

4. FOREIGN TRADE POLICY AND EXPORT PROMOTION MEASURES

The **Foreign Trade Policy (FTP)** announced on 31st August 2004 takes an integrated view of the overall development of India's foreign trade. The Policy sets the core objectives, identifies key strategies, spells out focus initiatives, outlines export incentives, and also addresses issues concerning institutional support including simplification of procedures relating to export activities during the next five years starting from 1st September, 2004.

A. Objectives and Strategies

The FTP seeks to achieve the following twin objectives, viz.,

- (i) To double India's percentage share of global merchandise trade by 2009;
- (ii) To act as an effective instrument of economic growth by giving a thrust to employment generation.

The key **Strategies** for achieving the aforesaid objectives are:

- (i) Unshackling of controls and creating an atmosphere of trust and transparency
- (ii) Simplifying procedures and bringing down transaction costs;
- (iii) Adopting the fundamental principle that duties and levies should not be exported;
- (iv) Identifying and nurturing different special focus areas to facilitate development of India as a global hub for manufacturing, trading and services.

B. Special Focus Initiatives

Sectors with significant export prospects coupled with potential for employment generation in semi-urban and rural areas have been identified as thrust sectors, and specific sectoral strategies have been prepared. Special Focus Initiatives have been announced for Agriculture, Handicrafts, Handlooms, Gems & Jewellery and Leather & Footwear sectors. The details of the specific packages announced for these four sectors are given below:

1. Agriculture

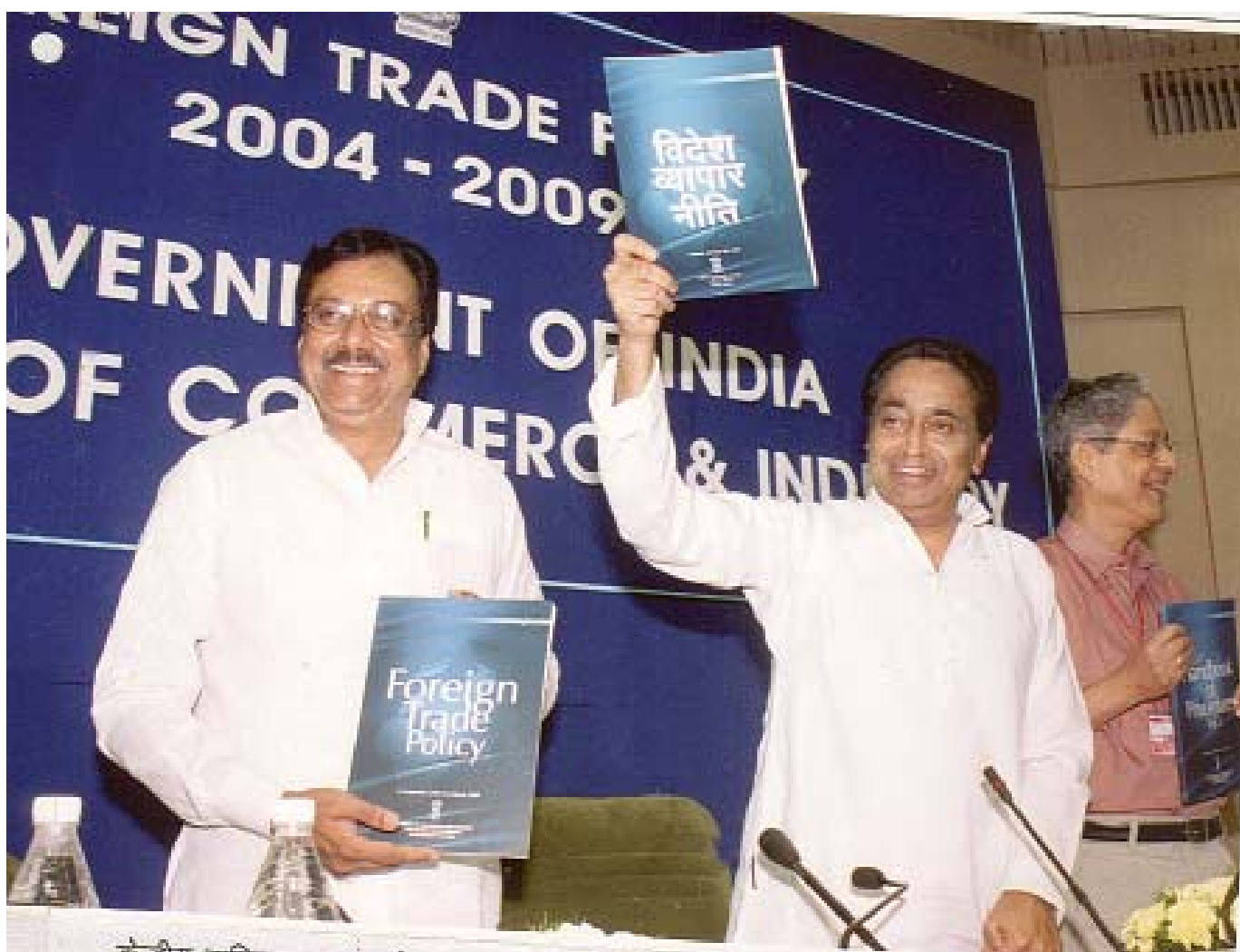
- (i) A new scheme called 'Vishesh Krishi Upaj Yojana' has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products.
- (ii) Capital goods imported under EPCG for agriculture have been permitted to be installed anywhere in the Agri Export Zone(AEZ) and ASIDE funds are to be utilized for development for Agri Export Zones also.
- (iii) Import of seeds, bulbs, tubers and planting material has been liberalized.
- (iv) With a view to promote export of medicinal plants and herbal products export of plant portions, derivatives and extracts has been liberalized.

