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* **IN THE HIGH COURT OF DELHI AT NEW DELHI**

Date of Decision: 20th March, 2025

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W.P.(C) 2689/2025

M/S ICONNECT INDIA

.....Petitioner

Through: Mr. Pradeep Jain, Mr. Sambhav Jain
& Mr. Pranav Raj Singh, Advocates
(M-7838303164).

versus

UNION OF INDIA & ORS.

.....Respondents

Through: Mr. Varun Vats, SPC, UOI (M-
9654333800).
Mr. Aakash Srivastava, SC with Mr.
Avijit Dikshit and Ms. Monika
Verma, Advocates for R-2 & 3.

CORAM:
JUSTICE PRATHIBA M. SINGH
JUSTICE RAJNEESH KUMAR GUPTA

Prathiba M. Singh, J. (Oral)

1. This hearing has been done through hybrid mode.
2. The present petition has been filed by the Petitioner- M/s Iconnect India under Article 226 of the Constitution of India, seeking issuance of an appropriate writ quashing of the impugned Order-in-Original bearing no. 43/TA/ADC/ACE/2025 dated 11th February, 2025.
3. The short case of the Petitioner is that it is entitled to duty drawbacks when exporting mobile phones, which have been unlocked and accordingly



they had availed of the drawbacks.

4. A show cause notice bearing no. 86/RG/JC/ACE/SIIB/2023 was issued by the Respondent on 30th August, 2023 under Section 124 of the Customs Act, 1962, calling upon the Petitioner to appear before the Office of the Commissioner of Customs, Air Cargo Complex (Export) and explain as to why the goods exported are not liable for confiscation and why the drawbacks availed ought not to be repaid. Penalty is also sought to be imposed in terms of the said show cause notice.

5. The Petitioner filed its reply and formal hearing was fixed in the matter. At that stage, the Petitioner also filed a case being ***W.P.(C) 1449/2024 titled 'M/s Iconnect India v. Union of India'***, wherein it was directed *vide* order dated 01st February, 2024 that the adjudication of the show cause notice would proceed. The relevant portion of the said order reads as under:

“6. In the meanwhile, the adjudication of the impugned Show Cause Notice may proceed. However, the Show Cause Notice would be adjudicated uninfluenced by the impugned clarification.”

6. The challenge therein was that a clarification dated 25th September 2020 was issued by the Government of India that unlocked phones are not entitled to duty drawbacks.

7. Pursuant to the said order dated 01st February, 2024, the show cause notice has been adjudicated, and the impugned Order-in-Original has been passed rejecting the claim of the Petitioner for duty drawbacks, and directing recovery of duty drawback along with interest and penalties.

8. Ld. Counsel for the Petitioner submits that the present case is fully



covered by the decision of this Court titled as '***M/s AIMS Retail Services Private Limited v. Union of India & Ors.***', W.P. (C) 9461/2023 rendered on 13th February, 2025.

9. Ld. Counsel for the Respondent submits that the said judgment is being challenged by the Department by way of a Special Leave Petition.

10. Be that as it may, since the present petition would be clearly covered by the decision of this Court in ***AIMS Retail Services Private Limited (supra)***, the show cause notice would be liable to be set aside. The operative portion of the said judgment is set out below:

"72. An analysis of all the decisions discussed above, would show that in each of the cases, the product-in-question has been utilized – either for demonstration, research, exhibition, etc., in a manner so as to diminish its value. The same had utilized the capabilities of the product and did not add any additional feature or value to the product. Thus, the said decisions are in sharp contrast to the facts of the present case wherein the unlocking/activation of a mobile phone makes the product more accessible and more useful considering the purpose for which it has been manufactured i.e., facilitation of communication and optimum utilization of all the features of a mobile phone.

73. Further, in the present case, it is seen that apart from switching on, insertion of sim card and making a call for 5 minutes, no other feature of the mobile phone is utilised for the purpose of unlocking/activating the said mobile phone. In addition, it is noted that in cases of 'air-activation' the aforesaid steps are also eliminated and the entire process is conducted without even unboxing or unsealing of the mobile phones. A mobile phone is capable of multifarious uses and applications. None of the said features or capabilities of the phone are being utilised during the process of unlocking. The unlocking/activation of the mobile phone enables the same to be used in a particular geographical territory, in this case territories outside India, and nothing more. If the mobile phone



is not unlocked/activated and it is used in a different territory than the country where it was unlocked/activated, the consumer would not find it possible to use the said phone properly in the jurisdiction. Calls made by the customer would then become chargeable as international calls. Moreover, none of the apps can be used based on the territory where the customer is located. Such issues would make the product totally ineffective, expensive and non-functional.

