

ANNUAL SUPPLEMENT 2005
TO THE FOREIGN TRADE POLICY 2004-09

PREAMBLE

On August 31, 2004 the Government spelt out a bold vision to double India's share in world trade within five years, and to focus on the generation of additional employment in the process. The current trade figures indicate that India is not only on the right path but approaching the goal at an accelerated pace.

India to be a major gainer from emerging global trends

In the fast changing international trading scenario, outsourcing of manufacturing activities in the skill intensive sectors has become an essential business strategy for the developed countries. India with its large skilled work force, growing domestic market, raw material availability and the emergence of a mature supply base is set to gain enormously from this trend since the Indian advantage goes well beyond the low wage rates. While there is no doubt that knowledge based industries such as information technology offer India a smooth route to world markets, great potential and opportunities exist in the manufacturing sector also.

FTP strategy is on the right track

When the five year Foreign Trade Policy was announced on August 31, 2004, the Government took cognizance of the fact that a bold and clearly delineated approach was needed to tap such opportunities. The Foreign Trade Policy articulated two basic objectives that would enable India to achieve these goals.

The first objective was doubling our percentage share of global merchandise trade within five years. To achieve this, an average annual growth rate of about 16% was envisaged. The DGCI&S trade statistics show that the actual growth of the merchandise trade in the very first year of the policy period has been of the order of 24%, which has far surpassed the target we set for ourselves. This growth has been unprecedented in India's economic history, and if we can maintain the momentum, the Government is confident that India will cross the 150 billion dollar milestone substantially earlier than the target date.

FTP as a generator of employment

The second objective of the FTP was providing thrust to employment generation particularly in semi-urban and rural areas. The FTP announced special focus initiatives in the employment intensive areas of agriculture, handicrafts, handlooms, gems & jewellery and leather & footwear sectors. The employment generation has been encouraging not only in these sectors, but in other sectors across the board. A study commissioned by the Ministry reveals that exports generated an *incremental direct employment of 10 lakh jobs* in the year 2004-05, over the previous year. The *total* employment generated during the year corresponding to export activity valued at 78 billion was *1 crore jobs* – 86 lakhs of direct employment, and 14 lakhs of indirect employment in the logistics, transport and related sectors. The study further reveals that if we achieve our target of 150 dollars over the next four years, we shall be adding a further 1 crore jobs: 85% of it direct employment, and 15% indirectly associated jobs.

A policy of partnership

The FTP provided a road map that could help Indian companies become globally competitive and simultaneously aimed at giving Indian consumers world class products and services. Specific sectoral initiatives have helped in creating more jobs, higher exports and an enhanced level of confidence for Indian products and services in the global economy.

I believe that it is the new equation of partnership and co-operation engendered by the FTP last year that has paid the rich dividends we are now encountering. Business and industry have responded remarkably.

Government is committed to resolving all outstanding problems and disputes pertaining to the past policy periods through the Grievance Redressal Committee set up last year, for condoning delays, regularizing breaches by exporters in bonafide cases, resolving disputes over entitlements, granting extensions for utilization of licences etc. The atmosphere of partnership between Government and Business will be enhanced and taken forward.

Changing international trade dynamics

The dynamics of global trade and the opportunities provided by the multilateral trading platform necessitate a continuous realignment of our international trade strategies and priorities. While India's international trade will continue to function under the overall framework of the Foreign Trade Policy 2004-09 announced on 31st August 2004, some fine-tuning needs to be done to take into account the changing international trade dynamics. This Annual Supplement endeavors to incorporate additional policy initiatives and simplify procedures, thereby facilitating and enhancing India's international trade.

The specific initiatives undertaken in this Annual Supplement to the Foreign Trade Policy, 2004-09 are given in this compendium.

NEW DELHI

KAMAL NATH

8th APRIL 2005

MINISTER FOR COMMERCE & INDUSTRY

GOVERNMENT OF INDIA

ANNUAL SUPPLEMENT TO THE FOREIGN TRADE POLICY 2004-09

1. INTER STATE TRADE COUNCIL

In order to achieve our Foreign Trade Policy objective of becoming a major player in world trade, a comprehensive view needs to be taken for the overall development of the country's foreign trade. Coherence and consistency among trade and other economic policies of both the Union and the State Governments is important for maximizing the contribution of such policies to development. State Governments are increasingly required to partner with the Union Government in the process.

Some States have formulated export policies recognizing the need to focus on the removal of impediments in promoting trade, employment and economic activity. But a lot needs to be done to coordinate this.

