Export Performance and the Foreign Trade Policy (FTP)

Global economic outlook is a major determinant of export performance of any country. India’s output and exports were not completely immune to the global economic slowdown of 2008-09. India’s exports declined by 3.5% in 2009-10. Export growth rate was 40.5% in 2010-11 and it was around 25.8% during April - December 2011-12 over the same period last year. The immediate and the short term objective of FTP 2009-14 policy was to arrest and reverse the declining trend of exports which was successfully achieved by providing additional support especially to those sectors which were hit badly by recession in the developed world. The Policy envisaged an annual export growth of 15 per cent with an annual export target of US $ 200 billion by March 2011 and to come back on the high export growth path of around 25 per cent per annum in the remaining three years of this Foreign Trade Policy i.e. up to 2014.

The long term policy objective for the Government was to double India’s share in global trade by 2020.
Foreign Trade Policy (FTP) 2009-14

As an immediate relief, the Government provided a policy environment through a mix of measures including fiscal incentives, institutional changes, procedural rationalization, and efforts for enhanced market access across the world and diversification of export markets. Towards achieving these objectives, several steps were announced in the Policy. Some of the important steps included addition of new markets under the Focus Market Scheme, coverage of Africa, Latin America and large part of Oceania under Focus Market Scheme (FMS) and the Market Linked Focus Product Scheme (MLFPS), increase in incentives available under the Focus Market Scheme from 2.5% to 3% and for Focus Product Scheme (FPS) and MLFPS from 1.25% to 2%, introduction of EPCG Scheme at zero duty for specified sectors, and the grant of additional duty credit scrip to status holders. Important Trade Policy Measures announced under FTP 2009-14, January / March, 2010 and in Annual Supplement, 2010-11 are given in Box 3.1.

Box 3.1
Trade Policy Measures taken under Foreign Trade Policy 2009-14, January / March, 2010 and in Annual Supplement, 2010-11

- 27 new markets added under Focus Market Scheme (FMS) with incentive of duty credit scrip @ 3% of exports.
- Market Linked Focus Product Scheme (MLFPS) with incentive of duty credit scrip @ 2%, has been significantly broadened by inclusion of a large number of products linked to their markets.
- Full Africa, Latin America and large part of Oceania covered under FMS & MLFPS (13 countries added in MLFPS at the time of release of FTP, 2009-14 in August, 2009 and 2 countries added in January, 2010).
- The incentive available under FMS has been raised from 2.5% to 3%; and for Focus Product Scheme (FPS) & MLFPS from 1.25% to 2%; and Special Focus Products Scheme @ 5%.
- Additional benefit of 2% bonus, over and above the existing benefits of 5% / 2% under FPS, allowed for about 135 existing products, which had suffered due to recession in exports. Major sectors include all Handicrafts items, Silk Carpets, Toys and Sports Goods (all of which were earlier eligible for 5% benefits), Leather Products and Leather Footwear, Handloom Products and some of the Engineering Items including Bicycle parts and Grinding Media Balls (all of which were earlier eligible for 2% benefit).
- 256 new products added under FPS (at 8 digit level), which became entitled for benefits @ 2% of FOB value of exports to all markets. Major Sectors / Product Groups covered are Engineering, Electronics, Rubber & Rubber Products, Other Oil Meals, Finished Leather, Packaged Coconut Water and Coconut Shell worked items.
- Instant Tea and CSNL Cardinol included for benefits under Vishesh Krishi and Gram Udyog Yojana (VKGUY) @ 5% of FOB value of exports.
- Grapes fresh or dried included for additional VKGUY benefit @2% with effect from 23.12.2010.
- Nearly 300 products (8 digit level) from the readymade garment sector incentivised under MLFPS for further 6 months from October, 2010 to March, 2011 for exports to 27 EU countries.
Thereafter, as promised in FTP, to continue regular interaction with stakeholders to maintain a close watch on the performance of the policy in the field, a number of interactions were held with members of Board of Trade, Open Houses with exporters and sectoral reviews with EPCs. Constant dialogues were held with all key stakeholders in industry and the exporting community for sectoral assessment of exports at regular intervals. The Sectoral assessment was undertaken in December 2010 and thereafter in July 2011, which demonstrated that some sectors were still facing difficulties. Need-based additional support measures were announced in 11th February, 2011 and on 13th October, 2011 for certain product groups / products. Box 3.1 gives a panoramic view of these additional Trade Policy measures.

