ 85182900 – 15%
(Single Loudspeaker/Multiple Loudspeakers/Other Loudspeakers)
- d. Portable/ Wireless speakers (Bluetooth speakers)
- 8518 2100/8518 2200/ 8518 2900 – 15%
(Single Loudspeaker/Multiple Loudspeakers/Other Loud Speakers)
- e. Battery Bank – 85072000
- f. Laptop Battery – 85078000 – 15%
- g. Wireless Chargers
- h. Gaming Console
- i. USB LED Light

- ii) Inputs/ comments, if any may be provided w.r.t. HS Code(s) of the items covered under said PMPs.

MAIT's Comments:

1. The draft PMP table for Hearable has classified Hearable Devices (TWS, Bluetooth Headset, Wireless Earbuds) under HS code 85183000 subject to 15% BCD. This is a wrong classification. We draw reference to customs circular No. 36/2013 dated September 5, 2013, "Bluetooth Wireless headsets for **mobile phones/cell phones**" is classified in heading 85.17, subheading 8517.62, by application of GR1 (Note 3 to Section XVI), 3(b) and 6.

Therefore, please correct the HS code of wireless hearables (TWS, Bluetooth Headset, Wireless Earbuds) to 85176290 in the draft PMP schedule. The duty accordingly will be 10% for devices above 60\$.

2. Please add the Product Sub-Category Wired Headphones & Earphones under 85183000 for hearables. Attached is Table # 4 giving the proposed PMP waterfall.

3. The PMP draft has categorized the Speaker (as a component) for the manufacture of wired/wireless hearables under the code 8518 2100. This is not the correct code for the "Speakers as a discrete component" used for the manufacture of hearables. The speakers (in component form) should come under the category either as "Part of headphone" under the HS 85189000 or as "Part of BT hearable device" under the HS 8517 7090 and the duty for this component should be the same under both categories and as recommended in the table below.

For portable/wireless speakers product category, the "Speaker" component of diaphragm size less than 5 cm is not manufactured in India today. Hence, duty can be pegged at 0% without impacting local Speaker industry.

iii) **Inputs/comments, may be provided w.r.t. Tariff Rate, Applicable BCD, proposed BCD and percentage (%) in BoM.**

MAIT's Comments: Today India imports 100% of its wearables, Hearables, Digital lifestyle and computer accessories. None of the components for these products are made in India despite the high duties.

The Industry, has strongly recommended that a 15%-20% duty differential between "Product BCD" and "Component BCD". This differential will make it viable to do final product assembly and manufacturing in India in Phase I.

Hence, all components for Hearables and Wearables under all HSN Codes should be reduced to minimum as per recommendations in the table below and ideally zero as it will meet the Phase-I objective to bring final Product assembly into India. Kindly refer to Tables in Annexure A & Annexure B for the phased introduction of duties.

The recent customs notification 03/2021- Customs dated February 1, 2021 which has withdrawn the nil duty under IGCR for raw materials for Wireless Hearables Devices (TWS, Bluetooth headsets, Wireless earbuds) coming under 8517 6290, which was earlier exempted vide (Notification No.57/2017 - SI No. 8 – vi) and vii). This is resulting in an inverted duty structure and negating the objective of PMP. MAIT requests that the earlier Notification No.57/2017 - SI No. 8 – vi) and vii) **be immediately restored.**

However, please note that by referring to zero duty for components due to inverted duty structure, we are in no way implying that duties on finished goods are to be increased, as even at the current duty levels it is estimated that as high as 50% of the demand is met by smuggling/misdeclaration, etc.

For BOM & Recommended BCD waterfall for each of the products under the Digital lifestyle accessories, kindly refer Annexure A & B below.

iv) Any other suggestion to improve upon the aforesaid PMPs.

MAIT's Comments:

1. Domestic manufacturing will achieve sustainable global competitiveness only under an Export-led manufacturing strategy. Towards this India has to adopt an incentive based PLI approach which aims at encouraging investment and developing an export-led manufacturing ecosystem for hearables and wearables category.

National Policy of Electronics, 2019 provides an extensive roadmap on developing the ESDM sector by reducing cost disabilities, instituting a stable tax regime and to promulgate policies to incentivise the sector

2. At 10 Bn USD domestic manufacturing, this will translate into creating more jobs, forex inflow, revenue and reducing the import bill. More importantly positioning India as a leading destination amongst Global Value Chains (kindly refer MAIT's Report on Wearables which highlights this fact at Page No. 12) as attached.

