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PLI plus: India's supply side policies for EV and battery manufacturing are too inward looking

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Suzuki Motor Corporation on Saturday signed an MoU with Gujarat to invest about Rs 10,440 crore over a four-year period to manufacture electric vehicles and related batteries. Almost 70% of the proposed investment will go into battery manufacturing. The real significance of this investment is the transition it represents in the automobile world. The internal combustion engine (ICE) is being replaced by EVs. It's a monumental shift, powered globally by generous regulatory incentives in the backdrop of anxiety over climate change.

To get a sense of the scale of transition ahead, consider the following data. In 2020, electric cars were 4.6% of the total car sales globally. By 2030, the EU aims to ensure 60% of new sales comprise EVs. India is moving in the same direction, with a goal to ensure at least 30% of new vehicle sales by 2030 are electric. Niti Aayog estimates it presents a cumulative investment opportunity of Rs 19.7 lakh crore over the next eight years. There's been policy action at the level of both Govt and states to realise these goals. There are demand side incentives for potential customers through fiscal measures. Equally important are the supply side measures to encourage investment and manufacturing.

Supply side incentives need to be located in a global context, given the nature of the industry. Batteries are the most valuable parts of EVs, with estimates putting them at 40% of the total value. Japan, South Korea and most importantly China dominate this segment. China is the major player along the entire lithium-ion cell supply chain. Given this context, does India have the best possible supply side incentives through Govt's Production-Linked Incentive Scheme and also individual state government policies?

India's policies are designed to encourage investment through subsidies. These subsidies are linked to investments made by firms and subsequent sales. What's odd is the extent of domestic focus in sales and value addition in an industry with a very global supply chain. There's a risk that India's policies will not result in a globally competitive scale in production, which will then influence both products and their cost of manufacture. Separately, the demand side incentives need a lot more work on public charging infrastructure, which influence operating costs of EVs. EVs present India a great opportunity, particularly with China losing its sheen on account of geopolitical risks. To capitalise on it, our policies need to be more outward looking.