<table>
<thead>
<tr>
<th>Box 3.2</th>
<th>Trade Policy Measures announced on 11th February, 2011</th>
</tr>
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<tbody>
<tr>
<td><strong>Under Market Linked Focus Product Scheme (MLFPS):</strong></td>
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<tr>
<td>1. 335 New Products incentivised under MLFPS at 8 digit level, eligible for benefits @ 2% of FOB value of exports to 15 specified markets like Agricultural Tractors of more than 1800 cc, all inorganic chemicals and inorganic / organic compounds of metals, Flexible Intermediate Bulk Containers and Narrow Woven Fabrics;</td>
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<tr>
<td>2. 71 new products of Chapter 63 (Textile Made ups) at 8 digit level for exports to EU (27 Countries).</td>
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<tr>
<td><strong>Under Focus Product Scheme (FPS):</strong></td>
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<tr>
<td>1. 147 products incentivised for Bonus Benefits (additional 2%) under FPS at 8 digit level, henceforth eligible for benefits @ 4% or 7% of FOB value of exports to all markets. These includes Engineering items, Electronic items, Stationery items, Handmade carpets and other Floor Coverings under Chapter 57 (7%);</td>
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<tr>
<td>2. 57 New products incentivised under FPS at 8 digit level, eligible for benefits @ 2% of FOB value of exports to all markets. These include products from Sectors viz. Engineering, Chemical, paper products etc.</td>
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<tr>
<td><strong>Under Special Focus Products Scheme (SFPS), Egg powder included for benefit @ 5% of FOB value of exports.</strong></td>
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<tr>
<td><strong>Under Vishesh Krishi and Gram Udyog Yojana (VKGUY), 6 New products (Castor Oil Meal– Defatted Variety and Instant Coffee) incentivised under VKGUY at 8 digit level, eligible for benefits @ 5% of FOB value of exports to all markets.</strong></td>
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<tr>
<td><strong>A. Support for Technological up-gradation</strong></td>
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<tr>
<td>Zero duty Export Promotion Capital Goods (EPCG) scheme and Status Holder Incentive Scrip (SHIS) scheme introduced in 2009 for limited sectors and valid for only 2 years initially, extended by one more year till 31.3.2012 and the benefit of the scheme expanded to additional sectors.</td>
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<tr>
<td>3 Additional Towns of Export Excellence (TEEs) announced, bringing the list upto 24.</td>
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<tr>
<td><strong>B. Availability of concessional Export Credit:</strong></td>
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<tr>
<td>Interest subvention of 2 per cent extended upto March 2011 for certain labour-intensive sectors of exports namely handloom, handicrafts, carpet, SMEs and a few products from the sectors namely engineering, textiles, leather and jute.</td>
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</tr>
<tr>
<td>Interest rates on export credit in foreign currency reduced to LIBOR + 200 basis points in February 2010 from the earlier LIBOR+350 basis points.</td>
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</tr>
<tr>
<td><strong>C. EOUss / STPIs:</strong></td>
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</tr>
<tr>
<td>Section 10A and 10B (Sunset clauses for STPI and EOU schemes respectively), extended for the financial year 2010-2011. Anomaly removed in Section 10AA relating to taxation benefit of ‘unit vis-à-vis assessee’.</td>
<td></td>
</tr>
</tbody>
</table>
D. Services:
- FTP also provided fillip to services sector (Hotels) by doubling duty free entitlement under Served from India Scheme (SFIS) from 5% to 10% of foreign exchange earnings.

E. Others:
- Time period of export realization for non-status holder exporters increased to 12 months, at par with the Status holders. This facility has been extended upto 31.03.2011.
- Advance Authorization for Annual Requirement now exempted from payment of Anti-dumping & Safeguard duty. The Scheme has been made more flexible for import of required inputs.
- Value limit on duty free import of commercial samples enhanced from ₹1 lakh to ₹3 lakh per annum.
- Export Obligation Period under Advance Authorization Scheme enhanced from 24 months to 36 months without payment of composition fee.
- To facilitate tracing and tracking of pharmaceutical products and hence to provide assurance about the quality of Indian pharma products to prospective importers, requirement of affixing bar codes has been made mandatory w.e.f. 01.07.11.
- A new facility of Input combination for pharma products manufactured through Non-Infringing process, allowing actual quantum of duty free inputs required for manufacturing such export product, has been introduced. This will facilitate pharma manufacturers to work towards getting a major share of exports of such products to potential regulated markets such as US or EU.
- Facilitation of Trade through various Electronic Data Interchange (EDI) initiatives taken on online message exchange facility.
- Additional facility of filing “online” application for obtaining IEC introduced.

Box 3.3 gives a glimpse of the additional Trade policy Measures announced in the backdrop of Euro zone crisis and slowdown in World Economy in 2011.

### Box 3.3
#### Trade Policy Measures announced on 13th October, 2011

- Introduced a new scheme to provide special assistance to specified sectors such as Engineering, Pharmaceutical and Chemical covering 49 products under these sectors for 6 months w.e.f. 1st October 2011 upto 31.3.2012. The rate of duty credit is 1% of FOB value of exports.
- Introduced a Special Focus Market Scheme (SFMS) with a view to increase the competitiveness of exports with a geographical targeting. The markets are categorized into three groups, namely Latin American, African and CIS countries. The total number of countries included under the scheme is 41. The list includes Cuba and Mexico as new entrants. If a item covered under FMS is exported to the countries listed under SFMS, then the total duty credit available would be @ 4%. Therefore, exports under SFMS would be entitled to duty credit scrip @4% of the FOB value of exports.
- It has been decided to extend MLFPS for exports of Apparel items to USA and EU under chapter 61 and 62 from 1.4.2011 to 31.3.2012 @ 2% of FOB value of exports.
- The list of items under FPS has been expanded to include 130 additional items. These items are mainly in the sectors of Chemical/ Pharmaceuticals, Textiles, handicrafts, Engineering and electronics sector. This Scheme has also been extended to printing on cartons, boxes, cases, bags and other packing containers, erasers and pencil sharpeners. The items covered under FPS are entitled to get duty credit scrip @ 2% of FOB value of exports.
It has been decided to extend MLFPS for exports of Agricultural tractors greater than 1800cc capacity which would now be eligible for duty credit for exports made to Turkey. Sugar machinery & high-pressure boilers would be eligible for Brazil, Kenya, South Africa, Tanzania and Egypt. The scheme has also been extended to all existing MLFPS Countries for printing inks, writing ink etc. The items covered under MLFPS mnare entitled to get duty credit scrip @ 2% of FOB value of exports.

- The towns of Firozabad for glassware, Bhubaneswar for marine products and Agartala for bamboo and cane products have been notified as town of export excellence.
- Advance Authorization, EPCG and DFIA are completely EDI enabled.
- Import of Radioimmunoassay Kits is being liberalized to ‘Free’ subject to prior permission of Atomic Energy Regulatory Board.
- The procedures for Transfer/ sale of imported firearms have been simplified.
- The procedure for clubbing of Advance Authorizations has now been simplified and the powers have been delegated to the Regional Authorities of DGFT.
- Process of simplifying the Redemption /No Bond Condition of Advance Authorization has been started.
- Status Holders Incentive Scrip (SHIS) extended for the year 2012-13.