Also, without curbing the Illegal imports, undervaluation and misdeclaration resulting in an estimated 50% of the products coming through this route, any steps taken to promote local manufacturing by the genuine players and the GoI will be undermined. MAIT has already submitted data points on malpractice to the DRI, we are happy to share there has been some movement on ground, but there is no let up on the quantum being brought through these channels. It is critical that the surveillance on the small sized wearable/hearable be increased and suitable mechanism be devised to stop their smuggling/undervaluation.

In summary, we reiterate that manufacturing of wearables and hearables will attract manufacturers and a wider ecosystem with the support of PLI for both - Domestic and Exports. In the case of duty differential, the components for these finished goods should be at least 15-20% lower than the finished goods itself. Components for PCBA should be kept at Zero duty enabling both product assembly and PCB assembly to take place in India.

Look forward to working closely with you for further discussion and acceptance of our suggestions.

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

Annexure A: - Revised Proposed BCD Structures

BOM % for Hearables

Table 1: BOM of Wired & Wireless Hearable Devices

S. No.	Item	HS Code	% in BoM Bluetooth Headsets	% in BoM Wired Headsets	% in BOM cost for TWS
A.	Hearable Devices -		NA	NA	NA
1.	PCBA		20%	15%	30%
2.	Battery		5%	NA	15%
3.	Speaker		10%	20%	10%
4.	Plastic Enclosure (Charging case & Earbuds)		50%	50%	30%
5.	USB/Charging Cable		1-2%	3%	1%

Annexure B: - Revised Proposed BCD Structures

Table 2:- Draft Phased Manufacturing Programme (PMP) to promote domestic manufacturing of **Wearable Devices** and specified sub-assemblies / parts / sub-parts thereof

S. No.	Item	HS Code	Tariff Rate (%)	Applicable BCD(%)	Proposed BCD*(%)				% in BoM
					2022-23	2023-24	2024-25	2025-26	
A.	Wearable Devices (Smart Watch and Smart Band) Cost > 60\$	85176290	20	20	10	10	10	10	-
B.	Wearable Devices (Smart Watch & Smart Bands) Cost <= 60\$	85176290	20	20	15	15	15	15	
1.	PCBA for Wearable Devices (Smart Watch and Smart Band)	85177010	20	20	0	10	15	15@*	45%
2.	Display module for Wearable Devices (Smart Watch and Smart Band)	85177090	15	15	0	0	0	0^	25%

3.	Strap for Wearable Devices (Smart Watch and Smart Band)	85177090	15	15	0	15	15	15	2%
4.	Battery for Wearable Devices (Smart Watch and Smart Band)	85078000	15	15	0	0*#	15*	15*	6%
5.	Plastic Enclosure (Charging case & Earbuds) for Wearable Devices (Smart Watch and Smart Band)	85189000\$	15	15	0	15	15	15	6%
6.	FPCBA for Wearable Devices (Smart Watch and Smart Band)	85177010	20	20	0	10	15*	15*	2%
7.	Motor for Wearable Devices (Smart Watch and Smart Band)	85010	10	10	0	0	15*	15*	2%
8.	Button for Wearable Devices (Smart Watch and Smart Band)	85177090	15	15	0	0	0	0	2%

Table 3:- Draft Phased Manufacturing Programme (PMP) to promote domestic manufacturing of **Wireless Hearable Devices** and specified sub-assemblies / parts / sub-parts thereof

S. No.	Item	HS Code	Tariff Rate (%)	Applicable BCD(%)	Proposed BCD*(%)				% in BoM
					2022-23	2023-24	2024-25	2025-26	
A.	Wireless Hearable Devices (TWS, Bluetooth Headset, Wireless Earbuds) Import Cost > 60\$	8517 6290	20	10	10	10	10	10	-
B.	Wireless Hearable Devices (TWS, Bluetooth Headset, Wireless Earbuds) of Import Cost <=60\$	8517 6290	20	15	15	15	15	15	
1	PCBA for Wireless Hearable Devices (TWS, Bluetooth Headset, Wireless Ear buds)	8518 9000	10	10	0	10	15	15@*	15% to 30%
2	Battery	8507 8000	15	15	0	0	15*	15*#	5%-15%

