

# Foreign Trade Policy (2004-2009)

It is for the first time that a comprehensive Foreign Trade Policy is being notified. The Foreign Trade Policy takes an integrated view of the overall development of India's foreign trade. This Policy is essentially a roadmap for the development of India's foreign trade. It contains the basic principles and points the direction in which Indian Foreign Trade proposes to go.

The objective of the Foreign Trade Policy is two-fold:

- i. To double India's percentage share of global merchandise trade by 2009; and
- ii. To act as an effective instrument of economic growth by giving a thrust to employment generation, especially in semi-urban and rural areas.

*The main objectives of the Foreign Trade Policy are to double India's trade in the next five years and to act as an instrument of economic growth. Currently, it is 0.76%, or \$62 billion. It is targeted to double that amount in 2009. a target of 1.5% by 2009 is set. This is a dilution of target set earlier by Murasoli Maran, who wanted achieve 1% by 2007. According to the Federation of Indian Export Organisation, 1% of world trade by 2007 would have been \$110 billion.*

The key strategies are adopted are unshackling of controls, creating an atmosphere of trust and transparency, simplifying procedures and bringing down transaction costs, adopting the fundamental principle that duties and levies should not be exported and identifying and nurturing different special focus areas to facilitate development of India as a global hub for manufacturing, trading and services.

## Special Focus Initiatives

1. 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. Further sectoral initiatives in other sectors will be announced from time to time. For the present, Special Focus Initiatives have been prepared for Agriculture, Handicrafts, Handlooms, Gems & Jewellery and Leather & Footwear sectors.
2. The threshold limit of designated 'Towns of Export Excellence' is reduced from Rs. 1000 crores to Rs. 250 crores in these thrust sectors.
3. **Package for Agriculture:**

The Special Focus Initiative for Agriculture includes:

- a. 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.
  - b. Duty free import of capital goods under EPCG scheme.
  - c. Capital goods imported under EPCG for agriculture permitted to be installed anywhere in the Agri Export Zone.
  - d. ASIDE funds to be utilized for development for Agri Export Zones also.
  - e. Import of seeds, bulbs, tubers and planting material has been liberalized.
  - f. Export of plant portions, derivatives and extracts has been liberalized with a view to promote export of medicinal plants and herbal products.
4. **Gems & Jewellery:**
    - a. Duty free import of consumables for metals other than gold and platinum allowed up to 2% of FOB value of exports.
    - b. Duty free re-import entitlement for rejected jewellery allowed up to 2% of FOB value of exports.
    - c. Duty free import of commercial samples of jewellery increased to Rs.1 lakh.
    - d. Import of gold of 18 carat and above shall be allowed under the replenishment scheme.

5. **Handlooms & Handicrafts:**

- a. Duty free import of trimmings and embellishments for Handlooms & Handicrafts sectors increased to 5% of FOB value of exports.
- b. Import of trimmings and embellishments and samples shall be exempt from CVD.
- c. Handicraft Export Promotion Council authorised to import trimmings, embellishments and samples for small manufacturers.
- d. A new Handicraft Special Economic Zone shall be established.

6. **Leather & Footwear:**

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

7. **Export Promotion Schemes:**

a. **Target Plus:**

A new scheme to accelerate growth of exports called 'Target Plus' has been introduced. Exporters 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%, the lower limit of performance for qualifying for rewards is pegged at 20% for the current year). Rewards will be granted based on a tiered approach. For incremental growth of over 20%, 25% and 100%, the duty free credits would be 5%, 10% and 15% of FOB value of incremental exports.

b. **Vishesh Krishi Upaj Yojana:**

Another 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% of FOB value of exports. The entitlement is freely transferable and can be used for import of a variety of inputs and goods.

c. **'Served from India' Scheme:**

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, 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% of total foreign exchange earned by them. In the case of stand-alone restaurants, the entitlement shall be 20%, whereas in the case of hotels, it shall be 5%. Hotels and Restaurants can use their duty credit entitlement for import of food items and alcoholic beverages.

d. **EPCG:**

- i. Additional flexibility 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 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.

e. **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.

f. **DEPB:**

The DEPB scheme would be continued until replaced by a new scheme to be drawn up in consultation with exporters.