**Scheme-wise details**

Duty neutralization / remission schemes are based on the principle and the commitment of the Government that “Goods and Services are to be exported and not the Taxes and Levies”. Purpose is to allow duty free import / procurement of inputs or to allow replenishment either for the inputs used or the duty component on inputs used. There are two categories of these schemes namely, pre-export schemes and the post-export schemes. Brief of these schemes alongwith the amendments carried out during the current year are given below.

**Pre Export Schemes**

**Advance Authorisation Scheme**

Scheme allows duty free import of Inputs, along with Fuel, Oil, Catalyst etc., required for manufacturing the export product. Inputs are allowed either as per Standard Input Output Norms (SION) or on adhoc Norms basis under Actual User condition. Norms are fixed by Technical Committee i.e., Norms Committee. This facility is available for physical exports (also including supplies to SEZ units & SEZ Developers) and deemed exports including intermediate supplies. Minimum value addition prescribed is 15%, except for certain items. Exporter has to fulfil the export obligation over a specified time period, both quantity and value wise. This year the facilities to club authorizations have been simplified and powers have been decentralized to RAs.

**Duty Free Import Authorisation (DFIA)**

DFIA Scheme has been made operational from 01.05.2006. One of the objective of the scheme is to facilitate transfer of the authorisation or the inputs imported as per SION, once export is completed. Provisions of DFIA Scheme are similar to Advance Authorisation scheme. A minimum value addition of 20% is required under the scheme.

**Schemes for Gems & Jewellery Sector**

Gems & Jewellery exports constitute a major portion of our total merchandise exports. It is an employment oriented sector. Exports from this sector suffered significantly on account of the global economic slowdown.
Duty free import / procurement of precious metal (Gold / Silver / Platinum) from the nominated agencies is allowed either in advance or as replenishment. In addition, exporters of Gems & Jewellery items are allowed access to duty Free Import of consumables for export production up to a certain specified percentage of FOB value of previous years’ export. List of items allowed for duty free import by Gems & Jewellery sector has been expanded by inclusion of additional items such as Tags and labels, Security censor on card, Staple wire, Poly bag. This will reduce the cost of the product to some extent.

During the period, the Monitoring mechanism for import of Gold by Nominated Agencies was reviewed as it was found to be cumbersome. The new guidelines were issued to simplify the monitoring mechanism with an additional role to the Gems & Jewellery Export Promotion Council.

Post Export Schemes

Duty Entitlement Pass Book (DEPB) Scheme

DEPB scheme neutralises the basic customs duty on inputs with the assumption that all inputs, mentioned in the SION for a product are imported. Duty credit Scrips are allowed at a notified rate of FOB value of Exports. These scrips are freely transferable and are valid for imports within 24 months of its issuance. These scrips can be used for payment of customs duty for clearance of import consignment or for payment of customs duty in case of default in fulfillment of export obligation under various schemes. DEPB benefit is available on physical exports with realisation in free foreign exchange or supplies to SEZ units / SEZ developers.

In its constant endeavor to provide a stable Foreign Trade Policy and to remove uncertainty about the future of the most popular exporter friendly scheme i.e., the DEPB scheme, Government extended the validity of the scheme till 30th September, 2011. The scheme has been withdrawn w.e.f. 01.10.2011.

Duty Drawback Scheme

Duty Drawback scheme allows refund of customs duty and the excise duty on the inputs used in the manufacture of the export product at a specified percentage of FOB value of exports. Service Tax on the input services has also been factored in the All Industry rate of Duty Drawback. Duty drawback scheme for physical exports is being administered by the Department of Revenue and that of deemed exports, by the DGFT.

Duty drawback rates for a number of products have been reduced on account of reduction in tariff and roll back of adhoc increase effected earlier.

The products which were in the DEPB scheme are given appropriate rates of duty drawback so that taxes suffered by the inputs which go in the manufacture of the export product are rebated. The Duty Drawback Scheme announced on 20.09.2011 for the year 2011-12 contained 1096 new items which have moved from the DEPB scheme.

Other Policy Initiatives:

- Interest subvention of 2 per cent extended upto March 2012 for certain labour-intensive sectors of exports namely handloom, handicrafts, carpet, SMEs.
- Time period of export realization for non-status holder exporters increased to 12 months, at par with the Status holders. This facility has been extended upto 30.09.2012.
Vishesh Krishi and Gram Udyog Yojana (Special Agriculture and Village Industry Scheme) [VKGUY]

Keeping in view the objective of Foreign Trade Policy 2009-14 to promote employment generation in rural and semi urban areas, Vishesh Krishi And Gram Udyog Yojana has been expanded to include export of Agricultural Produce and their value added products; Minor Forest Produce and their value added variants; Gram Udyog Products; and Other Products, as notified from time to time.

Duty Credit Scrip benefits are granted with an aim to compensate high transport costs, and to offset other disadvantages. Exporters, of products notified in Appendix 37A of Hand Book of Procedures Vol.1, shall be entitled for Duty Credit Scrip equivalent to 5% of FOB value of exports (in free foreign exchange) for exports made from 27.8.2009 onwards. However, reduced rate of 3% is applicable in such cases where exporter has also availed benefits of Drawback, at rates higher than 1%; or Specific DEPB rate (i.e. other than Miscellaneous Category – Sr.Nos. 22D & 22C of Product Group 90); or Advance Authorization or Duty Free Import Authorization for import of inputs (other than catalysts, consumables and packing materials) for the exported product for which Duty Credit Scrip underVKGUY is being claimed. Additional 2% rate, over and above the 5% or 3%, is admissible for products specified in Table 2, Appendix 37A of Hand Book of Procedures Vol.1.

