

Leveraging procurement for Make in India

Procurement by the government and its agencies constitutes a significant share of the market in many segments. The established systems for procurement are designed to ensure fair and competitive bidding. These are reviewed from time to time to increase transparency. However, the issue of how public procurement can be leveraged for the success of Make in India remains generally absent from public discourse. It is a fairly powerful instrument which can be used to considerable effect. Fortunately, India has kept government procurement outside the purview of any of its international commitments.

A modest beginning to use public procurement to support domestic industry was made last year when the government decided to mandate preference to domestic suppliers in public procurement. This was to a large extent the result of the persisting slowdown in industry and their pleas. This approach can be further evolved and used to create manufacturing capacities in a few frontier areas where the size of the market of government agencies is large enough. Mandating value addition, or use of goods made locally only, is not an unknown practice among public agencies in the world.

Solar panels could be a good starting point. The country has in this decade installed 20,000 MW of solar power, starting from less than 200 MW in 2010. Practically, all of this has been imported. Solar power is now targeted to go up to 100,000 MW. Under business as usual, all of this would be imported. While the imposition of safeguard duty has, off and on, been in the air, it is yet to be put in place. There is considerable opposition from developers of solar power, who have recently made aggressive bids at very low prices assuming the continuation of duty-free imports. They may be unable to fulfil their bid obligations if duties are now imposed.

When the National Solar Mission was started, some

modest stipulation of domestic content was made in the procurement bids for solar power. This was successfully challenged by the US in the World Trade Organization (WTO). The US made the plea that solar power was being procured for use by ordinary consumers and as such this was not a government procurement which should mean use by the government itself. But the government and its agencies are still free to put out bids on their own for solar power plants with the stipulation that these be made fully in India. This would not be violative of any WTO commitment. However, no bids would be received in a normal bid process asking for the supply of solar panels fully made in India as manufacturing facilities for these do not exist in the country. But

if the bids were for a large enough capacity with supplies spread over a few years and that too from a prospective date like 2020, which gives enough time for a green field investment to be made for manufacturing in India, then bidders would emerge. If a green field world-class competitive solar panel manufacturing plant has to have a minimum capacity of 1,000 MW a year, and if a bid is invited for supply of 1,000 MW a year for three consecutive years, then investors, both Indian and foreign, would be tempted to set up plants in India and to bid for the supply order.

The bids would be more competitive if successful bidders were assured of being given earmarked developed land with suitable infrastructure at a reasonable rate for putting up their manufacturing plants. The prices would be even lower if duty-free import of capital goods was permitted and this was indicated in the bid itself. Since energy costs are a major part of the manufacturing cost of the ingots, which are the basic material for solar panels, the assured provision of electricity directly by NTPC at its average cost from the unallocated quota at the disposal of the centre, should result in even lower bid prices. Alternatively, the manufacturing park may be located along a gas pipeline



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and supply of gas at a reasonable fixed rate be assured for captive power generation. The objective should be to get prices for solar panels which are comparable to imported prices. But there should be a willingness to pay a price higher than the price of imports. Import duties for a few years at that stage to bring about parity in prices between imported and domestically made panels would be warranted. To create a competitive industry structure, bidders other than the lowest may be given the option to match the price of the lowest bidder and also get orders for three years supply. To give the lowest bidder some advantage over the others, his order size may be for the supply of 1,500 MW a year against the other bidders getting orders of 1,000 MW per year. Repeated bids for large enough volumes from a competitive domestic industry structure should lead to rapid movement down the cost and price curves.

The EESL (Energy Efficiency Services Limited) has worked wonders in getting the prices of LEDs to go down in a few years to a fraction of their original price through repeated bulk procurement. With electric cars, they have recently managed to get prices which are so low that they are being able to hire these cars out for use by the central government on the same terms as other normal cars without asking for any subsidy. This has been a remarkable breakthrough, which shows that electric cars can now run viably as taxis in India.

With a national goal of 100,000 MW of solar power now, it is worth attempting the creation of domestic manufacturing capacity for solar power equipment. Leveraging procurement in the manner being suggested could lead to the emergence of a globally competitive solar power equipment manufacturing industry.

China has leveraged the size of its domestic market creatively to achieve extraordinary success in manufacturing and is now known as the 'factory of the world'. India can and should do as well, if not, better.

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