It is therefore proposed to engage the State Governments in providing an enabling environment for boosting international trade, by setting up an Inter State Trade Council. It is hoped that the Council would provide an appropriate institutionalized dialogue mechanism on the subject.

2. REMOVAL OF EXPORT CESS

The Department of Commerce has taken a consistent stand from a policy perspective that taxes and duties should not be exported. The cess levied under the different Commodity Board Acts is a tax on exports, which is a handicap and a major irritant to our exporters and erodes the competitiveness of Indian agriculture exports. Department of Commerce proposes to abolish cess on export of all agricultural and plantation commodities levied under various Commodity Board Acts.

3. EXPORT PROMOTION CAPITAL GOODS SCHEME

a. For providing a thrust to the **Agricultural sector**, concessional duty imports made by agro units under the EPCG Scheme shall be allowed to fulfill the export obligation over a longer period of time with a reduced export obligation i.e. 6 times the duty saved over a 12 year period instead of the normal window of 8 times the duty saved in 8 years.

b. To promote capacity expansion and quality up-gradation in the **SSI sector**, import of capital goods at 5% Customs duty shall now be allowed subject to a fulfillment of an export obligation equivalent to 6 times the duty saved on capital goods imported under the EPCG Scheme over a period of 8 years. (At present the export obligation under the EPCG Scheme is 8 times the duty saved and reducing the export obligation for small manufacturing units to 6 times shall provide an impetus to industries to modernise their plant and machinery which will enhance our overall export competitiveness in the medium term).

c. To create modern infrastructure in the **retail sector**, concessional duty benefits under EPCG scheme shall be extended for import of capital goods required by retailers having a minimum covered shopping area of 1000 sq metres. The retailer shall fulfill the export obligation under the Scheme from payments received against 'counter sales' in free foreign exchange through banking channels as per RBI guidelines.

d. With a view to accelerate exports under the Scheme and to incentivise **fast track** companies, firms making 75 % or more of the exports under the EPCG Scheme (including average level of exports) in half or less than half the original export obligation period, shall be freed from the balance export obligation.

e. Payment received in Rupees for the **Port Handling services** are counted for export obligation discharge under the EPCG Scheme. This facility is now being extended to include minor ports including ICDs and Container Freight Stations (CFS) also. This will enable augmentation of the facilities available at the secondary ports with modern equipment and thereby reduce cargo handling turnaround time and related transaction costs.

f. The present requirement of submitting an **Installation Certificate** for machinery imported under EPCG Scheme will now not be required for units which are not registered with Central Excise. In lieu of a Central Excise Certificate, a Chartered Engineer Certificate will now suffice. Firms importing spares under EPCG shall also be required to submit a Chartered Engineer certificate only instead of a certificate from Central Excise authorities.

g. The facility of clubbing of EPCG licences has been further liberalized and restrictive conditions relating to same licensing year and same products/services have been deleted. Henceforth, all EPCG licences issued under the same Customs Notification can be clubbed. This will considerably reduce paperwork both for the exporter and the licensing authorities and lead to easier monitoring.

4. SERVICE EXPORTS

a. To enable the Service providers to upgrade the infrastructure in their associate companies, the goods imported under the 'Served from India' Scheme shall be transferable within the Group companies and managed hotels subject to Actual User condition.

b. At present, Hotels & Restaurants are required to submit a Chartered Accountant certificate that the entire duty benefits availed under the 'Served from India' Scheme have been passed on to the consumer. From now on, only a declaration will be submitted by the Hotels & Restaurants that the duty benefits shall be passed on to the consumer and no CA certificate will be required to be submitted.

5. AGRI EXPORTS

a. Benefits under 'Vishesh Krishi Upaj Yojana' shall also be extended to exports of poultry and dairy products in addition to export of flowers, fruits, vegetables, minor forest produce and their value added products.

b. Procedural guidelines for the Scheme have also been notified and the exporter has been given the flexibility to obtain duty credit certificates in split form that will make utilization of the licences easier.