Higher Incentive for Status Holders is available in the form of duty credit scrip equal to 10% of FOB value of agricultural exports, limited to ₹100 crore per annum, for products covered under ITC HS Chapters 1 to 24, to permit import of Capital Goods/equipments like Cold Storage Units; Pre-cooling Units and Reefer Van/Containers etc. For import of Cold Chain Equipment, this Incentive Scrip shall be freely transferable amongst Status Holders as well as to Units in the Food Parks.

Focus Market Scheme [FMS]

For offsetting high freight cost and other externalities to select international markets with a view to enhance India’s export competitiveness in these countries, “Focus Market Scheme” has been launched w.e.f. 1.4.2006. Exporters of all products to notified countries (as in Appendix 37C of HBP vol.1) shall be entitled for Duty Credit Scrip equivalent to 3% of FOB value of exports. So far, the Scheme covers a total of 112 markets. However, additional duty credit scrip @1% FOB value of exports given to 41 markets listed in Table 3 of Appendix 37C with effect from 1.4.2011 under Special Focus Market Scheme.

Focus Product Scheme [FPS]

To incentivise export of such products which have high export intensity / employment potential, so as to offset infrastructure inefficiencies and other associated costs involved in marketing of these products, a Scheme called Focus Products Scheme, has been introduced w.e.f. 1.4.2006.

Exports of notified products (as in Appendix 37D of HBP vol.1) to all countries (including SEZ units) shall be entitled for Duty Credit Scrip equivalent to 2% of FOB value of exports (in free foreign exchange) for exports made from 27.8.2009 onwards. However, Special Focus Product (s), covered under Table 2 and Table 5 of Appendix 37D, shall be granted Duty Credit Scrip equivalent to 5% of FOB value of exports. Further, Bonus Benefits @2% of FOB value of exports is given over and above the existing benefit for products covered under Table 7 of Appendix 37D for exports made from 1.4.2010 onwards. So far, over 1000 products have been covered at 8 digit level under the Scheme, which
include leather products and footwear, handloom products, handmade carpets and other textile floor covering, handicrafts, coir and jute products, technical textiles, engineering products, green technology products, electronic products, etc.

A new scheme viz. Special Bonus Benefit Scheme has also been introduced to provide special assistance @1% of FOB value of exports to 49 items from Engineering, Pharmaceutical and Chemical sectors listed in Table 8 of Appendix 37D for exports made from 1.10.2011 upto 31.3.2012.

**Market Linked Focus Products Scrip [MLFPS]**

To give significant boost to market penetration of specific product in specified markets, a variant under Focus Product Scheme called Market Linked Focus Products Scrip has been introduced from 1.4.2008. Export of products / sectors of high export intensity / employment potential (which are not covered under present FPS List) would be incentivised @ 2% of FOB value of exports (in free foreign exchange) under FPS when exported to the Linked Markets (countries), which are not covered in the present FMS List, as notified in Appendix 37D of HBP vol.1, for exports made from 27.8.2009 onwards. Further, all Garments covered under Chapter 61 and Chapter 62 of ITC HS Classification of Export and Import Items have been extended the benefit of duty credit scrip @2% of FOB value of exports to USA and EU from 1.4.2011 till 31.3.2012.

Presently the products covered under the scheme include Motor vehicles, auto-components, bicycles and parts, apparels, knitted and crocheted fabrics, pharma products, value added plastic and rubber goods, glass products, dyes and chemicals, household articles, Machine Tools, Earth Moving equipments, Transmission towers, electrical and power equipments, steel tubes, pipes and galvanized sheets, Compressors, Iron and Steel Structures, Auto components, Three wheelers and cotton woven fabrics etc. The countries covered under the Scheme include Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Ukraine, Australia, New Zealand, Cambodia, Vietnam, Japan and China. There are over 4500 products so far covered at 8 digit level.

**Served From India Scheme [SFIS]:**

The objective of the Scheme is to accelerate growth in export of services so as to create a powerful and unique ‘Served From India’ brand, instantly recognized and respected the world over. Indian Service Providers, of services listed in Appendix 41 of HBP vol. 1, who have free foreign exchange earning of at least ₹10 lakhs in preceding financial year / current financial year shall qualify for Duty Credit Scrip. For Individual Indian Service Providers, minimum free foreign exchange earnings would be ₹5 lakhs. Service Providers are entitled to Duty Credit Scrip @10% of the free foreign exchange earned. However, Services and Service Providers listed in Para 3.6.1 of Hand Book of Procedures vol.1 are not eligible. Import are allowed with actual user condition for import of capital goods, office equipments, consumables, vehicles which are in the nature of professional equipment to the service provider, etc.

**Status Holders Incentive Scrip (SHIS):**

With an objective to promote investment in upgradation of technology of some specified sectors such as leather, textiles, Jute, handicrafts, plastics, basic Chemicals, rubber products, glass and glassware, paper and books, paints and allied products, plywood and allied products, electronics products, sports goods and toys, engineering products viz. iron and steel, pipes and tubes, ferro-alloys etc., Status Holders shall be entitled to incentive scrip @ 1% of FOB value of exports made during 2009-10 for six sectors, viz: Leather Sectors
(excluding finished leather); Textiles and Jute Sector; Handicrafts; Engineering Sector (excluding Iron & Steel, Non-ferrous Metals in primary or intermediate forms, Automobiles & two wheelers, nuclear reactors & parts and Ships, Boats and Floating Structures); Plastics; and Basic Chemicals (excluding Pharma Products), and expanded for exports in 2010-11 and 2011-12 of additional sectors listed in para 3.10.8 of Hand Book of Procedures vol.1, in the form of duty credit [subject to prescribed exclusions as specified in Policy] for procurement of capital goods for technology upgradation, with actual user condition. This shall be over and above any duty credit scrip claimed/availed under Chapter-3 of FTP. This facility is available upto 31.3.2013.

