

DGFT

Government may defer import duty on solar gear

Relevant to Mahindra Susten

11th October 2021

Introduction

The government is mulling delaying the imposition of customs duty on imported solar equipment or allowing extension of deadline for completion of domestic solar projects which are facing supply uncertainties from vendors in China.

Context

- It is becoming unviable to do business for solar power developers.
- Imposition of BCD of 40% (total becomes 61%, including GST and cess) w.e.f April 1, 2022 will be aggravating the situation.
- The Chinese suppliers are taking advantage of this deadline and forcing Indian IPP to pay more than 1.5 times of original signed contract. Through this deadline the Chinese companies are benefitting.

Reasons for the delay

- Chinese companies are taking advantage of the proposed 40% customs duty on solar equipment from April next year, making Indian firms pay more than 1.5 times of the originally signed contract
- Uncertain equipment supply from China as the Chinese government has imposed severe power cuts on its industries, leading to abrupt increase in solar panels cost and retraction of signed binding contract
- China's travels ban on Indian firms - senior executives of Indian solar companies are not able to visit vendors in China for negotiations
- Rising prices of commodities such as polysilicon, copper, steel, aluminum, silver and increased sea freight had led to solar equipment prices rising to a record high earlier this year

- The contracts for upcoming solar power plants do not have provision for price variation, and any increase in the cost of inputs will have to be borne by the companies. As per the contracts, change in price can only be allowed when there is a change in law or force majeure.

Way Forward

Last month, the National Solar Energy Federation of India had sought deferment of the BCD on solar cells and modules by six months, to October 1, 2022.

The extension would not hit the proposed solar equipment manufacturing under production linked incentive scheme as the auction is likely to be concluded this month and facilities have a minimum gestation period of 18 months.