2. Gems & Jewellery

- i. Duty free import of consumables for metals other than gold and platinum allowed up to 2 percent of FOB value of exports.
- ii. Duty free re-import entitlement for rejected jewellery allowed up to 2 percent of FOB value of exports.
- iii. Duty free import of commercial samples of jewellery increased to Rs.1 lakh.
- iv. Import of gold of 18 carat and above allowed under the replenishment scheme.

3. Handlooms & Handicrafts

- i) Duty free import of trimmings and embellishments for Handlooms & Handicrafts sectors increased to 5 percent of FOB value of exports.
- ii) Import of trimmings and embellishments and samples shall be exempt from CVD.
- iii) Handicraft Export Promotion Council authorised to import trimmings, embellishments and samples for small



The Union Minister of Commerce & Industry, Shri Kamal Nath releasing the Foreign Trade Policy 2004 - 2009 at a Press Conference in New Delhi on August 31, 2004.

manufacturers.

- iv) A new Handicraft Special Economic Zone to be established.

4. Leather & Footwear

- i. Duty free entitlements of import trimmings, embellishments and footwear components for Leather industry increased to 3 percent of FOB value of exports.
- ii. Duty free import of specified items for leather sector increased to 5 percent of FOB value of exports.
- iii. Machinery and equipment for Effluent Treatment Plants for Leather industry shall be exempt from Customs Duty.

The threshold limit of designated 'Towns of Export Excellence' has been reduced from Rs.1000 crore to Rs.250 crore in these thrust sectors.

C. Export Promotion Schemes/Measures

1. Target Plus Scheme for Status Holders

A new scheme called '*Target Plus*' has been introduced to accelerate the growth of exports. Status Holders who have achieved a quantum growth in exports would be entitled to duty free credit based on incremental exports substantially higher than the general actual export target fixed. (Since the target fixed for 2004-05 is 16 percent, the lower limit of performance for qualifying for rewards is pegged at 20 percent for the current year). Rewards will be granted based on a tiered approach. For incremental growth of over 20 percent, 25 percent and 100 percent, the duty free credits would be 5 percent, 10 percent and 15 percent of FOB value of incremental exports.

2. Vishesh Krishi Upaj Yojana

A new scheme called 'Vishesh Krishi Upaj Yojana' (Special Agricultural Produce Scheme) has been introduced to boost exports of fruits, vegetables, flowers, minor forest produce and their value added products. Export of these products shall qualify for duty free credit entitlement equivalent to 5 percent of FOB value of exports. The entitlement is freely transferable and can be used for import of a variety

of inputs and goods.

3. 'Served from India'

To accelerate growth in export of services and to create a powerful and unique 'Served from India' brand instantly recognized and respected the world over, the earlier DFEC scheme for services has been revamped and re-cast into the 'Served from India' scheme. Individual service providers who earn foreign exchange of at least Rs.5 lakhs, and other service providers who earn foreign exchange of at least Rs.10 lakhs will be eligible for a duty credit entitlement of 10 percent of total foreign exchange earned by them. However, in the case of stand-alone restaurants, the entitlement shall be 20 percent, whereas in the case of hotels, it shall be 5 percent. The entitlements and the goods imported under the Scheme shall be non-transferable. Hotels and Restaurants can use their duty credit entitlement for import of food items and alcoholic beverages also.