6. GEM AND JEWELLERY EXPORTS

a. Entitlement for Duty Free imports of Gems and Jewellery samples have been enhanced to Rs. 3 lakhs in a financial year or 0.25% of the average of the last three years exports turnover or gems and jewellery items, whichever is lower. Earlier this limit was Rs. 1 lakh.

b. Supply of gold of 0.995 and above purity shall also be allowed for release by nominated agencies for export purposes. Earlier this facility was only available for supply of gold in the domestic market.

c. The notional rate for fixing the US \$ rate for calculating gold jewellery exports shall now be based on a certificate which is not older than 7 working days from the date of shipping. The present provisions mandated that the notional rate certificate issued by the nominated agency should not be older than 3 working days.

d. Exporters of plain/studded/precious metal jewellery will be allowed to import plain/studded/precious metal jewellery (Gold jewellery of 18 carat and below/platinum and sterling silver jewellery) for the purposes of exports.

7. PACKAGE FOR MARINE SECTOR

a. Duty free import of specified specialized inputs/chemicals and flavoring oils as per a defined list shall be allowed to the extent of 1% of FOB value of preceding financial years export. Use of these special ingredients for seafood processing will enable us to achieve a higher value addition and enter new export markets.

b. To encourage the existing mechanized vessels and deep sea trawlers to adopt modern technology for scientific exploitation of our marine resources in an eco-friendly manner and boost marine sector exports, it is proposed to allow import of monofilament long line system for tuna fishing at a concessional rate of duty.

c. The present system of disposal of waste of perishable commodities like seafood after inspection by a customs official is very cumbersome and leads to development of unhygienic conditions. To overcome this, a self removal procedure for clearance of waste shall be applicable, subject to prescribed wastage norms.

8. ADVANCE LICENSING SCHEME

a. No safeguard and antidumping duty shall be levied on inputs under Advance Licence for deemed export supplies made to ICB projects. With this different categories of Advance licences i.e. advance licence for physical export, advance licence for intermediate supplies and advance licence for deemed exports have been merged into a single category for procedural facilitation and easier monitoring.

b. The scope of Advance Licence for Annual requirement has been extended to all categories of exporters having past export performance. Earlier, the option was limited to Status Holders only. The earlier limit of obtaining Advance Licence for Annual requirement has also been enhanced to 300% of FOB/FOR value of exports made in the previous year from 200%.

c. Clubbing of advance licences for export regularization purpose has been allowed even for licences pertaining to 1992-97 period.

d. Units registered under BIFR shall be allowed export obligation extension as per the rehabilitation package or a period upto five years reckoned from the date of issuance of the advance licence, whichever is higher.

e. Transfer of Duty Free material imported or procured under Advance Licence from one unit of the company to another unit of the same company to be allowed with prior intimation to the jurisdictional central excise authority. Earlier prior permission of the jurisdictional central excise authority was required.

- f. In cases the Bank Guarantee/LUT has been redeemed under the Advance licence, the Licensee may be allowed to get duty free inputs processed from any manufacturer under actual user condition subject to central excise procedures relating to job work.
- g. Removal of requirement of ARO for taking supplies from EOU/EHTP/STP/BTP units and allowing direct debit of the advance licence by the Bond Officer of these units. A detailed procedure in this regard shall be prescribed by the CBEC.

9. DUTY FREE REPLENISHMENT CERTIFICATE

- a. List of Sensitive Items has been pruned down to nine items. Brass scrap, Additives, Paper/Paper Board and Dye Stuffs shall be removed from the Sensitive List of items prescribed for import of items under DFRC.
- b. Provision for re-credit on account of rejections of items imported under DFRC shall be similar to the facility available to DEPB and Advance Licence. While allowing re-credit, 95% of the value of the DFRC shall be credited.

10. DEPB

DEPB benefits shall be available for supply of goods from DTA to SEZs for the period 1.04.2003 to 11.05.2004.

11. EXPORT ORIENTED UNITS

- a. Duty free spares up to 5% of the value of Capital Goods imported for excavation purposes in the Granite sector will be allowed to be removed to the quarries.
- b. The de-bonding procedure for EOUs has been simplified. A self-assessment procedure along with time bound disposal of applications of such exiting EOUs will be put in place.
- c. Capital Goods will be allowed to be transferred or given on loan basis to other units under intimation to both Excise and Development Commissioner.
- d. Transfer of samples to other EOUs on returnable basis within a period of 30 days to be allowed.

- e. EOUs to be permitted to claim IT exemption in respect of income on export proceeds realised within a period of 12 months from date of export.

12. TARGET PLUS SCHEME

- a. The Target Plus Scheme aimed at rewarding incremental exports would continue in the year 2005-06 with such modifications as will be notified, separately for preventing misuse, if any.