74. Further, it would be pragmatic to assume that for a consumer the process of unlocking/activation of mobile phones would result in value addition over a locked/non-activated mobile phone. Thereby, allowing the unrestricted use of the said mobile phones. The process of unlocking/activation of the mobile phones, by any method, would not result in depreciation in the value of the said phones.

75. A manufacturer, in order to test the mobile phone before finally packing the product may have checked the same by activating it in a particular network in the same country of manufacture. If the phone is used in the same country where it has been manufactured, then there would be no difficulty. Whenever the customer travels abroad on a different carrier or network, international charges are collected and if the mobile phone is locked to a particular region or network then the customer would have to find alternatives to operate the said mobile phone or purchase proper plans to use the phone in a foreign territory. However, if the product is to be exported to a foreign country and enabled for usage in the local network through service providers in the said country and the phone has been not been unlocked/activated in the country of its manufacturing, then the same may prove to be an expensive proposition for the consumer in the said foreign country. Thus, before exporting a product, unlocking/activating the phone to enable it to be used in the destination country would in the opinion of this Court be mere Configuration of the phone for the concerned territory and nothing more.

76. The prevalence of multiple networks, multiple service providers across the world has also to be viewed in the context of



standardisation of mobile phone technologies where a phone manufactured in one country can be used in another country seamlessly. Considering the thousands of uses that a mobile phone can be put to, mere unlocking cannot constitute use by the Petitioners. The development of standards in the field of telecommunication which enables usage of mobile phones across countries may be rendered ineffective if such configuration is held to the detriment of the OEM or the traders/exporters. With the growth of mobile phone manufacturing/ assembling in India more and more exports would take place and the mere fact that the said products are configured for use in foreign countries cannot deprive the Petitioners from duty drawbacks under the prevalent law discussed hereinabove. Drawbacks are benefits which are given to exporters and in the case of any ambiguity such benefits should go in favour of the exporters and not the other way round. The unlocking/activation of the mobile phone merely makes the mobile phone more usable in the destination country and the same would therefore not constitute “taken into use” under proviso to Rule 3 of Duty Drawback Rules.

77. In the present batch of petitions in some of the cases, the Petitioners have challenged the respective SCNs. In some cases Order-in-Original which have been passed in respective cases have been challenged.

78. The Petitioners had sought clarifications from the CBIC qua the eligibility of duty drawbacks on export of unlocked/activated mobile phones. In response, the CBIC had issued the two clarifications dated 25th September, 2020 and 14th December, 2021. These two clarifications in effect took away the benefit available to the Petitioners under Section 75 read with the Duty Drawback Rules.

79. In the opinion of this Court, the unlocking/activating of the mobile phones as per the procedures adopted by the Petitioners herein is mere ‘Configuration’ of the product to make it usable and does not constitute “taken into use” under proviso to Rule 3 of the Duty Drawback Rules. The Clarifications go beyond Section 75 of the Act and the Duty Drawback Rules since the interpretation sought to be given by CBIC is that



unlocking/activation of mobile phones constitutes “taken into use”. The said interpretation which is contained in the Clarifications is not sustainable. Accordingly, the Clarifications issued by the CBIC are quashed.

80. The respective impugned SCNs and the Orders-in-Original passed by the Respondents, relying on the Clarifications, which take a contrary position to the findings of this Court, are also quashed.

81. The Court has, however, not examined each of the cases as to whether duty drawbacks are liable to be granted or not to the Petitioner therein. The individual cases shall be processed by the Customs Department for drawbacks in accordance with law.”

11. As per the above judgement, this Court has held that duty drawback may be claimed in respect of unlocked mobile phones being exported, as the mere act of unlocking does not constitute the phones being “taken into use” within the meaning of the applicable provisions. Given that a mobile phone is capable of being utilized in several ways, the mere unlocking thereof cannot be deemed as the Petitioners having “taken it into use.”

12. Furthermore, this Court has observed that with the expansion of mobile phone manufacturing and assembly in India, the volume of exports is expected to increase. The mere fact that the said products are configured for use in foreign jurisdictions cannot operate as a ground to deprive the Petitioners of their rightful claim to duty drawback under the prevailing legal framework. The present case also pertains to the Respondents’ rejection of the Petitioner’s request for duty drawback on unlocked mobile phones being exported.

13. Considering the view taken by this Court in ***AIMS Retail Services Private Limited (supra)***, even in the present case, the impugned Order-in-



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Order dated 11th February 2025 is set aside.

14. The individual case of the Petitioner shall be processed by the Customs Department for drawbacks in accordance with law, which shall be subject to the decision of the Hon'ble Supreme Court, if the SLP is filed by the Department challenging the *AIMS Retail Services Private Limited (supra)*, decision of this Court.

15. Accordingly, the writ petition is disposed of. Pending applications, if any, are also disposed of.

PRATHIBA M. SINGH, J

RAJNEESH KUMAR GUPTA, J

MARCH 20, 2025/MR/ck