4. Export Promotion Capital Goods (EPCG)

- i. Additional flexibility has been introduced for fulfillment of export obligation under EPCG scheme in order to reduce difficulties of exporters of goods and services.
- ii. Technological upgradation under EPCG scheme has been facilitated and incentivised.
- iii. Transfer of capital goods to group companies and managed hotels is now permitted under EPCG.
- iv. In case of movable capital goods in the service sector, the requirement of installation certificate from Central Excise has been done away with.
- v. Export obligation for specified projects shall be calculated based on concessional duty permitted to them. This would improve the viability of such projects.

5. Duty Free Replenishment Certificate (DFRC)

Import of fuel under DFRC entitlement shall be allowed to be transferred to marketing agencies authorized by the Ministry of Petroleum and Natural Gas.

6. Duty Entitlement Pass Book (DEPB)

To remove the uncertainty of the exporters it has

been decided that the DEPB scheme, which accounts for more than 55 percent of the total exports, would be continued until replaced by a new scheme. The new Scheme will be drawn up in consultation with exporters.

7. Revised Threshold for Status Holder Recognition

- i. A new rationalized scheme of categorization of Status Holders as Star Export Houses has been introduced as under:

Category	Total performance over three years (Rs. crore)
1 Star Export House	15
2 Star Export House	100
3 Star Export House	500
4 Star Export House	1500
5 Star Export House	5000

- ii. These Star Export Houses shall be eligible for a number of privileges including fast-track clearance procedures, exemption from furnishing of Bank Guarantee, eligibility for consideration under Target Plus Scheme etc.

8. Free Trade and Warehousing Zones (FTWZ)

With the purpose of making India into a global trading-hub, a new scheme to establish Free Trade and Warehousing Zones has been introduced. The Scheme seeks to create trade-related infrastructure so as to facilitate the import/ export of goods and services.

Such Zones will have the freedom to carry out trade transactions in free currency. Hundred percent FDI would be permitted for development and establishment of infrastructural facilities in these zones. Each zone would have minimum outlay of Rs.100 crore and five lakh sq. mts. of built up area. Units functioning from these zones would qualify for all other benefits as are applicable to SEZ units.

9. Import of Second Hand Capital Goods

- i. Import of second-hand capital goods shall be

permitted without any age restrictions.

- ii. Minimum depreciated value for plant and machinery to be re-located into India has been reduced from Rs.50 crore to Rs.25 crore.

10. Promotion of Services Exports

An exclusive Services Export Promotion Council shall be set up in order to map opportunities for key services in key markets, and develop strategic market access programmes, including brand building, in co-ordination with sectoral players and recognized nodal bodies of the services industry.

D. Increased emphasis on Export Oriented Units (EOUs)

A number of initiatives have been chalked out to accelerate growth of exports from EOUs. Some of these are as follows-

- i. EOUs shall be exempted from Service Tax in proportion to the exported goods and services.
- ii. EOUs shall be permitted to retain 100 percent of export earnings in EEFC accounts.
- iii. Income Tax benefits on plant and machinery shall be extended to Domestic Tariff Area (DTA) units which convert to EOUs.
- iv. Import of capital goods shall be on self-certification basis for EOUs.
- v. For EOUs engaged in Textile & Garments manufacture, left-over materials and fabrics upto 2 percent of CIF value or quantity of import shall be allowed to be disposed of on payment of duty on transaction value only.
- vi. Minimum investment criteria shall not apply to brass hardware and hand-made jewellery EOUs (this facility already exists for products relating to handicrafts, agriculture, floriculture, aquaculture, animal husbandry, IT and services).

E. Quantitative Restrictions (QRs)

At present all QRs. are maintained in terms of Article XX and XXI of GATT. These principles of restrictions are also part of the Foreign Trade Policy. On

31.8.2004, several items were made free from restrictions, which included planting material in the form of seeds and bulbs, abrasives such as emery, corundum etc., muzzle loading firearms, shotgun barrels etc. Thirty-two items of seed varieties were made free in order to make available better quality seeds at international prices for the farmers. This would help to increase productivity and benefit the nation through higher yields.

