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Annual Supplement 2008 to Foreign Trade Policy 2004-09 Announced on 11th April, 2008

Foreword

Four years ago we had announced India's first ever integrated Foreign Trade Policy for the period 2004-09. At that time we had indicated two major objectives, namely (a) to double our percentage of global merchandise trade within 5 years, and (b) to use trade expansion as an effective instrument of economic growth and employment generation.

I am pleased to say that our achievements have exceeded our expectations. Not only have we fulfilled our promises in substantial measure, but we have achieved these remarkable results in just four years, instead of five.

In 2004 our exports stood at a little over US$ 63 billion. In 2007-08, they have exceeded US$ 155 billion; our exports are not just double what they were 4 years ago, but $2^1/_2$ times that. We have managed an average cumulative annual growth rate (CAGR) of 23%, year on year, way ahead of the average growth rate of international trade.

Our total merchandise trade – exports and imports together – will be almost US$ 400 billion this past year, accounting for nearly 1.5% of world trade. If the trade in services in added to this, our commercial engagement with the world would be in the region of US$ 525 billion.

We have delivered on our second objective as well : that of fashioning trade into an instrument of economic growth and employment generation. Our total trade in goods and services is now equivalent to almost 50% of our GDP. This is unprecedented in India's modern economic history.

On the issue of employment, it is our estimate that during the last 4 years increased trade activity has created 136 lakh *new* jobs. I have always maintained that exports are not just about earning foreign exchange but about boosting our manufacturing sector, creating large scale economic activity and generating fresh employment opportunities.

What is more remarkable about all these achievements is that they have been accomplished in the face of appreciation of the rupee (by more than 12% in the last year alone), high interest rates, spiralling oil prices, withdrawal of some GSP benefits to India by other countries and general international economic slowdown in some of our major trade markets. In spite of all this our exporters have shown great resilience. For this, they deserve our congratulations.

It is in this context that I am happy to present the final Annual Supplement to the Foreign Trade Policy for 2004-2009. In this Supplement, we have proposed several innovative steps, which include the following :

(i) To promote modernization of our manufacturing and services exports, the import duty under the EPCG scheme is being reduced from 5% to 3%.

(ii) Refund of tax on a large number of services relating to exports has already been announced by the Government. A few remaining issues regarding refund of service tax on exports would also be resolved soon.

(iii) Income tax benefit to 100% EOUs available under Section 10B of Income Tax Act is being extended for one more year, beyond 2009.

(iv) Sports and toys are mainly produced by our unorganized labour intensive sector. To promote export of these items and also to compensate disadvantages suffered by them, an additional duty credit of 5% over and above the credit under Focus Product Scheme is being provided.

(v) Our export of fresh fruits and vegetables and floriculture suffers from high incidence of freight cost. To neutralize this disadvantage, an additional credit of 2.5% over and above the credit available under VKGUY is proposed.

(vi) Interest relief already granted for sectors affected adversely by the appreciation of the rupee is being extended for one more year.

(vii) The DEPB scheme is being continued till May 2009.

We still face many structural problems, which need to be addressed. We have to plan an integrated strategy to tackle these issues. We need to develop world class infrastructure. We need to encourage e-commerce, and to facilitate trade through EDI such that turn-around time at ports, airports, Inland Container Depots and Land Custom Stations match world standards. We cannot rest our laurels in terms of trained manpower. We need to establish a chain of sector-specific skill development institutes. Early implementation of a single Goods and Services Tax (GST) would enable simultaneous reimbursement of duties and taxes in line with Government's policy that these should not be exported.

Export Credit Guarantee Corporation of India (ECGC) has completed its fifty years of operations, satisfactorily in the last financial year. Continuing with its mission to provide a variety of services that would strengthen the exporters by way of minimizing the payment risks and their financial position, ECGC has also drawn plans to operationalise the domestic credit insurance cover for the exporters and its factoring services during the year 2008-09. ECGC is also expanding its distribution channels by entering into Corporate Agency Arrangements with Commercial Banks, Export Promotion Councils and Exporters' Association.

The remarkable achievements in trade and commerce of the past four years gives me the confidence to spell out an even more ambitious target – that of achieving a 5% share of world trade in both goods and services by the year 2020. In practical terms this means a four-fold increase in our percentage share in the next 12 years. Considering that world trade is itself increasing, this would translate into an eight-fold increase in absolute terms. Ambitious the target may be, but achieving it is not impossible.

The task is difficult, but the prize is great. If we achieve it, India will once more become the trading superpower it was two centuries ago.

Sd/-
(KAMAL NATH)
Minister of Commerce & Industry

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1. Duty Entitlement Passbook Scheme (DEPB)

To impart continuity and stability to our foreign trade regime, DEPB scheme is being extended till May 2009.

2. Refund of Service Tax

The Government has already announced refund of service tax on almost all the services, which are directly relatable to export production and supply. Some services related to export, which do not attract service tax have also been clarified through a Circular. A few remaining issues regarding refund of service tax will also be resolved shortly.

3. Income Tax on EOUs

Income tax benefit to 100% EOUs under Section 10B of I.T. Act, being extended by Government for one more year, beyond 31.3.2009.

4. Sectoral Initiatives

(a) IT hardware sector as Special focus initiative - Specific items to be included for benefits under High Tech Product Scheme. There will also be earmarked funds of this sector under the MDA and MAI Schemes.