Export Promotion of Capital Goods Scheme: (EPCG):-

At present, there are two EPCG Schemes, that is, 3% concessional duty scheme and Zero duty concessional EPCG Scheme. The salient features of 3% concessional duty scheme are as under.

(i) The Scheme was initially introduced in the Import and Export Policy 1990-93 for import of Capital Goods at a concessional rate of Customs Duty @ 25%. The concessional rate of duty has been reduced gradually to 3% since 1.4.2008.

(ii) The scheme allows import of capital goods for pre-production, production and post production as well as for computer software systems subject to an export obligation equivalent to 8 times of duty saved amount (50% of Export Obligation in case of import of spares), to be fulfilled in 8 years reckoned from Authorization issue-date.

(iii) The scheme also requires maintenance of average level of exports achieved by the exporter in the preceding three licensing years for the same and similar products within the overall export obligation period including extended period, except for categories mentioned in Para 5.7.6 of Hand Book of Procedure.

(iv) To encourage exports from the tiny and cottage sector, an export obligation period of 12 years is granted for fulfilment of export obligation.

(v) Issue of EPCG authorization for import of spares, tools, refractory for initial lining & Catalyst for initial charge is also allowed for existing imported plant and machinery (imported earlier under EPCG Scheme or otherwise).

(vi) In case of agro units, the export obligation is equivalent to 6 times duty saved on imported capital goods to be completed within a period of 12 years.

(vii) In case of SSI Units, the EO is equivalent to 6 times duty saved to be fulfilled over a period of 8 years provided the cif value of such imported capital goods does not exceed ₹ 50 lakh and total investment in plant and machinery after such imports does not exceed the SSI limits.

(viii) For EPCG authorizations with a duty saved amount of ₹100 crore or more, the export obligation period is 12 years.

(ix) Import of second hand capital goods is allowed without any age restriction.

(x) Import of motor car, sports utility vehicles/all purpose vehicles is allowed only to hotels, travel agents, tour operators or tour transport operators and companies owning / operating golf resorts whose total foreign exchange earning from their
respective sectors in the current and preceding three licensing years is ₹1.5 crore or more.

(xi) Vehicles imported under EPCG Scheme are to be so registered that the vehicles are used for tourist purpose only. Parts of cars, such as chassis, cannot be imported under EPCG Scheme.

(xii) EPCG Authorization can also be issued for import of capital goods under Scheme for Project Imports notified by the Central Board of Excise and Customs under S. No.441 of Customs Exemption Notification No.21/2002 dated 01.03.2002. Export obligation for such EPCG authorizations would be eight times of duty saved. Duty saved would be the difference between the effective duty under aforesaid Customs Notification and concessional duty under the EPCG Scheme.

(xiii) The scope of the EPCG scheme has been extended to Common Service Providers (CSP) who are designated / certified as a Common service Providers by the DGFT, Department of Commerce or State Infrastructural Corporation in a Town of Export Excellence.

(xiv) A person holding an EPCG licence may source the capital goods from a domestic manufacturer instead of importing them. The domestic manufacturer supplying CG to EPCG authorization holder shall be eligible for deemed export benefits under Para 8.3 of the Policy.

(xv) EPCG licence may be issued for retail sector for import of capital goods required by the retailer to create modern infrastructure in the retail sector.

(xvi) EPCG Authorizations holders can opt for Technological up-gradation of existing Capital goods imported under EPCG authorizations’ subject to conditions stipulated in Para 5.8 (i) to (v) of FTP

EPCG authorization for annual requirement

EPCG Authorization can also be issued for annual requirement to Status Certificate Holders and all other categories of exporters having past export performance (in preceding two years), both under zero duty and 3% duty Schemes. The annual entitlement in terms of duty saved amount shall be upto 50% of FOB value of Physical Export and / or FOB (Free on Board) value of Deemed Export, in preceding licensing year

Export Obligation (EO) conditions under EPCG Scheme

- EO to be fulfilled by export of goods manufactured/service rendered by applicant.
- Upto 50% of EO may be fulfilled by exports of other goods manufactured or services provided by the same firm/ company/group companies.
- Exports shall be physical exports. Certain deemed exports will also be counted towards fulfillment of EO.
- The export obligation under the Scheme shall be over and above, the average level of exports achieved by the EPCG authorization holder in the preceding three licensing years for the same and similar products within the overall export obligation period including extended period, other than the categories exempted for this purpose.
- No average EO condition for certain sectors like handicraft, handlooms,
cottage, tiny sector, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry and sericulture.

- Extension in EO period may be granted for a period of 2 years + 2 years subject to certain conditions specified in Para 5.1 of HBP.

- For BIFR units, EO period may be extended as per BIFR package or 12 years, if not specified by BIFR. Import of Capital Goods shall be subject to Actual User Condition till EO is completed.

Capital Goods imported (excepting tools) for manufacturing of export products relating to handicraft, handlooms, cottage, tiny sector, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry and sericulture are not transferable for a period of five years from date of import even if EO is fulfilled. However, transfer of capital goods is allowed within group companies within five years from the date of import after fulfillment of EO under intimation to RA and jurisdictional Central Excise Authority.

**Zero Duty EPCG Scheme**

The scheme has been introduced in the new Foreign Trade Policy 2009-14 for specified sectors, viz for exporters of engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products and leather & leather products; subject to exclusions as provided in HBP vol. I. New sectors included under zero duty EPCG Scheme w.e.f 23.08.2010 are paper & paperboard and articles thereof, ceramic products, refractories, glass & glassware, rubber & articles thereof, plywood and allied products, marine products, sports goods and toys added.

(i) Under zero duty EPCG Scheme, export obligation equivalent to 6 times of duty saved amount on capital goods is required to be fulfilled in 6 years from authorization issue date.

(ii) The validity period for import of capital goods under zero duty EPCG Scheme is nine months;

(iii) Export obligation period of 6 years can be extended for a maximum period of 2 years only.