F. Procedural Simplification

- i. All exporters with minimum turnover of Rs.5 crore and good track record shall be exempt from furnishing Bank Guarantee in any of the schemes, so as to reduce their transactional costs.
- ii. All goods and services exported, including those from DTA units, shall be exempt from Service Tax.
- iii. Validity of all licences/entitlements issued under various schemes has been increased to a uniform 24 months.
- iv. Number of returns and forms to be filed have been reduced. This simplification process shall be continued in consultation with Customs & Excise.
- v. Enhanced delegation of powers to Zonal/Regional offices of DGFT for speedy and less cumbersome disposal of matters. Time bound introduction of Electronic Data Interface (EDI) for export transactions.

G. Other Initiatives/Schemes

1. Pragati Maidan

In order to showcase Indian industrial and trade prowess at its best and leverage existing exhibition facilities, Pragati Maidan is set to be transformed into a world-class complex. There shall be state-of-the-art, environmentally-controlled, visitor friendly exhibition areas and marts. A huge and high-tech Convention Centre will be developed at Pragati Maidan to accommodate 10,000 delegates with flexible hall spaces, auditoria and meeting rooms as well as multi-level car parking for 9,000 vehicles.

2. Legal Aid

Deserving exporters on the recommendation of the

Export Promotion Councils, can seek financial assistance, for meeting the costs of legal expenses connected with trade-related matters.

3. Grievance Redressal

A new mechanism for grievance redressal has been formulated and put into place by a Government Resolution to facilitate speedy redressal of grievances of trade and industry.

4. Bio-Technology Parks

Biotechnology Parks are to be set up which would be granted all facilities of 100 percent EOUs.

5. Board of Trade

The Board of Trade is to be revamped and given a clear and dynamic role under the presidency of an eminent person or expert on trade policy. The Board is to be assisted by a Secretariat and supported under a separate Budget Head and shall be serviced by the Department.

Schemes

Assistance to States for Development of Export Infrastructure and other activities (ASIDE) Scheme

The strategy of the scheme is to involve the States in the export effort by providing assistance to the State Governments for creating appropriate infrastructure for the development and growth of exports. Since the State Governments do not often have adequate resources to finance infrastructure for exports, the ASIDE scheme is aimed at engaging the State Governments in such efforts through assistance linked to export performance. Performance and growth of exports from States is assessed on the basis of the information available from the office of the Director General of Commercial Intelligence & Statistics (DGCI&S).

Salient Features:

The scheme provides financial support to the States on a predefined criterion. The specific purposes for which the funds could be used are as follows: -

- Creation of new Export Promotion Industrial Parks/Zones (including Special Economic Zones (SEZs)/Agri-Business Zones) and augmenting facilities in the existing ones.

- Setting-up of electronic and other related infrastructure in export conclaves.
- Equity participation in infrastructure projects, including the setting up of SEZs.
- Meeting the requirements of capital outlay of EIPs/EPZs/SEZs.
- Developing complementary infrastructure such as roads connecting the production centres with ports, setting up of Inland Container Depots and Container Freight Stations.
- Stabilizing power supply through additional transformers and islanding of export production centres, etc.
- Developing minor ports and jetties of a particular specification to serve export.
- Setting up Common Effluent Treatment Plants and
- Projects of national and regional importance.
- Activities permitted as per the Export Development Fund in relation to the North East and Sikkim.

An outlay of Rs. 1725 crore. has been made for the ASIDE scheme during the 10th Five-Year Plan (2002-2007). For the current financial year, an amount of Rs.425 crore has been allocated. The following table indicates the position of funds released for the years 2001-02, 2002-03, 2003-04 & 2004-05 to various States, North Eastern Region, Central Sector.

(Rs. crore)

Year	States (excluding N.E. Region)	North Eastern Region	Central Sector (excluding North East)	Total
2001-02	41.33	2.19	6.00	49.52
2002-03	216.50	23.50	85.46	325.46
2003-04	239.00	21.50	89.50	350.00
2004-05*	204.14	29.43	79.07	302.98

* Releases as on 11th Jan., 2005

Eighty percent of the funds (state component) are earmarked for allocation to the States on the basis

of the approved criteria. The balance 20 percent (central component), and the amount unutilized by the states during the previous year(s), if any, is retained at the Center. This part of the funds are used to meet the requirements of inter-state projects, capital outlays of EPZs, activities relating to promotion of exports from the North Eastern Region as per the existing guidelines of the Export Development Fund and any other activity considered important by the Central Government from the regional or national perspective.

