

Flashpoint over subsidy probe by EU

OUR SPECIAL
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New Delhi: EU has promulgated regulations that allows it to probe subsidies or incentives in foreign products — which will hit India's export of smartphones and other IT-related goods and services to the region.

Trade analysts said the regulations empower the EU Commission to investigate products if they have received any incentives such as PLI, FAME or export benefits in India.

The "Foreign Subsidies Regulation (FSR)" came into effect on July 12. The regulation prohibits foreign subsidies, and grants the European Commission the authority to investigate cases where foreign subsidies distort competition within the EU.

"WTO explicitly prohibits countries from investigating subsidies given by other countries. Thus FSR is in violation of the WTO mandate," Ajay Srivastava, co-founder of think tank the Global Trade Research Initiative (GTRI), said.

He said: "India is currently negotiating an FTA with the EU. Indian negotiators must ensure not to agree to any FTA text that prohibits India from taking action against FSR."

India exported goods worth over \$74.8 billion to EU countries in FY2023. Key products are diesel, ATF, apparel and makeup, smartphone and cut and polished diamonds.

TOUGH ACT

- EU to investigate products that have received incentives such as PLI, FAME
- Smartphone and tech exports may take hit
- WTO rules prohibit probe of subsidies given by other countries
- India negotiating FTA with EU

The EU Commission can now investigate these products if they have received any incentives in India.

In cases where the commission finds that a foreign subsidy is distorting competition, it can impose various remedies, including fines of up to 10 per cent of the company's annual aggregated turnover.

It can ask the company to repay the foreign subsidy if competition distortion is confirmed or ban the company from participating in public procurement.

As per the Foreign Subsidies Regulation, companies must begin notifying the details of relevant transactions involving foreign subsidies starting from October 12, 2023.

The commission will publish guidelines on the application of FSR on December 31, 2023, and release an annual report on the FSR's implementation by June 30, 2024.