Safeguard Duty on Solar Cells

Why in news?

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The Directorate General of Safeguards (DGS) has proposed a 70% safeguard duty on solar cells and modules imported from China and Malaysia.

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What is a safeguard duty?

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- The provision is facilitated in GATT (General Agreement on Tariffs and Trade), 1994.
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- It allows a WTO member to restrict temporarily, imports of a product if its domestic industry is affected by a surge in imports.
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- In contrast to antidumping duties and countervailing duties, safeguard measures are, in principle, applied regardless of the exporting country.
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- The Central Government after conducting an enquiry, if satisfied of a potential impact, may by notification impose a safeguard duty.
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What is the rationale for DGS proposal?

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- While solar cells are imported from Malaysia, Singapore and Taiwan as well, a major quantity is being imported from China.
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- China's huge production and excess capacities of solar cells faced with

hindrances in exports to the EU and USA recently.
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- It naturally had to find an alternative outlet and thus shifted its export focus towards India.
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- The DGS move thus comes after a plea was filed by Indian Solar Manufacturers Association (ISMA) before the DGS.
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- It claimed that the surge in imports in solar cells had led to many domestic production facilities lying idle and incurring heavy loss.
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What are the concerns?

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- **Cost** - There are apprehensions that the duty, if levied, would shoot up the project cost by about 40%.
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- The Indian solar industry is thus concerned about the project costs and solar tariffs going up on account of the proposed duty.
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- Notably, the burden on account of the above would fall on solar original equipment manufacturers (OEMs).
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- Sadly, the ultimate burden gets passed on to the end consumer.
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- **Solar Mission** - The Indian government has set a target of installing 175 GW of renewable energy capacity by 2022.
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- Notably, an ambitious 100 GW of this is to come from solar projects.
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- There are fears that the proposed safeguard duty on imported solar cells would thwart India's solar mission.
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- **Domestic players** - India recently lost a case in the WTO brought on by a US complaint against the domestic content requirement programme.
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- The requirement mandated that only locally manufactured cells and modules could be used to build solar projects.
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- The ability of the local players to compete has already been weakened by losing in WTO.

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- Given this, while the proposed duty may help the domestic manufacturers in the short term, its sustained benefits are uncertain.
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- Also, for domestic manufacturers situated on special economic zones, the safeguard duty would yield counterproductive results.
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- Notably, solar cell makers in special economic zones account for about 60% of the installed capacity.
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- **Discoms** - Chinese imports have played a vital role in enabling bidders to quote progressively lower tariffs.
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- If the proposed duty is levied, the Discoms will be further dissuaded from signing power purchase agreements on account of the resultant tariffs rise.
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What is the way forward?

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- The decisions on duty should consider the country's manufacturing capacity and the prevailing energy requirements.
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- The government has to ensure that the duty is prospective in nature and not impact the ongoing solar projects.
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- The government should thus be aware of the possibility of a policy paralysis leading to slow down in new investments.
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- Chinese imports are a threat to Indian manufacturers, but a lasting solution lies in reassessing domestic duty structures and addressing other impediments to the sector.
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Source: Economic Times, Business Standard

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Quick Fact

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DGS

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- The Directorate General of Safeguards works under the Ministry of Finance, Department of Revenue.
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- It has been created to conduct investigations for imposition of Safeguard Duty, Specific Safeguard Duty as specified under the Customs Tariff Act, 1975.
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