At the State Level, a State Level Export Promotion Committee (SLEPC) scrutinizes and approves specific projects and oversees the implementation of the scheme. The Committee is headed by the Chief Secretary of the State Government and consists of Secretaries of various Departments of the state government, a representative of the States Cell of the Department of Commerce (DoC), the Joint Director General of Foreign Trade posted in that State/ region and the Development Commissioner of the SEZ in the State. At the Central Level, an Empowered Committee under the chairmanship of the Commerce Secretary with representatives of other Departments, approves and monitors the projects under the Central Sector. This Empowered Committee also periodically reviews the progress of the scheme and takes steps to ensure achievement of the objectives of the scheme.

Funds are disbursed directly to a Nodal Agency nominated by the State Government. The projects are approved by the respective SLEPC which allocates and monitors the funds released. A web-enabled monitoring system for avoiding delay in submission of reports, utilisation certificates, and for posting/updating of project related information is being used by the Department.

MARKETING DEVELOPMENT ASSISTANCE (MDA)

To stimulate and diversify the country's exports marketing assistance is being given under the MDA scheme by the Department. The Scheme seeks to give assistance for specific activities /programmes to the following entities for strengthening their export efforts:

- i. Export Promotion Councils (EPCs) to undertake export promotion activities for

- their product(s) and commodities;
- ii. individual exporters for export promotion activities abroad;
- iii. approved organisations/trade bodies in undertaking limited exclusive non-recurring innovative activities connected with export promotion efforts of their members; and
- iv. EPCs for contesting countervailing duty/anti dumping cases initiated abroad
- v. Focus Area export promotion programmes in specific regions abroad like Focus Latin American Countries, Focus Africa, Focus CIS and Focus ASEAN+ 2 programmes.

Exporters having annual export turn over up to Rs.5.00 crore can seek assistance under the scheme for bonafide overseas marketing promotion activities in the initial phase through activities like participation in trade fairs/exhibitions/BSMs/trade delegations lead by EPCs etc. Further, under the Focus Area programmes with region specific market promotion activities are promoted through EPCs, ITPO, etc. Such activities include organising fairs/exhibitions, sponsoring BSMs/trade delegations in these regions, arranging reverse trade visits of prominent foreign buyers/delegates/journalists to India etc.

MARKET ACCESS INITIATIVE (MAI) SCHEME

The MAI Scheme is a Plan scheme that is intended to act as a catalyst in promoting India's exports on a sustained basis. The Scheme is based upon 'focus' concept, i.e., 'focus product' and 'focus market'.

Under the scheme, assistance is extended to the Departments of Central Government and Organizations of Central/State Governments, Export Promotion Councils, Registered Trade Promotion organizations, Commodity Boards, recognized Apex Trade Bodies, recognized Industrial Clusters and Individual Exporters. Assistance is given for supporting the following activities:

- Export potential survey of the states
- Market Studies
- Studies on WTO related matters
- Marketing projects like the following:

- ✓ Opening of showrooms
- ✓ Participation in Trade Fairs, BSMs etc., abroad
- ✓ Publicity campaign
- ✓ Display in departmental stores abroad
- ✓ Opening of Show rooms
- ✓ Opening of Warehouses
- ✓ Research and product development
- Registration charges for product registration abroad for pharmaceuticals, biotechnology and agro-chemicals;
- Reverse visits of the prominent foreign buyers etc. from the project focus countries
- Testing charges for engineering products abroad

Assistance is also given to (i) cottage and handicrafts units for similar activities and for developing the web site for virtual exhibition (ii) industrial clusters for marketing study, participation in trade fairs, etc. abroad and (iii) any project/study which would further the objectives of the scheme.

INFRASTRUCTURE SUPPORT AND TRADE FACILITATION

In its endeavors to enhance access to better transport/logistics for furtherance of foreign trade the Department coordinates its efforts with the concerned Ministries & Departments for resolving the problems experienced by the trading community in carriage of goods by courier, sea, air, rail and road. The Department also encourages greater containerisation, computerisation of cargo clearance and electronic data interchange, warehousing, setting up of Air Cargo Complexes, Inland Container Depots, Container Freight Stations etc.

2. Two high level committees, viz. the Standing Committee on Promotion of Exports by Sea (SCOPE-SHIPPING) and the Standing Committee on Promotion of Exports by Air (SCOPE-AIR) are functioning under the chairmanship of the Additional Secretary-Infrastructure, Department of Commerce. The objective of these committees is to address

constraints in the smooth movement of international cargo.

3. Seventeen proposals to set up Inland Container Depots/Container Freight Stations/ Air Cargo Complexes (ICDs/CFSs/ACCs) have been approved by the Inter Ministerial Committee during the year. As a result of the above, exports & imports have been facilitated through various orders of the government. The condition of bank guarantee for inland movement of customs bonded containers has been relaxed and twenty feet Equivalent Units (TEUs) of import containers have been exempted from filing bank guarantees for movement of such containers by road.

