Revised Export-Import Policy 1997-2002*

The Government of India, announced modifications in the Export-Import (EXIM) Policy 1997-2002 on March 31, 2000. While making the EXIM Policy announcement, the Minister of Commerce and Industry noted that reversing the sluggish export performance experienced since 1996-97, Indian exports have registered a turnaround during 1999-2000. Notwithstanding such improvements, it has been pointed out that during the recent years, India's trade performance remains less marked than those exhibited by many East Asian economies and China. It has been argued that as an integral part of the country's development policy, India's foreign trade regime should be based on the strategy of export led growth and this could be achieved through optimal exploitation of India's competitive advantage *vis-à-vis* the rest of the world. It has been pointed out that in many cases, the composition of India's export basket is not in line with the structure of world demand. It has been felt that in order to achieve sustained high export growth to the range of 20-25 per cent, considerable diversification in India's export basket in terms of commodity composition as well as direction would be required.

Against this background, the modifications in the EXIM Policy 1997-2002 have focused on four major areas. In the first place, efforts have been made to remove the restrictive export-import related regulations. An important step in this regard is the proposal to set up Special Economic Zones (SEZs). Secondly, conscious steps have been initiated to ensure that the process of trade liberalisation in India remains aligned with norms of multilateral trading agreements. Towards this end, the incentive structure for Indian exporters has been recasted to make them consistent with India's commitment to the WTO. Thirdly, the recent modifications have initiated measures to simplify and decentralise the procedures associated with the administration of India's foreign trade. Lastly, policy announcements have been made to provide special incentives to certain categories of Indian exports. Further, the policy also envisages to motivate and involve state governments in export promotion efforts.

Setting up of Special Economic Zones

Recent modifications in the EXIM Policy provides for setting up of Special Economic Zones (SEZs). The scheme for the establishment of SEZs envisages the creation of enclaves within the country where entrepreneurs would have full freedom to carry on their foreign trade operations without attracting the provisions of various EXIM procedures such as input-output norms, wastage norms, etc. Units based in the SEZs would be able to import capital goods and raw materials duty free. SEZ units shall be deemed to be foreign territory for the purpose of trade operations and tariffs. Goods going to the SEZ area will be treated as deemed exports. These units would also be able to source similar products from Domestic Tariff Area (DTA) without paying terminal excise duty. There would also be no permission requirement for sale/transfer of goods among the units based in the SEZs. These units would also be able to process their products in the DTA. The only condition, which would be imposed on SEZ units, would be that they will have to export the whole of their production. Any sale by these units to

DTA would be treated as import into India and thereby it would attract all duties/taxes applicable for similar imported products. State governments, public, private or joint sector units can set up SEZs. Initially one SEZ each would be set up in Gujarat and Tamilnadu. There are proposals for converting the existing Export Processing Zones (EPZs) into SEZs. The main rationale for the creation of SEZs is to provide total flexibility in the operations of the units based in the SEZs.

Measures Aimed at Aligning EXIM Procedures with Multilateral Norms

The modifications in the EXIM Policy aimed at aligning the EXIM procedures in India with the country's commitment at the multilateral forums.

Since early-1990s, India has taken significant unilateral steps to liberalise the trade regime. Due to the persistent gap between the country's exports and imports, however, India maintained certain balance-of-payments related quantitative restrictions on imports. Such restrictions were mainly limited to consumer products and certain agricultural imports. During the late-1990s, India negotiated with a large number of countries and agreed to phase-out such restrictions by 2003. These offers, however, did not satisfy the US, which approached the Dispute Settlement Body (DSB) of the WTO for quicker phasing-out of quantitative import restrictions imposed by India. The Panel established by the DSB and subsequently the Appellate Body has upheld the US position. India has been requested to remove balance-of-payments related quantitative restrictions in a speedier manner. Reflecting India's commitment to the WTO, the recent modifications of the EXIM Policy have initiated phasing out of balance-of-payments related quantitative restrictions on imports. Towards this end, half of such restricted products (714 out of a total of 1,429) have been brought out of quantitative restrictions by moving them from the Special Import License (SIL) List to Open General License (OGL) List. The other half of the commodities would be moved to OGL List by April 1, 2001. The SIL List would be abolished by March 31, 2001.

