Trade Policy

6.36 Trade policy reforms over the last decade have aimed at creating an environment for achieving rapid increase in exports, raising India's share in world exports and making exports an engine for achieving higher economic growth. The focus of these reforms have been on liberalization, openness, transparency and globalization with a basic thrust on outward orientation focusing on export promotion activity, moving away from quantitative restrictions and improving competitiveness of Indian industry to meet global market requirements. Over the years, significant changes in the EXIM policy have helped to strengthen the export production base, remove procedural irritants, facilitate input availability besides focusing on quality and technological upgradation and improving competitiveness. Steps have also been taken to promote exports through multilateral and bilateral initiatives, identification of thrust areas and focus regions. Government have already set up a High Level Committee for formulating EXIM Policy for the next five years, as the current financial year is the last year for the ongoing medium term policy 1997-2002. Highlights of various trade policy measures announced by the Government in the recent past are given below:

I. Measures announced in the Union Budget 2001-02

- Discontinuation of surcharge of 10 per cent on customs duties. With this, the peak level of customs duties would decline marginally from 38.5 per cent to 35 per cent. The customs Tariff would further be brought down to the East Asian level progressively within three years reducing the number of rates to the minimum with a peak rate of 20 per cent.
- De-reservation from SSI provisions for another 14 items related to leather goods, shoes and toys to enable further new investment and technology upgradation in these key export oriented sectors.
- Partial back loading of withdrawal of tax benefits to exporters under 80-HHC. Percentage of export profits to be taxed in 2001-02 reduced from 40 per cent to 30 per cent and fixed at 50 per cent, 70 per cent and 100 per cent in subsequent years as against 60 per cent, 80 per cent and 100 per cent envisaged earlier.
- Extension of the concessions available for infrastructure by way of 10-year tax holiday to the developers of Special Economic Zones (SEZs) on the same lines as developers of industrial parks.
- Customs duty on selected agricultural products increased. Duty on IT and telecom products and their inputs and components reduced in pursuance of our commitments under ITA I schedule by 2003. The package for modernization of textile industry included Setting up of Integrated Apparel Parks, modernization of the weaving sector and strengthening of the Cotton Technology Mission. To promote exports of gems & jewelry, customs duty on cut & polished coloured gemstones reduced. Customs duty on gold reduced from Rs 400 per 10 gm to Rs 250 per 10 gm to discourage smuggling. CVD on imported consumer products to be charged on the basis of maximum retail price, thus providing a level playing field to domestic producers.
- For greater procedural and administrative efficiency, a new manual of Procedure on Central Excise and Customs would be brought out with emphasis on simplicity, brevity and transparency and making them more user friendly.

II. Measures announced in the annual EXIM Policy 2001

- The EXIM Policy has completed the process of removal of QRs on BOP grounds by dismantling restrictions on the remaining 715 items. However, necessary defensive mechanisms have been put in place to provide level playing field to domestic players vis-à-vis imports (Box 6.4).
- Setting up of Agri Economic Zones to promote agricultural exports on the basis of specific products and specific geographical areas (Box 6.5).

- Introduction of a Market Access Initiative (MAI) scheme to boost exports. The scheme intends to promote select Indian products and brands in the international market based on a "country-product focus" in partnership with the industry.
- The scheme of Special Economic Zones (SEZs) has been liberalized further by granting permission to SEZ developers for duty free import/procurement from DTA, to sell goods in the DTA in accordance with the import duty in force, for subcontracting a part of production abroad, to bring back their export proceeds in 365 days (as against normal period of 180 days) and to retain 100 per ent of the proceeds in the EEFC account and introducing measures such as no requirement of licence for setting up units in these zones for items reserved for SSI and granting of infrastructure status, under the Income Tax Act, to SEZ developer.
- The Export Promotion Capital Goods Scheme (EPCG) has been further strengthened by permitting import of jigs, fixtures, dies, moulds for the full CIF value of the licence (instead of 20 per cent earlier), extension of the facility to the licence holder to submit either a consolidated statement signed by the

BOX 6.4
Trade Defence Measures

With the removal of QRs on India's imports, apprehensions have been expressed that such removal may impact the domestic producers adversely and result in a surge and dumping of imports into the country. However, necessary mechanisms have been put in place to provide adequate protection and a level playing field to domestic players vis-à-vis imports. Appropriate tariffication, at peak customs duty, have been effected for these QRs. A number of agricultural and horticultural products placed on the free list of imports in earlier years have also been brought to the peak rate to ensure adequate protection to our farmers. Tariff binding for such products have also been renegotiated at substantially higher levels. For sensitive agricultural products, suitable enabling provision has been made to fix the statutory tariff rates at appropriate high levels. It has also been decided to amend the 1992 Foreign Trade (Development & Regulation) Act for vesting the Government with necessary powers to impose QRs as a temporary safeguard measure. EXIM Policy announced on 31.3.2001 further provides for the following measures to protect the domestic producers:

- Import of agricultural products like wheat, rice, maize, other coarse cereals, copra and coconut oil has been placed in the category of State Trading. The nominated State Trading Enterprise will conduct the imports of these commodities solely as per commercial considerations. Similarly, import of petroleum products including petrol, diesel and ATF has also been placed in the category of State Trading. Import of urea will also be done through the mechanism of State Trading.
- Imports have also been made subject to various existing domestic regulations like Food Adulteration Act and Rules thereunder, Meat Food Product Order, Tea Waste (Control Order) and import of textile material using the prohibited dyes has been banned. In view of road safety and environment considerations, imports of second hand and new automobiles have been permitted subject to specified conditions.
- To ensure that import of agricultural products do not lead to unwanted infiltration of exotic diseases and pests in the country, it has been decided to subject import of all primary products of plant and animal origin to 'Bio Security & Sanitary and Phyto-Sanitary Permit'. Import of foreign liquor, processed food products and tea wastes have been subjected to already existing domestic regulations concerning health and hygiene.
- Setting up of an early warning system to closely monitor imports of 300 sensitive items on a monthly basis.

Besides the above measures, the WTO framework also permits members to impose additional duty under certain conditions. These include anti subsidy and anti dumping action, protection under safeguards provisions etc. Institutional set up to implement all such provisions effectively exists in the country with India being one of the leading users of anti-dumping action in terms of initiation of anti-dumping investigations. Thus, the Directorate General of Anti Dumping & Allied duties has, since its inception, initiated 112 cases and the Director General (Safeguards) has conducted investigations on 11 cases. Government would use all mechanisms available to protect the domestic interests, specially of agriculture and small sector.

Empirical data on imports do not suggest any surge in imports following removal of QRs. Cases relating to specific products, if any, have been given necessary relief by the Directorate of Anti Dumping and the Safeguard Directorate. During 2000-01 relief was provided to the domestic industry by way of anti-dumping duties recommended in 24 preliminary findings and 17 final findings. Safeguard duty is currently in force on three products (Phenol, Acetone and Gamma Ferric Oxide).

BOX: 6.5
Agricultural Export Zones

The EXIM Policy 2001 has introduced the concept of Agri Export Zones to give primacy to promotion of agricultural exports and effect a reorganisation of our export efforts on the basis of *specific products* and *specific geographical areas*. By focusing specially on areas wherever there is a convergence of these two factors, the intention is to transform these Zones into Regional Rural Motors of the export economy. The scheme is centred around the cluster approach of identifying the potential products, the geographical region in which these products are grown and adopting an end-to-end approach of integrating the entire process right from the stage of production till it reaches the market. Such an approach would strengthen backward linkages with a market oriented approach, enhance product acceptability and its competitiveness abroad as well as in the domestic market, increase value addition to basic agricultural produce, reduce cost of production through economies of scale, provide remunerative returns to the farming community in a sustained manner, improve access to the produce/ products of the Agriculture and Allied sectors in the international market, improve product quality and packaging, promote trade related research and development and increase employment opportunities. It would help in internationalisation of our agriculture by filling critical gaps including information on prices, demand, quality standards, etc. and help in shifting the terms of trade in favour of agriculture.

Measures envisaged to promote exports from such Zones include: *financial Assistance* by dovetailing and extending existing financial assistance to various agri export related activities; *fiscal Incentives* like the benefits under Export Promotion Capital Goods Scheme; exporters of value added agri products would be eligible for sourcing duty free fuel for generation of power, provided the cost component of power in the ultimate product is 10% or more and the input-output norms are fixed by the advance licensing committee of the DGFT; input-output norms can also be fixed for sourcing other inputs (like fertilizer, pesticides etc.) duty free for cultivation purpose; and entitlement of Agri exporters to recognition as Export House/Trading House/Star Trading House/Super Star Trading House on achieving only *1/3rd of* the threshold limit prescribed for exporters of goods.

