

Highlights of Annual Supplement 2007 to the Foreign Trade Policy – 2004-2009

Background

The Annual Supplement 2007 ('Supplement') of the Foreign Trade Policy 2004-09 ('the FTP') has been notified on 19 April 2007 by the Government of India.

The Supplement seeks to extend specific benefits to agro-sector, handicraft, and handloom sectors. While new incentives in relation to exports of agro and high tech products have been announced, the focus remains on expanding the scope of existing incentives schemes and providing further procedural relaxations. Highlights of the Supplement are summarised below.

Launch of new schemes

Duty Credit Scrip for Status Holders developing Agri-Infrastructure

- Status Holders to be granted benefit of duty credit scrip equal to 10% of FOB value of agricultural exports
- This credit can be used for duty free import /procurement of capital goods required for agro-processing infrastructure in relation to agricultural exports
- The above benefit would be available to status holders on first come first serve basis on assessment of their past export performance

High Tech Products Export Promotion Scheme

- Specified high tech products to be eligible for duty credit equivalent to 10% of incremental growth in exports achieved
- The availability of credit entitlement will be limited to Rs 15 crore per exporter in a licensing year

Expansion of the scope of existing schemes

Focus Market Scheme ('FMS')

- FMS was introduced last year with the objective of promoting exports to select international markets
- The benefit of credit entitlement under FMS has now been extended for exports made to 16 more countries (including 10 from CIS block) to be notified shortly
- Benefit under FMS is also extended to EOUs not availing direct tax benefits/ exemption

Focus Product Scheme ('FPS')

- FPS was introduced last year with the objective of promoting export of specified products
- Scope of FPS has been expanded to extend benefit of credit on export products like mica, barley, oats, soyabean, cigar/cheroots, bovine fats

- Benefit under FPS also extended to EOUs not availing direct tax benefits/ exemption

Amendments in schemes

Export Promotion Capital Goods Scheme ('EPCG')

- Period to fulfil the export obligation increased from 8 to 12 years for units in tiny and cottage sector
- Earlier requirement to discharge export obligation in block-wise manner has been dispensed with
- Benefit of EPCG henceforth not available to import of components required for assembly or manufacture of capital goods
- Waiver of outstanding export obligation in case of force majeure or other unforeseen circumstances can be considered by the authorities

Served from India Scheme ('SFI')

- Benefit under SFI will now be available only against foreign exchange earnings. Earlier, benefit was also available against realisation in Indian Rupees, which were considered as foreign exchange earnings by RBI

Duty Entitlement Passbook Scheme ('DEPB')

- DEPB scheme extended upto 31 March 2008
- Expected to be replaced by a WTO compatible scheme
- Component of 4% CVD and customs duty on fuel to be reimbursed as a brand rate subject to non-availment of cenvat credit

Duty Free Import Authorisation Scheme ('DFIA')

- Earlier, after discharge of export obligation, authorisation and/or goods imported under DFIA could have been freely transferred without any duty implication (on obtaining requisite endorsements). Henceforth, imports or local procurement made against endorsed DFIA would be subjected to additional customs or excise duty
- However, such additional customs duty/ excise duty paid will be available as drawback /cenvat credit as the case may be

Service Tax

- In case of goods and service which are exported, exemption/ remission of service tax levied and related to exports would be permitted
- Services received or rendered abroad in relation to goods or services exported out of India to be exempted from levy of service tax

Miscellaneous

- Supplies of accessories including tags, labels, etc. by an EOU to DTA unit for exports to be counted towards NFE computations
- Interest to be paid on delayed refund of Central Sales Tax paid by an EOU on interstate purchases
- Interest to be paid on delayed refund of terminal excise duty on eligible supplies made under "deemed export" categories

- Supplies made to Developer and Co – developer of an SEZ henceforth eligible for benefits under Advance Authorisation Scheme and DEPB
- Export obligation period as well as the validity of the authorization will now be extended by authorities even after expiry of validity in the event of unforeseen circumstances or by reason of force majeure

Conclusion

The Supplement retains the stated objective of additional employment generation through export led growth. It focuses on promoting rural growth and targeting new international markets, through various incentives and facilitation measures, and that in turn is expected to fuel growth in the share of international trade. However, whether these objectives will be achieved in the backdrop of rising inflation is something that remains to be seen.

While certain announcements have been made with respect to service tax relief in relation to exports, it is not clear as to how the same would reconcile with the current refund/ rebate provisions.

General procedural relaxations under the export incentive schemes and provision of interest on delayed refund of CST /terminal excise duty are welcome steps.

The implementation of these measures needs to be closely monitored.

Source: Annual Supplement to the Foreign Trade Policy 2004-2009 notified on 19 April 2007

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