(b) Setting up a new Export Promotion Council for Telecom sector to provide institutional support to exports from telecom sector.

(c) Export of Toys & Sports Goods will be given an additional duty credit script @ 5% (in addition to the existing benefits under Focus Product scheme). Separate funds for market promotion activities will also be given for promoting these exports under ongoing MDA Scheme and MAI Scheme.

(d) Additional duty credit scrip of 2.5% over and above the normal benefit available under VKGUY, for export of certain flowers, vegetables and fruits.

5. Relief to sectors affected by Rupee Appreciation

(a) Interest subvention provided last year to sectors affected by Rupee appreciation and to SMEs, has been extended by one more year.

(b) Reduced average export obligation under EPCG, for sectors, which have witnessed decline in exports in the previous year.

6. Promotion of High Value added manufactured products

An enhanced duty credit scrip of 2.5% (instead of the normal 1.25% under FPS) would be allowed for export of High Value added manufactured products. The list of products will be notified separately.

7. Export Promotion Capital Goods Scheme (EPCG)

(a) The customs duty payable under EPCG Scheme has been reduced from 5% to 3%.

(b) To improve export competitiveness of Indian exports, all exports made towards fulfillment of export obligation under EPCG Scheme will now be eligible for incentives/rewards under promotional schemes.

(c) Average export obligation under EPCG for Premier Trading Houses shall, as an option, be calculated, based on the average of last 5 year's export, instead of the present 3 years.

8. Focus Market & Product Schemes

(a) Coverage of FMS has been increased and additional 10 countries have been included. These are Mongolia, Bosnia-Herzegovina, Albania, Macedonia, Croatia, Honduras, Djibouti, Sudan, Ghana and Colombia.

(b) FMS/FPS would also be calibrated, so that products of general high export intensity, presently not covered under FPS, but which have low penetration in countries, not covered under FMS, would be considered for export incentives as a focus product for that particular country.

9. Substantative measures taken to facilitate exports

(a) To ensure that terminal excise duty and CST refund is made to the exporters in time, it has been decided that interest @ 6% per annum shall be paid to the exporter, in case refund is not made within one month of the due date. This interest on delayed refund will be paid on all such claims that have become due on or after 1.4.2007.

(b) The facility of export on consignment basis has been extended to the export of coloured gem stones.

(c) In case of textile and granite sector EOUs, payment of only excise duty on DTA sale, in case the use of duty paid imported inputs is up to 3% of the FOB value of exports.

(d) Any waste or scrap or remnant generated during manufacturing or processing activities of an SEZ Unit/Developer/Co-developer to be disposed in DTA freely, subject to payment of applicable Customs Duty.

(e) Withdrawal of the requirement of submission of non-availment of MODVAT certificate in case of quantity based advance licence issued prior to 1.4.2002. This step is likely to lead to closure of approximately 7000 old advance licences.

(f) Surat Hira Bourse has been recognized as port of export for jewellery, in addition, to the existing facility for export diamonds from the Bourse.

(g) A few additional ports have been included under Export Promotion Schemes. This will help in reducing costs and adhering to delivery schedules. Some more ports are also under consideration.

10. Measures to reduce transaction cost to exporters

(a) Advance Authorisation Scheme and EPCG Scheme will be EDI enabled through the electronic message exchange with effect from 1.7.2008. This will do away with the present requirement of physical verification and registration at Customs end.

(b) W.e.f. 01.01.2009, all existing EDI ports will be treated as a single port and there will be no requirement of TRA under Advance Authorisation Scheme.

(c) Payment of duty under EPCG Scheme through debit of duty credit scrips under the promotional schemes or DEPB w.e.f. 1.1.2009.

(d) Application fee for duty credit scrips and for EPCG Authorisations reduced from Rupees 5 per thousand to Rupees 2 per thousand. The application fee for Importer-Exporter Code Number has been reduced from Rupees 1000 to Rupees 250.

(e) Reduction of fee in case of supplementary claims from 10% to 2%.

11. Procedural Simplification

(a) EOUs shall be allowed to pay excise duty on monthly basis, instead of the present system of paying duty on consignment basis, subject to conditions/documentation to be notified by Deptt. of Revenue.

(b) Prorata enhancement/reduction in CIF value or duty saved amount beyond 10% has been allowed under EPCG Scheme, by Regional Authorities under DGFT.

(c) In respect of duty free import of R&D equipment, units not registered with Central Excise will be allowed to give installation certificate issued by an independent Chartered Engineer in place of excise authorities.

(d) Certificate of Registration as Exporter of Spices (CRES) issued by Spices Board shall be treated as Registration-cum-Membership Certificate (RCMC) for all purposes under this Policy.

(e) Central Excise to issue installation certificate under EPCG Scheme within 30 days of intimation by the exporter.

(f) To facilitate faster clearance of deemed export benefits, Central Excise to endorse supply invoice within 21 days of supply.

(g) Split-up facility under DFIA Scheme introduced.

(h) Export of sawn timber processed from imported logs made easier from select Customs ports.

(i) The limit of duty free import of samples has been increased from Rs. 75,000 to Rs.1,00,000.

(j) The time period for re-import of branded jewellery remaining unsold, has been extended from 180 days to 365 days.

(k) Value of jewellery parcels, through Foreign Post Office, raised from US$ 50,000 to US$ 75,000.