Simplification and Decentralisation of EXIM Norms

In order to streamline India's export-import procedures, the modified EXIM Policy has initiated the following steps:

- Removal of threshold limit for Export Promotion Capital Goods (EPCG) Scheme and extension of such facilities to all sectors,

- Rationalisation of duty drawback schemes,

- Promotional measures as well as special incentive schemes for electronic filing of application forms,

- Simplification of norms for importing second hand capital goods,

- Decentralisation of the issue of trading house certificate,
- Extension of uniform norms for deemed exports to all sectors,
- Only positive value addition norms for Export Oriented Units (EOUs)/units in Export Processing Zones (EPZs) with an investment of Rs. 5 crore and above in fixed capital,
- Issue of duty exemption licence facility on the basis of self-declaration, and
- Extension of the period for filing of Registration-cum-Membership Certificate to 4 years.

The modifications in the EXIM Policy are aimed at rationalisation/simplification of the export-import procedure. Towards this end, important steps have been initiated to modify the existing EPCG schemes. So far there were various EPCG schemes with different duty rates, export obligations, etc. available to specific sectors. The modified policy has unified such schemes and enabled all sectors to enjoy such benefits.

Furthermore, the threshold limits for availing the EPCG schemes have been removed.

There has been considerable simplification of the duty exemption and the duty drawback schemes for imports. Efforts have been made to do away with multiplicity of duty drawback schemes and replace them with unified schemes which enables exporters to get full relief from duties on the inputs used for export production. Under the changed procedures, imports under advance licence for all exports except for deemed exports would be exempted from basic customs duty, surcharge, additional customs duty, anti-dumping duty and safeguard duty, if any. Duty drawback/exemption schemes that were sparsely used by exporters such as pre-export Duty Exemption Pass Book (DEPB) Scheme, Special Advance Licence for electronic sector, certain types of transferable Advance License Schemes have been discontinued under the modified EXIM Policy. In the context of duty exemption/drawback, the modified policy has provided the exporters a choice to go through either the advance licence scheme or the duty free replenishment scheme. Exporters of the products for which standard input-output norms have been announced can avail the duty replenishment scheme. There would be a uniform value addition requirement of 33 per cent under this scheme.

In order to make the trade administration procedure in the country transparent and speedy, larger emphasis has been put on the increased use of the innovation in information and communication technologies. In order to improve efficiency, the use of Electronic Data Interchange (EDI) between the government agencies and private parties has been encouraged. Special incentive measures have been proposed to promote electronic filing of license applications.

The norms for importing second hand capital goods have been simplified. Second hand capital goods which are less than 10 year old are allowed to be imported directly on surrender of SIL without obtaining import license. Uniform norms have been framed for deemed exports from all sectors. Furthermore, value addition norms for Export Oriented Units (EOUs)/Export Processing Zones (EPZs) have been simplified and special incentive schemes have been framed for such units with more than Rs. 5 crore investment in fixed capital. In order to increase decentralisation of Indian trade administration, the power to issue Export House Certificate has been delegated to the regional authorities.

A major focus of India's trade liberalisation since early-1990s has been the creation of a trust-based as opposed to a regulation-based trade administration mechanism. Such measures have aimed at creation of a transparent system and reduction of the procedural hardships faced by Indian exporters and importers. Towards this end, the recent modifications in the EXIM Policy have made the issuance of several duty exemption licenses on the basis of self-declaration by the exporters/importers. In a similar move, the period of validity of the Registration-cum-Membership Certificate of the exporters and importers has been increased to four years.

Special Promotional Measures

The modified EXIM Policy has provided special incentives to specific export products or exports originating from specified regions. Such measures include:

- Special import benefits to agro-chemicals, biotechnology and pharmaceuticals for research purposes,
- Rationalisation of input-output norms for silk products,
- Extention of limits on specific imports for leather, handicraft and garment exporters,
- New package of benefits for gems and jewellery exports,
- Special incentives for exports from Jammu and Kashmir, and
- Creation of fund for export promotion by the Indian States.

The modified EXIM Policy has extended special import benefits to agro-chemicals, biotechnology and pharmaceuticals for research purposes. New packages of benefits have been announced for gems and jewellery, leather, handicraft and garment exports. In line with special benefits extended to special geographic territories such as the North-East Indian States, exports originating from Jammu and Kashmir have been made eligible for special incentives and promotional measures. Furthermore, input-output norms for silk products have been rationalised and limits on specific imports have been extended for leather, handicraft and garment exporters.

The modified EXIM Policy has recognised that the existing level of participation by the State Governments in the promotion of exports is not sufficient. It has been pointed out that under the existing arrangements, the state governments may have certain disincentives to promote foreign trade because it may lead to reduction in sales tax revenue of the States. In order to provide concrete incentives to the Indian States for adopting a more active role in export promotion, special fund has been created with which the States would be able to create necessary infrastructure for export promotion within their jurisdictions. States also have been encouraged to create an environment of healthy competition for export promotion by initiating innovative steps in establishing SEZs within their territories.