All other provisions pertaining to 3% duty EPCG scheme, to the extent they are not inconsistent with the above provisions of zero duty EPCG Scheme, are applicable to the zero duty EPCG Scheme also. The zero duty EPCG Scheme will be in operation till 31.3.2012.

**Export Oriented Units**

A Committee under the Chairmanship of S.C. Panda was constituted to review and revamp the EOU Scheme. The Committee has submitted its report in July 2011 which is under consideration with the Department of Commerce.

**Deemed Exports**

Paragraph 8.5 of the FTP and paragraph 8.3.1 (i) of HBP vol.1 have been amended respectively to make it clear that supply of goods will be eligible for refund of Terminal Excise Duty provided recipient of goods does not avail CENVAT credit and a declaration to this effect is given in Annexure II of ANF 8 from recipient of goods. Similarly supplies will be eligible for deemed export drawback provided CENVAT credit has not been availed by supplier of goods and a declaration to this effect is given in Annexure III of ANF 8 from supplier of goods. The declaration form of Annexure II and Annexure III have also been suitably amended to make the above stated intent very clear.
A Committee under the Chairmanship of DGFT has been constituted on 3.5.2011 to Review the Deemed Export Scheme.

**Policy Initiatives Taken:**

- Filing of applications for various authorizations through EDI mode has been made mandatory in almost all schemes.
- DEPB scheme is completely online. The message exchange between DGFT and Customs for Advance and EPCG Authorization has been implemented for all EDI ports for authorizations issued after 1.4.2009.
- 28 out of 37 EPCs have registered on DGFT’s website for uploading of RCMC data. Complete online uploading of RCMC data is expected to be completed by the end of this financial year.
- Two additional banks namely (i) Bank of Baroda (ii) United Bank of India, have also been included for Electronic Fund Transfer (EFT) facility for DGFT users in addition to the existing 11 banks.
- An offline data entry module has been provided for Advance Authorization and EPCG applications in August, 2010 to provide flexibility in filing applications by exporters, and reducing online server time which would improve efficiency and reduce cost.
- ‘On-line’ filing of IEC application and processing has been initiated w.e.f. 1.1.2011. Online validation of PAN through message exchange with NSDL has been implemented.
- Message exchange of DFIA authorization has been implemented from 13.10.2011 between DGFT and Customs.
- A Software system for ‘on-line’ filing of PRC cases, processing and thereafter tracking has been developed.
- A web based tracking and monitoring software for export obligation under Advance Authorization and EPCG has been uploaded on DGFT’s website.
- DGFT has also become India’s first digital signature enabled department in government of India, which has introduced a higher level of Encrypted 2048 bit Digital Signature. Digital certificate provides a high level of security for online communication such that only intended recipient can read it. It provides authentication, Privacy, non-repudiation and Integrity in the virtual world. 2048 bit DSC’s has been issued to all offices.

**Grievance Redressal Committee**

A Grievance Committee headed by DGFT in Headquarters and by the Joint DGFTs i.e. Regional Authorities at all the regional offices is constituted as per provisions of the para 2.49 of FTP 2009-2014 and para 9.9 of the Handbook of Procedures (Volume-I). These committees can be approached for redressal of the grievances of Trade & Industry.

For any decisions relating to non-statutory matters of Foreign Trade Policy which have caused grievances to the exporters/importers are also considered by another grievance redressal mechanism, i.e Grievance Redressal Committee headed by an Additional Secretary in the Department of Commerce An opportunity for a personal hearing with GRC is also available, if requested. During the period from April, 2011 to December, 2011; four meetings of GRC were held and 116 cases were settled.
Import of sensitive items

Box: 3.4
Amendments/ Changes made in item-wise import policy during the year 2011-12 (after 3.1.2011)

- The sale of vehicles imported by Foreign Diplomats and Other Privileged Persons permitted to other non privileged persons also in the manner specified in Foreign Privileged Persons (Regulation of Customs Privileges) Rules, 1957. (Notification No. 39, dated 31.3.2011).
- The import of “Radioimmunoassay kits” (Medical equipments containing radioactive isotopes) permitted freely subject to prior permission of AERB. (Notification No. 80. dated 17.10.2011).

Import of sensitive items during April-September 2011

Total import of sensitive items for the period April-September 2011 has been ₹48274 crores as compared to ₹34516 crores during the corresponding period of last year thereby showing an increase of 39.9%. The gross import of all commodities during same period of current year was ₹1055339 crores as compared to ₹811773 crores during the same period of last year. Thus import of sensitive items constitutes 4.3% and 4.6% of the gross imports during last year and current year respectively.

Imports of pulses, milk & milk products and food grains have declined at broad group level during the period. Imports of all other items viz. edible oil, automobiles, fruits & vegetables (including nuts), rubber, cotton & silk, products of SSI, spices, marble & granite, alcoholic beverages and tea & coffee have increased during the period under reference.

In the edible oil segment, the import has increased from ₹13367.3 crores last year to ₹21852.8 crores for the corresponding period of this year. The imports of both crude oil as well as refined oil have gone up by 63.8% and 60.8% respectively. The increase in edible oil import is mainly due to substantial increase in import of crude palm oil and its fractions.

Imports of sensitive items from Indonesia, China P RP, Malaysia, Germany, Korea RP, Ukraine, United States of America, Canada, Japan, Thailand, Benin, Ghana, Cote D’ Ivoire, United Kingdom, Guinea Bissau etc. have gone up while those from Argentina, Myanmar, Australia etc. have gone down.

Commodity Specific Measures – Exports

Box 3.5 depicts export provisions for agricultural products which are sensitive in nature due to their direct impact on the public as well as domestic trade and industry are monitored regularly by the Government and suitable modifications are made from time-to-time in order to ensure adequate availability for domestic consumption and to keep the prices under check.

