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Duty announcement seems imminent

Since announcement of preliminary findings by Director General of Safeguards (DGS) last month, a decision on provisional safeguard duty has been anxiously awaited by the Indian solar industry. We understand that the government is leaning towards a 20-25% duty and the decision process is fairly advanced. In fact, a DGS Board meeting had been convened last week. But a delayed High Court hearing in response to an appeal by Shapoorji Pallonji Infrastructure Capital, a project developer, has deferred the duty announcement.

- The government believes that solar power can afford a nominal level of duties as costs/tariffs have fallen to record lows;
- But the duties risk upsetting progress in downstream project development activity, which creates over 80% of jobs and value in the sector;
- We need a long-term policy reform for creating genuine competitive advantage in manufacturing;
- It seems increasingly inevitable that India is set to levy a safeguard and/or anti-dumping duty on imports of PV cells and modules. The government rationale appears to be that with solar falling to all-time cost lows to become the most competitive source of power (alongside wind), the sector can afford a nominal level of duties without any undue damage.

  It is still a fair question to ask: why promote manufacturing and more importantly, how to do it? As per our latest report, Trade protection for domestic manufacturers is misguided, module manufacturing accounts for only 4% and 10% of total job and economic value creation respectively in the sector. The downstream power generation activity, on the other hand, accounts for a disproportionate number of jobs and value creation (86% and 87% respectively), and also produces other vital benefits including greater energy access and carbon abatement. High module imports are sometimes cited as a threat to India's energy security, but making modules is not really going to address this issue if the country remains reliant on 100% imports for polysilicon and/or wafers.

  The main problem with manufacturing is simply that India is not very good at it. Manufacturing's share of the country's GDP has been stuck at close to 16% over the years, a remarkably low level for a developing economy such as India. Despite demand growing nearly 10x in the last 4 years and the government offering multiple incentives (capital and operational cost subsidies, assured demand in the form of domestic content requirement), manufacturing has failed to take off – India produces less than 1 GW of cells (0.7% global market share) and about 2 GW of modules (2.0%). Many leading Indian and international players (Sterling & Wilson, Welspun, JK Group, Dalmia Bharat, Trina, LG, JA Solar and Hareon) have closely examined this business, yet decided to stay away.

As we noted earlier, 1-2 Chinese players may set up local capacity to opportunistically take advantage of duties. But a serious manufacturing revival appears unlikely unless the Indian government can come up with radical, multi-dimensional reform to improve domestic competitive advantage.