The major features of the modifications of the EXIM Policy announced on March 31, 2000 and the corresponding situations that existed before such modifications were announced are summarised in the following table.

Scheme/Procedure (Relevant clauses of the EXIM Policy as Modified up to March 31, 2000)	**Features Prior to the Current Revisions**	**Features Effected through the Current Revisions**
Definitions used by the EXIM Policy		
Powers to recommend Input-Output norms and value addition norms to the Directorate General of Foreign Trade (DGFT) (Chapter 3, Paragraphs 7 and 46)	Special Advance Licensing Committee used to recommend such norms.	Advance Licensing Committee has been vested with these responsibilities over and above their current responsibilities.
General Provisions Regarding Imports and Exports		
Compliance with laws (Chapter 4, Paragraph 12)	Exporters and importers had to comply with certain laws but there were no explicit compliance requirements for the imported products.	All imported goods would be subject to domestic laws, rules, orders, regulations, technical specifications, environmental and safety norms as applicable to domestically produced goods.
Bonded warehouses for imports (Chapter 4, Paragraph 15)	There were provisions relating to private bonded warehouses.	These provisions have been extended to public bonded warehouses as well.

Third party exports (Chapter 4, Paragraph 23)	There were no general provisions relating to third party exports for discharge of export obligations.	An import licence holder may export directly or through third parties and discharge export obligations.
Clearance of goods from customs (Chapter 4, Paragraph 24)	Though similar facilities were available under specific schemes (e.g. Export Promotion Capital Goods (EPCG) Scheme, Chapter 6, Paragraph 6), there was no general provision on clearance of goods already imported/ shipped/arrived, in advance, but not cleared from customs against licence issued subsequently.	Such imports may be cleared by customs against licence issued subsequently.
Green card (Chapter 4, Paragraph 25)	Service providers were not eligible for such cards. There were no explicit specifications about the facilities available to such cardholders.	Service providers rendering services in free foreign exchange for more than 50 per cent of their service turnover, subject to minimum value of Rs. 35 lakhs in the preceding year shall be issued a green card. Apart from facilities to be announced from time to time, green cardholders would be entitled to automatic licensing, automatic customs clearance for exports and export related imports and legal undertaking facility for duty free imports.
Electronic Data Interchange (EDI)	There was no specific incentive scheme for	Participation to EDI would be encouraged. Applications

(Chapter 4, Paragraph 26)	participation in EDI.	received electronically shall be processed within 24 hours.

Export Promotion Capital Goods Scheme

Import of capital goods at concessional duty under Export Promotion Capital Goods (EPCG) Scheme (Chapter 6, Paragraph 2)	There were zero duty and 10 per cent duty schemes for various sectors. Export obligation, period for fulfilling such obligations, threshold limit and sectors eligible to avail such schemes were categorised separately under different schemes.	The threshold limit for eligibility has been removed. All the schemes have been merged with uniform (5 per cent) customs duty, export obligation (5 times CIF value of on FOB basis or 4 times CIF value of capital goods on NFE basis) and period of fulfillment (8 years) for export obligations.

Duty Exemption/Remission Schemes

Duty exemption/ remission schemes (Chapter 7, Paragraphs 1 and 2)	Duty exemption schemes included duty free licence (advance licence, advance intermediate licence and special imprest licence), annual advance licence and Duty Entitlement Pass Book (DEPB) Scheme.	These schemes have been recasted as Duty exemption/ remission schemes and would include advance licence, Duty Free Replenishment Certificate and DEPB Scheme.
Advance licence (Chapter 7, Paragraph 3)	Import of inputs required for manufacture of goods were exempt from basic customs duty but payments had to be made for additional customs duty. The additional customs duty was adjusted under specific provisions and mechanisms. Advance licence with actual user condition issued to	Advance licence (except those issued for deemed exports) shall be exempt from the payment of basic customs duty, surcharge, additional customs duty, anti-dumping duty and safeguard duty, if any. Advance licence issued for deemed exports would be exempt from basic customs duty, surcharge and additional customs duty.

	specific types of exporters was exempt from additional customs duty and anti-dumping duty.	
Duty Free Replenishment Certificate (DFRC) (Chapter 7, Paragraph 4)	No specific provision in this regard.	DFRC would be issued to a merchant-exporter or manufacturer-exporter for import of input without payment of basic customs duty, surcharge and special additional duty. However, such inputs would be subject to the payment of additional customs duty. DFRC would be issued only in respect of export products covered under standard input-output norm and the issue of DFRC shall be subject to a minimum value addition of 33 per cent.