INTERFACE FOR LOCAL ACCESS THROUGH INTRANET

The Department uses its web site (<http://commerce.gov.in>) maintained by National Informatics Centre (NIC), for disseminating information on its working, policies, trade promotion measures/ assistance and infrastructure development and Antidumping related matters. The web page has links to its attached/ subordinate offices and trade related organizations. The Department's Press releases and a monthly WTO news letter are posted on this site regularly and information is updated at periodic intervals. Hindi versions of various options are also available.

The Web page also provides for a query based access to the country wise, commodity wise, country-by-commodity wise exports/ imports data, monitoring systems for release of funds under Assistance to States for Developing Infrastructure and other allied activities (ASIDE) Scheme and Critical Infrastructure Balancing (CIB) scheme for data collection from states and central agencies and its further monitoring in the department. Its page on export data is also linked to National Summary Data Page hosted by the Finance Ministry and the IMF. A list of webpages/sites is given at Annexure – III to Chapter 1 at page 10.

Intranet Portal

A general utility web portal has been developed and maintained at the local area network in keeping with the objectives of office automation and e-governance.

Intranet users have direct access, within the department to information of daily use in the office, including various applications.

MIS and other applications

Various information systems/ applications for decision support and e-governance systems/ applications have been developed, implemented and operationalised in the Department. This includes systems for monitoring and analysis of the country's trade data for decision support, e-governance applications for office automation and information dissemination.

Electronic Commerce (EC) / Electronic Data Interchange (EDI) for Trade

The Department is supporting "Electronic Commerce (EC) / Electronic Data Interchange (EDI) for Trade" project for facilitating international trade. The community partners of this project are various trade regulatory and facilitating agencies like the Customs Department, the Directorate General of Foreign Trade (DGFT) Ports, Airports, the Reserve Bank of India (RBI), Export Promotion Organisations (EPOs), Exporters, Importers, Agents, Container Corporation of India (CONCOR) and Banks. The objectives of this project are to (i) facilitate electronic delivery of services; (ii) simplify procedures; (iii) provide 24 hour access to users with their partners; (iv) make procedure transparent; (v) reduce the transaction cost and time, and (vi) introduce international standards and best practices.

Considerable progress has been achieved in EC/ EDI implementation by some of the participating organisations using electronic filing/processing of documents with electronic payment facilities. The project has received international acclaim. It was selected as the best project in the Trade Facilitation category and awarded Asia Award instituted by Asia Pacific Council for Trade Facilitation and Electronic Business (AFACT) held at Chinese Taipei on 24th September, 2004.

TRADE FINANCE

Export Credit - Interest Rate Structure

The reduction in ceiling on interest rates on

rupee export credit by 1 percentage point across the board effective from September 26, 2001 has been extended upto April 30, 2005. The interest rates on rupee export credit have been linked to the banks' Benchmark Prime Lending Rate (BPLR) with effect from May 1, 2004. The ceiling on interest rates on export credit in foreign currency which were revised with effect from April; 29, 2002, remain unchanged.

Gold Card Scheme for Exporters

In pursuance of the announcement in the Exim Policy 2003-04, Gold Card Scheme was announced by the government on May 18, 2004. The Scheme was worked out by the RBI for creditworthy exporters with the following salient features:

- ✓ All creditworthy exporters, including those in small and medium sectors with good track record would be eligible for issue of Gold Card by individual banks as per the criteria laid down by the latter.
- ✓ Banks would clearly specify the benefits they would be offering to Gold Card holders.

- ✓ Requests from card holders would be processed in a time-bound manner by banks. i.e, within 25 days, 15 days and 7 days for fresh limits, renewal of limits and adhoc limits, respectively.
- ✓ 'In-principle' limits would be set for a period of 3 years with a provision for stand-by limit of 20 per cent to meet urgent credit needs.
- ✓ Card holders would be given preference in the matter of granting of packing credit in foreign currency.
- ✓ Banks would consider waiver of collaterals and exemption from ECGC guarantee schemes on the basis of card holder's creditworthiness and track record.
- ✓ The concessional rate of interest on post-shipment rupee export credit applicable upto 90 days could be extended for a maximum period upto 365 days.

Most of the major banks have drawn their own individual Schemes based on the broad guidelines announced by the Reserve Bank.