Box: 3.5
Commodity Specific Measures-Exports

Chronological changes upto 29.2.2012

(1) Edible oil
(i) The export of all edible oils prohibited w.e.f. 17.03.2008.
(ii) Vide Notification No. 77(RE-2010)/2009-14 dated 28.09.2011 ban on export of edible oils has been extended upto 30.09.2012.

(iii) Vide Notification No. 92 dated 01.04.2008 and Notification No. 33 dated 19.08.2008, certain exports of edible oil were granted exemption from this prohibition, namely (a) export of Castor Oil (b) export of coconut oil from Cochin Port (c) Deemed export of edible oils (as input raw material) from DTA to 100% EOUs for production of non-edible goods to be exported and (d) export of oil produced out of minor forest produce even if edible, ITC(HS) Code 15159010, 15159020, 15159030, 15159040, 15179010 and 15219020.

(iv) Export of edible oils was permitted in branded consumer packs of upto 5 Kgs with a limit of 10,000 tons from custom EDI Ports. This was first notified on 20.11.2008 and extended from time-to-time. Presently as per Notification No. 77(RE-2010)/2009-14 of 28.09.2011 such export of edible oil is permitted upto 31.10.2012.

(v) Through Notification dated 03.6.2011, exemption has been given for export of 10,000 MTs per annum of Organic Edible Oils, duly certified by APEDA.

(2) Non Basmati Rice

(i) Export of non-basmati rice was prohibited vide Notification No. 38 dated 15.10.2007 and was completely prohibited vide Notification No. 93 dated 1st April, 2008. Exemption was given for export under Food Aid Programme and export to Maldives under Bi-lateral Trade Agreement between Government of India and Republic of Maldives. However, export of PUSA-1121 variety of non-basmati rice was allowed w.e.f. 3.9.08.

(ii) Exemption has been given for export of 10,000 MTs per annum of Organic Non Basmati Rice, duly certified by APEDA.

(iii) Export of 1,00,000 MTs of Sona Masuri (from Chennai & Vishakhapatnam port with MEP of USD 850), 25,000 MTs of Ponni Samba (from Tuticorin port at MEP of USD 850) and 25,000 MTs of Matta rice (from Kochin port with MEP of USD 850) has been permitted for export Vide Notification 21 dated 10.02.2011. The MEP of USD 850 has been reduced to USD 600 per MT vide Public Notice No. 72 dated 12.08.2011.

(iv) Export of 10 lakh MTs of non-basmati rice on private account has been permitted by Notification No. 60 of 19.07.2011 subject to MEP of USD 400. Allocation is to be made on first come first served basis.

(v) Export all varieties of non-Basmati rice made free w.e.f. 09.09.2011. Such export to be made by private parties from privately held stocks only through EDI ports and also through non – EDI Land Customs Stations (LCS) on Indo-Bangladesh & Indo-Nepal border (this will be subject to registration of quantity with DGFT).

(3) Basmati Rice

(i) Minimum Export Price for export of Basmati rice was reduced from US$ 1100 PMT to US $ 900 per ton or ₹ 41,400/- per ton FOB vide Notification No. 5 dated 7.9.2009 & now reduced to US$700 per M.T.
(ii) Grain length of 6.61 mm and length to breadth (L/B) ratio of 3.5 mm has been notified for export of Basmati rice vide Notification No. 57/2009-14 dated 17.08.2010. (This was earlier Grain length of 7 mm and length to breadth(L/B) ratio of 3.6 mm)

(iii) PUSA-1121 variety of non-basmati rice was categorized as ‘Basmati rice’ and it became exportable as basmati rice subject to applicable MEP with effect from 5.11.08 and other conditions.

(iv) Export of Basmati rice is permitted through all EDI ports.

(4) Pulses


(ii) Export of pulses except Kabuli Chana is prohibited till 31.3.2012 (Vide Notification No.35 dated 23.03.2011)

(iii) Export of pulses to Sri Lanka under specific permission granted by DGFT is exempted from ban.

(iv) Through notification dated 3.06.2011, exemption has been given for export of 10,000 MTs per annum of Organic Pulses, duly certified by APEDA.

(5) Wheat

Export of wheat and wheat products was prohibited vide Notification No. 33 dated 8th October, 2007.

(i) Vide Notification No. 116 dated 3.7.2009 (amended by Notification No. 41 dated 18.05.2010) export of Wheat Flour (Maida), Samolina (Rava / Sirgi), Wholemeal atta and Resultant Atta was permitted freely subject to a limit of 6,50,000 MTs from 3.7.2009 to 31.3.2011 only from Customs EDI Ports. This permission has been extended upto 31.3.2012 through Notification No. 61 dated 20.07.2011.

(ii) Exemption has been given for export of 10,000 MTs per annum of Organic Wheat, duly certified by APEDA.

(iii) Export of wheat made free w.e.f. 09.09.2011. Such export will be only through EDI ports and also through non-EDI Land Customs Stations (LCS) at Indo-Bangladesh and Indo-Nepal border (this will be subject to registration of quantity with DGFT).

(6) Cotton Yarn

(i) Export of cotton yarn was subjected to registration of contracts with the Textile Commissioner prior to shipment through Notification No. 38 dated 09.04.2010.

(ii) Export of Cotton Yarn (Tariff code 5205, 5206 & 5207) was “Restricted” vide Notification No. 14 dated 22.12.2010.

(iii) Export of Cotton Yarn (Tariff code 5205, 5206 & 5207) has been made free subject to registration of contracts with DGFT with effect from 1.4.2011 through Notification No. 40 dated 31.3.2011.

(7) Cotton:

(i) Export of cotton was made free w.e.f. 01.11.2010 subject to a cap of 55 lakh bales during the cotton season 2010-11(from 01.10.2010 to 30.9.2011).