Diamond, Gems and Jewellery Export Promotion Schemes

Diamond Dollar Account (DDA) (Chapter 8, Paragraph 13(a))	No specific provision in this regard.	Firms and companies dealing in the purchase/sale of cut and polished diamonds with a track record of at least 3 years in import or export of diamonds and having an annual average turnover of at least Rs. 5 crore during preceding 3 licensing years may also carry out their business through designated DDAs. Dollars in DDAs available from bank finance and/or export proceeds can be used only for designated purposes.

Items of export (Chapter 8, Paragraph 15)	Specific types of jewellery made of gold, silver and platinum were allowed to be exported for availing the facilities under the diamond, gem and jewellery export promotion schemes.	List of items eligible for availing facilities under such schemes has been broadened and made more explicit.
Export through exhibition/export promotion tours/export of branded jewellery (Chapter 8, Paragraph 20)	There were various ceilings on the amount of such exports in form of samples and re-import of unsold jewellery.	Such restrictions have been removed and personal carriage of such products has been allowed.

Export Oriented Units, Units in Export Processing Zones, Special Economic Zones, Electronic Hardware Technology Parks and Software Technology Parks

Sale in Domestic Tariff Area (DTA) by electronic hardware units under Export Oriented Unit (EOU)/Export Processing Zone (EPZ)/Electronic Hardware Technology Park (EHTP)/Software Technology Park (STP) Scheme (Chapter 9, Paragraph 9(d) and (f))	There were various stipulations on the portion of DTA sale depending upon the amount of Net Foreign Exchange as a Percentage of Exports (NFEP) by the units.	Such stipulations have been removed.
Special Economic Zone (SEZ) (Chapter 9, Paragraphs 30-43)	No specific provision in this regard.	SEZ is a specially delineated duty free enclave and shall be deemed to be foreign territory for the purpose of trade operations, duties and tariffs. Goods going into the SEZ area shall be treated as

		deemed exports and goods coming from the SEZ area into DTA shall be treated as if the goods are being imported. A SEZ may be set up in the public, private and joint sector and existing EPZs can be converted into SEZ. All these would be done under the notification of the Ministry of Commerce and Industry. New SEZs should have minimum investment of Rs. 50 lakhs in fixed assets and shall achieve positive NFEP annually and cumulatively and trading SEZ units shall achieve a turnover of US $ 1 million in 5 years.
Exports		
Special Import License (SIL) benefit (Chapter 11, Paragraphs 12 and 13)	The DGFT could specify class or category of export/exporters for SIL benefits. SIL was freely transferable and could be used to import specified products.	Such schemes have been discontinued.
Exports Houses, Trading Houses, Star Trading Houses and Super Star Trading Houses		
Export performance level of Export House (EH), Trading House (TH), Star Trading House (STH) and Super Star Trading House (SSTH) (Chapter 12, Paragraph 5)	The export performance criterion (in Rs. crore) for EH, TH, STH and SSTH under average FOB value of exports made during the preceding three licensing years were 12, 60, 300 and 900, respectively. Under FOB value of exports made during the preceding licensing year the	The export performance criterion (in Rs. crore) for EH, TH, STH and SSTH under average FOB value of exports made during the preceding three licensing years have been revised to 15, 75, 375 and 1,125, respectively. Under FOB value of exports made during the preceding licensing year the criterion have been

	criterion were 18, 90, 450 and 1,350, respectively. Under the average net foreign exchange value of exports made during the preceding three licensing years the criterion were 10, 50, 250 and 750, respectively. Under the net foreign exchange value of exports made during the preceding licensing year the criterion were 15, 75, 375 and 1,125, respectively.	revised to 22, 112, 560 and 1,680, respectively. Under the average net foreign exchange value of exports made during the preceding three licensing years the criterion have been revised to 12, 62, 312 and 937, respectively. Under the net foreign exchange value of exports made during the preceding licensing year the criterion have been revised to 18, 90, 450 and 1,350, respectively.
Brand Promotion and Quality		
Bar coding using international symbologies/ number system (Chapter 14, Paragraphs 8-10)	No specific provision in this regard.	In order to facilitate timely and accurate capturing of product information and its communication across supply chain, the date for mandatory incorporation of bar coding using international symbologies/ number system by Indian exports would be announced by the DGFT.

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