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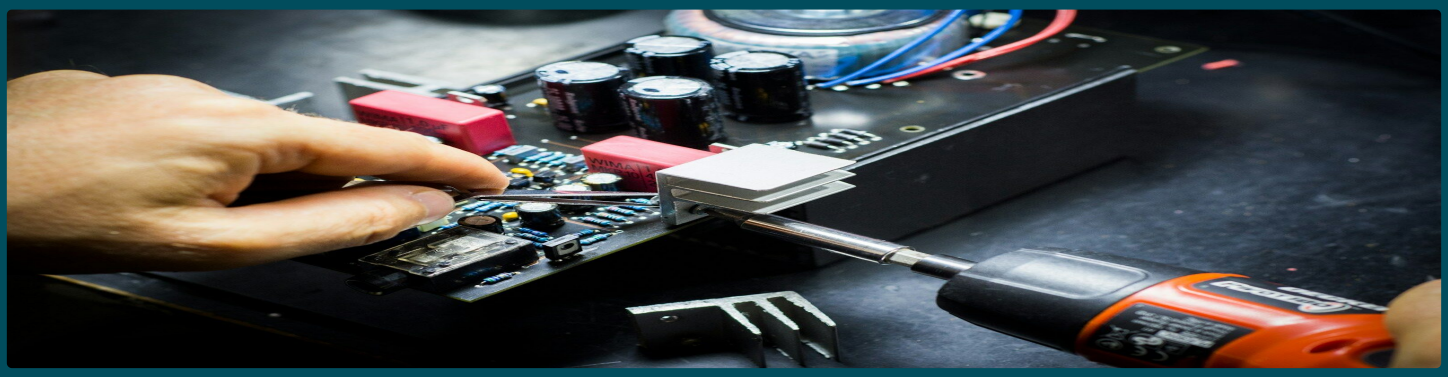

REGULATORY

Strengthening India’s Electronics Ecosystem: Legal and Policy Implications of the Latest ECMS Approvals

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The Government of India's recent approval of 29 additional proposals under the Electronics Component Manufacturing Scheme (ECMS) marks another decisive step toward building a self-reliant and globally competitive electronics manufacturing ecosystem. With a projected investment of ?7,104 crore and projected production of Rs 84,515 crore and with a potential to generate over 14,000 direct jobs, this development is not merely industrial policy in action, it carries significant legal, regulatory, and strategic implications for businesses operating in or entering the sector.

Table of contents

The Current Approvals: A Granular Look at India's Component Push

The newly approved projects span 16 categories of products across sub-assemblies, components, supply chain inputs, and capital equipment.

Key segments include:

- Sub-assemblies (1): Display modules
- Bare components (11): Antennas, Capacitors, Connectors, Heat Sinks, Li-ion Cells, Relays, Resistors, Transducers, SMD Passives, Flexible PCB and Inductors.
- Supply chain items (3): Laminates, Metallized films for Capacitors and Rare Earth Permanent Magnets
- Capital Goods and their parts

Notably, the approvals include:

- India's first SMD passive plant for Tantlum-based capacitors
- The first flexible PCB manufacturing facility
- The first rare earth permanent magnet project

A Policy Push Toward Deep Manufacturing

The ECMS initiative reflects a clear policy shift from assembly-led growth to deep manufacturing and value addition. The newly approved projects span a wide spectrum, from display modules and flexible PCBs to rare earth permanent magnets and lithium-ion cells, highlighting the government's intent to localize critical components across the electronics value chain.

From a legal standpoint, this transition raises important considerations:

- **Supply Chain Localization Requirements:** As domestic value addition becomes a policy priority, companies may increasingly face compliance obligations tied to local sourcing norms, particularly where incentives are linked to domestic content thresholds.
- **Contract Structuring:** Businesses will need to revisit supplier and vendor agreements to align with emerging "buyer-seller" ecosystems encouraged by the government, ensuring enforceability, risk allocation, and regulatory compliance.