***New Status Holder Categorization:***

- a. A new rationalized scheme of categorization of status holders as Star Export Houses has been introduced as under:

Category Total performance over three years

One Star Export House 15 crores

Two Star Export House 100 crores

Three Star Export House 500 crores

Four Star Export House 1500 crores

Five Star Export House 5000 crores

- b. 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. **EOUs:**

- a. EOUs shall be exempted from Service Tax in proportion to their exported goods and services.
- b. EOUs shall be permitted to retain 100% of export earnings in EEFC accounts.
- c. Income Tax benefits on plant and machinery shall be extended to DTA units which convert to EOUs.
- d. Import of capital goods shall be on self-certification basis for EOUs.
- e. For EOUs engaged in Textile & Garments manufacture leftover materials and fabrics upto 2% of CIF value or quantity of import shall be allowed to be disposed of on payment of duty on transaction value only.
- f. Minimum investment criteria shall not apply to Brass Hardware and Handmade Jewellery EOUs (this facility already exists for Handicrafts, Agriculture, Floriculture, Aquaculture, Animal Husbandry, IT and Services).

9. **Free Trade and Warehousing Zone:**

- a. A new scheme to establish Free Trade and Warehousing Zone has been introduced to create trade-related infrastructure to facilitate the import and export of goods and services with freedom to carry out trade transactions in free currency. This is aimed at making India into a global trading-hub.
- b. FDI would be permitted up to 100% in the development and establishment of the zones and their infrastructural facilities.
- c. Each zone would have minimum outlay of Rs.100 crores and five lakh sq. mts. built up area.

- d. Units in the FTWZs would qualify for all other benefits as applicable for SEZ units.

#### 10. Import of Second hand Capital Goods

- a. Import of second-hand capital goods shall be permitted without any age restrictions.
- b. Minimum depreciated value for plant and machinery to be re-located into India has been reduced from Rs.50 crores to Rs.25 crores.

#### 11. Other Significant Measures

##### a. **Services Export Promotion Council:**

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.

##### b. **Common Facilities Centre:**

Government shall promote the establishment of Common Facility Centres for use by home-based service providers, particularly in areas like Engineering & Architectural design, Multi-media operations, software developers etc., in State and District-level towns, to draw in a vast multitude of home-based professionals into the services export arena.

##### c. **Procedural Simplification & Rationalisation Measures**

- . All exporters with minimum turnover of Rs.5 crores and good track record shall be exempt from furnishing Bank Guarantee in any of the schemes, so as to reduce their transactional costs.
- a. All goods and services exported, including those from DTA units, shall be exempt from Service Tax.
- b. Validity of all licences/entitlements issued under various schemes has been increased to a uniform 24 months.
- c. Number of returns and forms to be filed have been reduced. This process shall be continued in consultation with Customs & Excise.
- d. Enhanced delegation of powers to Zonal and Regional offices of DGFT for speedy and less cumbersome disposal of matters.
- e. Time bound introduction of Electronic Data Interface (EDI) for export transactions. 75% of all export transactions to be on EDI within six months.

##### d. **Pragati Maidan:**

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

##### e. **Legal Aid:**

Financial assistance would be provided to deserving exporters, on the recommendation of Export Promotion Councils, for meeting the costs of legal expenses connected with trade-related matters.

##### f. **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.

##### g. **Quality Policy:**

- . DGFT shall be a business-driven, transparent, corporate oriented organization.
  - a. Exporters can file digitally signed applications and use Electronic Fund Transfer Mechanism for paying application fees.
  - b. All DGFT offices shall be connected via a central server making application processing faster. DGFT HQ has obtained ISO 9000 certification by standardizing and automating procedures.
- h. **Bio Technology Parks**

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

- i. **Board of Trade:**

The Board of Trade shall be revamped and given a clear and dynamic role. An eminent person or expert on trade policy shall be nominated as President of the Board of Trade, which shall have a Secretariat and separate Budget Head, and will be serviced by the Department of Commerce.

### **Looking Ahead**

The policy document is welcome change from the previous documents. Till now we had EXIM policy statements. The foreign trade policy statement gives a much wider connotation to the global integration of the Indian economy. It also attempts to view foreign trade as critical strategic input to the development paradigm and suitably accommodates the sectors of India's comparative advantage.

The thrust on agri based products export is the restatement of the economic model of the new government and has suitably been reflected in the policy document. Foreign trade is and cannot be viewed in isolation to the domestic economy. The health of the domestic economy is what drives the performance on the external. The document Attempts to enhance the symbiotic relationship between the two.