(ii) It was decided that the export contracts for cotton will now be registered by the DGFT instead of
Textile Commissioner. Accordingly, Notification No. 12 dated 16.12.2010 has been issued through which DGFT will be the registering authority for export of cotton (Tariff code 5201, 5202 & 5203).

(iii) Cap on export of cotton during current cotton season was raised to 65 lakh bales through Notification No.57 of 09.06.2011.

(iv) Vide Notification No.62 dated 02.08.2011, cap on export of cotton was removed for the remaining part of cotton year 2010-11 and it became freely exportable subject to registration of contract with DGFT.

(v) Export of cotton under ITC (HS) code 5201 & 5203 has been made free for the year 2011-12 subject to registration of contract with DGFT as per Notification No cotton. 74 dated 12.09.2011.

(vi) Export of cotton waste ITC (HS) code 5202 has been made free w.e.f. 01.10.2011 as per Notification No. 78 dated 10.10.2011. Requirement of registration of contract for export of cotton waste has been dispensed with.

(8) Sugar

(i) With effect from 01.01.2009 export of sugar is free subject to release order from the Directorate of Sugar, Department of Food & PD, GoI.

(ii) Exemption has been given from the requirement of obtaining release orders from Directorate of Sugar for export of 10,000 MTs per annum of Organic Sugar, duly certified by APEDA.

(9) Onion

(i) Upto December, 2010, the export of onion including Bangalore rose onion and Krishnapuram onion was allowed for export through 13 National/State level cooperative marketing federations subject to MEP fixed by NAFED.

(ii) Export of onion including Bangalore rose onion and Krishnapuram onion was prohibited through Notification No. 13 dated 22.12.2010.

(iii) Through Notification No. 24 dated 18.2.2011, the ban on export of onion including Bangalore rose onion and Krishnapuram onion was removed and was allowed for export through 13 National/State level cooperative marketing federations subject to Minimum Export Price (MEP) fixed by DGFT from time to time.

(iv) Export of all varieties of onions including Bangalore rose onion and Krishnapuram onion was prohibited w.e.f. 09.09.2011.

(v) Through Notification No. 75 dated 20.09.2011, ban on export of onion including Bangalore rose onion and Krishnapuram onion has been removed and now it is allowed for export through 13 National/State level cooperative marketing federations subject to MEP fixed by DGFT from time to time.

(10) Milk & Milk Products

(i) Export of milk and milk products was free till 18.02.2011.

(ii) Export of milk powders (Skimmed Milk Powders, Whole Milk Powders, Dairy Whitener, Infant Milk Foods etc.), Casein and Casein Derivative have been prohibited till further orders vide Notification No. 23 of 18.02.2011. Transitional arrangements under para 1.5 of Foreign Trade Policy have also been made inapplicable on export of milk powders (Skimmed Milk Powders, Whole Milk Powders, Dairy Whitener, Infant Milk Foods etc.), Casein and Casein Derivative through Notification No. 25 of 24.02.2011.
Task Force on Transaction Costs

Department of Commerce had constituted a ‘Task Force on Transaction Costs’ in October, 2009 to assess the procedural bottlenecks affecting India’s exports and imports. The mandate given to the Task Force was to look into various issues affecting the competitiveness of Indian exports and provide recommendations to the Government. Task Force is spearheaded by the Director General of Foreign Trade and comprises of a seven-member Project Management Group (PMG).

About 25 trade/industry experts from six export sectors i.e. Agriculture, Chemicals/Pharmaceuticals, Readymade Garments, Textiles, Engineering, and Leather and six different functions across the export value chain i.e. customs House Agents, Tax experts, Exim Consultants, Export Managers, Logistics Managers, and Overall Experts are associated with the Task Force to give inputs. Representatives from FICCI, CII, and FIEO are also a part of the Task Force. Task Force in its methodology examined all parts of the export value chain across key industries from an end-to-end perspective.

Report of the Transaction Cost has been released on 8.2.2011 resulting in reduction of approximately ₹2100 crores of transaction cost.

In addition to this, Transaction Cost issues amounting to ₹395 Crores have also been implemented thereafter since February, 2011. This includes web based tracking and monitoring software for Advance Authorization and EPCG monitoring; expeditious issuance of NOC from Animal Quarantine Certification Services (Department of Animal Husbandry) for import consignment of finished and semi-finished leather and; allowing duty free commercial shipment through courier subject to certain conditions.

Trends of authorizations issued under Export Promotion & duty neutralization scheme of Foreign Trade Policy during the period April-November, 2011

During the period April, 2010–November, 2011, a total of 1,79,628 authorisations having CIF/Duty credit value of ₹1,89,699 crores and FOB/Export obligation of ₹6,20,811 crores have been issued. This represents a growth of 22.9% in number, a decrease of 33.3% in CIF/Duty credit value and further an increase of 39.3% in FOB value/EO over the corresponding period of last year. A statement on total number of authorizations issued and their CIF/Duty credit & FOB values during April, 2011-November, 2011 and during the corresponding period of last year is given in Table-3.1.

Table 3.1
Number and Value of various categories of Authorisations issued during April - November 2011 and its Comparison with Authorisations issued during April - November 2010

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<th>Category</th>
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<td>April 2011 to November 2011</td>
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<td>Advance Authorisation</td>
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Comparative picture of authorizations issued & their CIF values during the period April-November for the years 2010-11 & 2011-12 is depicted through charts –3.1 & 3.2. Percentage share of authorizations issued & their CIF value by category during April-November, 2011 is depicted through charts 3.3 & 3.4.

Chart 3.1
Comparative Picture of Authorisations issued during April-November 2011 vs April-November 2010
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Chart 3.2
Comparative Picture of Value of Authorisations issued during April-November 2011 vs April-November 2010

Chart 3.3
Percentage Share of Authorisations by Category issued during April-November 2011
Chart 3.4
Percentage Share of Value of Authorisations by Category issued during April-November 2011