Incentives, Compliance, and Regulatory Oversight

Schemes like ECMS, similar in spirit to Production Linked Incentive (PLI) frameworks, are heavily conditional. Companies benefiting from approvals must navigate a layered compliance environment, including:

- **Performance-linked disbursements:** Incentives are typically contingent upon meeting investment, production, and employment milestones. Failure to meet these may trigger clawback provisions or penalties.

- **Audit and Reporting Obligations:** Beneficiaries should expect rigorous monitoring, including statutory audits and periodic disclosures to authorities.
- **Cross-sector Regulatory Touchpoints:** Given the cross-sector applications (telecom, automotive, strategic electronics), multiple regulatory regimes may apply simultaneously, ranging from telecom regulations to environmental compliance laws.

Therefore companies must proactively build compliance frameworks that integrate these multi-regulatory obligations.

Intellectual Property and In-House Design

A notable emphasis in the announcement is the push for strong in-house design capabilities. This signals a strategic pivot toward innovation-led manufacturing.

Key legal considerations include:

- **IP Ownership and Protection:** Companies investing in design capabilities must ensure robust IP strategies, including patent filings, trade secret protection, and clear ownership clauses in collaboration agreements.
- **Technology Transfer Agreements:** Where design capabilities are developed through partnerships with other companies or universities or research institutions, carefully drafted agreements will be critical to avoid disputes and ensure compliance.
- **Standard Essential Patents (SEPs):** As companies move into advanced electronics, exposure to SEP licensing frameworks may increase, particularly in telecom and connected devices.

Emerging Areas: Rare Earths and Strategic Materials

The approval of India's first rare earth permanent magnet facility is particularly noteworthy. Rare earth materials are geopolitically sensitive and subject to global supply constraints.

This development introduces:

- **Strategic Sector Regulations:** Businesses operating in this space may be subject to heightened scrutiny, including national security considerations and export controls.
- **Environmental and Mining Laws:** Extraction, processing, and recycling of rare earth materials are heavily regulated, requiring compliance with environmental impact assessments, hazardous waste management norms, and sustainability mandates.
- **Foreign Investment Restrictions:** Given the strategic nature of rare earths, foreign direct investment (FDI) in this segment may attract closer regulatory examination.

Capital Equipment Manufacturing: A New Frontier

The inclusion of capital equipment manufacturing under ECMS is a forward-looking move aimed at reducing dependence on imported machinery.

For companies in this segment:

- **Standards and Certification:** Compliance with Indian and international technical standards will be crucial to ensure market acceptance.
- **Liability and Warranty Frameworks:** Manufacturers must carefully structure liability clauses, particularly where equipment is deployed in high-risk or mission-critical environments.
- **Government Procurement Opportunities:** Preference for indigenous manufacturers could open doors under public procurement policies, but also necessitate compliance with government tender norms and anti-corruption regulations.

Workforce Development and Labour Law Implications

The government's call for large-scale workforce training initiatives suggests a surge in employment in the electronics sector.

Legal implications include:

- **Labour Law Compliance:** Companies must ensure adherence to India's evolving labour codes, including provisions on wages, social security, and workplace safety.
- **Skill Development Partnerships:** Collaborations with training institutions may require structured agreements addressing liability, certification, and regulatory recognition.

- **Workforce Mobility and Contracts:** As demand for skilled labour rises, issues such as non-compete clauses, employee retention, and contractual protections will gain prominence.

Conclusion: Opportunity with Responsibility

The latest ECMS approvals underscore India's ambition to become a global electronics manufacturing hub. For businesses, the opportunities are substantial, but so are the legal and regulatory responsibilities.

Success in this evolving landscape will depend not only on operational execution but also on proactive legal strategy, ensuring compliance, protecting innovation, and structuring resilient partnerships. Law firms advising in this space must adopt a multidisciplinary approach, integrating expertise across corporate law, regulatory compliance, intellectual property, and international trade.

As India deepens its manufacturing capabilities, the intersection of policy and law will play a defining role in shaping the sector's trajectory.

For more details, write to us at: contact@indialaw.in

Reference:

https://www.pib.gov.in/PressReleasePage.aspx?PRID=2247040&reg=3&lang=2

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