3.	Speaker for Wireless Hearable Devices (TWS, Bluetooth Headset, Wireless Ear buds) "Parts of BT hearable device"	8517 7090	15	15	0	0	0	10*	10%-20%
4.	Plastic Enclosure (Charging case & Earbuds)	85189000\$	10	10	0	15	15	15	30% to 50%
5.	USB/Charging Cable	85444299	15	15	10	15	15	15	1%-3%

Table 4: Draft Phased Manufacturing Programme (PMP) to promote domestic manufacturing of **Wired Hearable Devices** and specified sub-assemblies / parts / sub-parts thereof

S. No.	Item	HS Code	Tariff Rate (%)	Applicable BCD(%)	Proposed BCD*(%)				% in BoM
					2022-23	2023-24	2024-25	2025-26	
A.	Wired Hearable Devices (Head Phones and Ear Phones)	85183000	15	15	15	15	15	15	-
1.	PCBA for Wired Hearable Devices Head Phones and Ear Phones.	85189000	10	10	0	10	15	15@*	15%
2.	Speaker for Wired Hearable Devices "Head phones and earphones" "Parts of Wired Hearable Devices (Head Phone & Ear Phone)" Pls refer note we put above)	85189000(15	15	0	0	0	0*	20%
3.	Plastic Enclosures	85189000\$	10	10	0	15	15	15	50%
4.	USB/ Charging Cable	85444299	15	15	10	15	15	15	3%%

Table 5:- Draft Phased Manufacturing Programme (PMP) to promote domestic manufacturing of **Wired and Portable/wireless (Bluetooth) speakers**

S. No.	Item	HS Code	Tariff Rate (%)	Applicable BCD(%)	Proposed BCD*(%)			
					2022-23	2023-24	2024-25	2025-26
A.	Wired Speakers	85182100/ 85182200/ 8518 2900	15	15	15	15	15	15
1	Portable/Wireless (BT Speakers)	8518 2100/ 85182200/ 8518 2900	15	15	15	15	15	15
2	PCBA				0	10	15@*	15

3	Speaker in Component Form factor (Less than 5 cm)				0	0	10*	15*
4	Plastic Parts (Mechanics)	85189000\$	10	10	5	15	15	15
5	USB Cable				10	15	15	15

\$ MAIT is suggesting 85189000 instead of 39269099 as categorizing plastics used for Wearables and Hearables in this category will make PMP immune to any future notifications by Customs which may be meant for common use plastics

** At this point in time to review the local manufacturing landscape. If investments for this component manufacturing has already come into India only then increase the BCD on the component.*

@ All the input components to make a PCB to be kept at 0% for 4 years. This is key to bring in and retaining PCB Assembly into India. PCB Assembly is a conversion stage that India has built global scale and competitiveness. India must leverage that. The Components that go into making a wearable/hearable PCBA is NOT made in India as of date and therefore no impact on India's upstream Component Industry. This can be reviewed after 2 Years in line with Finance Minister's direction that once in two years these may be reviewed as a best practice.*

As per industry, the battery type used in Wearables are not assembled in India today; hence, recommending the battery duty waterfall as above.

^ Not manufactured in India & unlikely to be in next 4 years.

Notes:-

1. Make the duty uniform across all Products in Digital Lifestyle accessories. For devices >60\$ at 10% (In line with PLI) and for Devices <=60\$ at 15%. This will also eliminate ambiguity in definition of products in a continuously evolving category and potential future litigation on tariffs applied.
2. Any Change in Duty structure should be with Proactive basis only.
3. To leverage India's Strength on Assembly & PCB Assembly – keep the BCD on components that go into a PCBA for Digital Lifestyle Accessories at 0% for four years. In between, once India has drawn up and activated a strategy for manufacturing (at a global scale) in India of PBCA Components of DLS the same can be reviewed.
4. India has ability to do Plastics in India. Thus, MAIT suggests a timeframe of 12-18 months to bring in plastics manufacturing into India.

Towards this goal of bringing in the Plastics, India has to immediately trigger a program to scale its Industries "base capability" from its current levels to the capability (Sophistication / Agility / TAT) that Plastics of DLS Accessories require. This is achievable and should be undertaken.

5. We believe that the Display for DLS Accessories is unlikely to happen in India in the near future. It is linked to FAB set up.
6. India must set up a simultaneous COE for Sensors and manufacturing of sensors in India. This is an emerging component domain & critical capability to take the H/w Design-led manufacturing global leadership.