13. BANK GUARANTEE

Quantum of Bank Guarantee in respect of "Other Manufacturer Exporters" category is being reduced from 25% to 15%. Units in Agri Export Zones (AEZs) shall also be eligible to submit a Bank Guarantee of 15%. In addition, only a 15% Bank Guarantee shall be required for 'established service providers' who have free foreign exchange earnings of Rs.50 lakhs or more during the preceding financial year and have a clean track record.

14. PROCEDURAL SIMPLIFICATION & REDUCTION OF TRANSACTION COSTS

Importers and exporters have to fill multiple application forms at various stages of their business activity to meet the procedural requirements of different Departments/Ministries under different Acts. It is our endeavor to simplify procedures and reduce the documentation requirements so as to reduce the transaction costs of the exporters and thereby increase their competitiveness in the international markets. With this in mind, a Committee to look into procedural simplification and reduction of transaction costs was set up under the Chairmanship of Director General of Foreign Trade. The Committee has submitted its report and some of the key recommendations made are:

- a. Internal process re-engineering to enable greater delegation and simplification of forms and documents;
- b. EDI linkage of all community trade partners like DGFT, Customs, Banks, Export Promotion Councils etc to facilitate web based filing, retrieval and verification of documents;
- c. A fast track mechanism for clearances, examination, testing, quarantine, packaging etc. to be set up by all agencies to facilitate import/export of perishable cargo;
- d. Laying down time limits for giving approvals/sanctions for different import and export activities by different agencies to ensure a transparent system of working in Government Departments and ensure continuous improvement in quality of services rendered.

As a first step towards this exercise, the DGFT has devised a single common application form called 'Aayaat Niryaat' Form. This 50 page set of forms, as against the 120 page set currently in existence, provides availability of information on DGFT related documentation at a single place and has a web interface for on-line filing by the exporter and retrieval of documents by the licensing authorities.

15. EDI INITIATIVES

a. DGFT shall strive to move towards an automated electronic environment for filing, retrieval and authentication of documents based on agreed protocols and message exchange with other community trade partners including Customs and Banks. Increased use of information technology for interacting with the trade through video conferencing, doing away with manual filing of documents by using digital signature and introducing a Special Purpose Vehicle for electronic license utilization and transfer mechanism is also envisaged. In addition, online web based information shall be made available for all Export and Import related policies and procedures on the DGFT website to enable the international trading community to access information from a single source.

b. A time frame of six months for complete EDI linkage between Customs and DGFT has been specified. After completion of this project the manual submission of shipping bills and related documents will be done away with and verification of licences shall be done online which shall considerably reduce transaction costs.

c. Facility of issuing Importer Exporter Code number (IEC) online is also being provided by linking the DGFT database with the Income Tax PAN database and use of digital signature technology. To add transparency in the system, other e-governance initiatives are also being planned to provide delivery of services to the user community without any human interface with the DGFT offices.

16. TRADE FACILITATION

a. To enable the users to make commercial decisions in a more professional manner, DGCI&S trade data shall be made available with minimum time lag in a query based structured format on commercial criteria.

b. All DGFT offices shall continue to provide facilitation to exporters in regard to developments in international trade i.e. WTO agreements, Rules of Origin and SPS requirements, anti dumping issues etc. to help the exporters strategise their import and export decisions in an internationally dynamic environment.

c. To promote export of '**Minor Forest Produce**' products **Shellac Export Promotion Council** has been designated as a nodal EPC for minor forest produce.

d. All **EPCs** shall open a separate Cell to involve and encourage youth and women entrepreneurs in the export effort.

e. Handloom – Government has decided to develop a trademark for Handloom on lines similar to 'Woolmark' and 'Silkmark'. This will enable handloom products to develop a niche market with a distinct identity.

f. **Tea** - In order to maintain quality and retain the brand equity of Indian teas, the Government has issued a new Tea (Distribution and Export) Control Order, 2005 which prescribes strict norms for tea. All teas, whether imported or exported would be required to conform to the specifications cited in the new Order. Tea has been

classified for the purpose of issue of non-preferential Certificate of Origin into three categories:

- i. Tea wholly produced or obtained in India will only be classified as "India tea."
- ii. Where the Indian tea content in the export is not less than 90% by weight, it will be classified as "India tea (not less than 90% by weight of tea)".
- iii. In case of tea not wholly produced or obtained in India and where the content of Indian tea is less than 90% by weight, it will be classified as "Blended tea of different origin and packed in India".

The new Order also prescribes a minimum value addition norm of 50% on export of all imported tea and stipulates a time period of 6 months from the date of import for the export of imported tea.