The scheme is already under operation and three agri export zones viz. for Pineapple in Darjeeling and Jalpaiguri region of West Bengal; Gherkins in and around Bangalore, Karnataka; and Lychees in Udhamsingh Nagar and Nainital of Uttaranchal have already been notified. Setting up of five more agri export zones viz. for fruits and vegetables in and around Pune; vegetables in areas of Punjab; potatoes in and around Agra in Uttar Pradesh; meat in Aligarh, Uttar Pradesh; and mangoes in and around Lucknow in Uttar Pradesh is also under consideration.

banks or separate statements signed by individual banks, extension in export obligation for licences issued during 1990-96 up to 31.3.2002 and for a period of two years for licences issued in 1997 and 2000, no penalty for value-wise shortfall (except for the customs duty together with interest), extension of facility for partial fulfillment to reduce transaction time and time limit of 180 days prescribed for finalization of nexus by EPCG Committee failing which the nexus applied by the applicant becomes final.

- Annual Advance Licence scheme liberalized, including measures like extension of this facility to deemed exports and intermediate supplies, enhancement of the entitlement from 125 per cent to 200 per cent of the FOB value of preceding year exports and extension of the licence to other than Standard Input Output Norms exports. Modifications in the Advance Licence Scheme include increased entitlement of the licence, additional facility beyond this entitlement as well against execution of bank guarantee, dispensing with the need of technical characteristics for inputs (except for items in the sensitive list), revalidation of expired Advance Licences, where export obligation has been completed, by six months and duty free import/ procurement of fuel allowed under Standard Input Output Norms for sectors where the same cost more than 10 per cent of the manufacturing cost.
- Duty Free Replenishment Certificate (DFRC) Scheme simplified. Important simplifications include extension of validity of DFRC from 12 months to 18 months, dispensing with the need of technical characteristics for inputs (except for items in a small negative list), automatic calculation of CIF value under the scheme without reference to international price on individual inputs and coverage of additional ports under the scheme.

- Additional benefits to EOU/EPZ/EHTP/STP Units include rationalization of NFEP/EP norms, supplies made by the trading units to the bonded warehouses to be treated as exports for the purpose of domestic sales entitlement, subcontracting of production abroad permitted, simplification of procedures regarding utilization of goods and greater delegation to Development Commissioners to approve EOU/EPZ projects.
- Major improvements announced in the Policy for the Gems and Jewelry sector include: Extension of the Diamond Dollar Account Scheme (DDAS) to diamond studded jewelry exporters; permission for export and return of cut and polished diamonds (weighing 0.5 carat and above) to facilitate certification/grading by international laboratories/agencies; provision of greater flexibility to exporters under the Gold loan Scheme; and extension of the scheme of foreign buyer wherein precious metals can be supplied free of cost to the Indian manufacturers for job working.
- The deemed exports procedures have also been simplified with the suppliers being given the option to file application either project wise or covering supplies to all projects during a month/quarter or half yearly while claiming Terminal Excise duty/Drawback facility. They have also been given the option to file claim covering all the supplies to a project.
- Other measures announced in the EXIM Policy 2001 included free import of second hand capital goods up to 10 years old, double weightage for grant of status to the units exporting marine products with "Q" mark certification, extension of the facility of electronic filing of applications to 29 out of 31 offices and to all categories of licences and introduction of facility of offline filing. Further simplification of procedures include minimizing the interface with DGFT by reducing the number of committees from 9 to 4 and streamlining others.

III. Other Measures

- Duty drawback rates, which seek to neutralize the incidence of duties on inputs used in the manufacture of exports, were rationalized in consonance with changes in customs duties announced in the Union Budget 2001-02. All industry rates were reduced in respect of 726 items, left unchanged for 26 items and increased for 14 items with 30 obsolete entries deleted. Other features included introduction of new & specific entries for selected products by splitting up the generic entries and further harmonization of the drawback sub-serial numbers with customs tariff schedule.
- Declaration of China, Russia and 14 other countries (Vietnam, Mongolia, CIS countries) as Non market economies to help Government assess the cost of exports from these economies and import duties on real costs. In case the input costs of exports from these countries are not in line with market realities, counter measures could be taken to neutralize the same, thus facilitating a prompt and effective anti-dumping and safeguard action on such exports.
- Rationalization of interest rates on export credit by indicating interest rates on export credit as PLR linked ceiling rates (as against specific rates) in respect of all categories of credit. Prescription of such ceilings on export credit will help in lowering interest rates charged by the banks for export credit. Further, interest rate on export credit was cut by one percentage point across board in September, 2001 to provide export credit at competitive rates.
- Introduction of a special financial package for large value exports (annual exports of over Rs 100 crore) of selected products – pharmaceuticals, agro chemicals, transport equipment, cement, iron & steel, electrical machinery, leather & leather goods and Textiles – which are internationally competitive and have high value addition. Exporters under this package are to receive concessional rate of interest for extended period upto 365 days.

- To reinvigorate exports in the current financial year, duty drawback rates have been revised upwards for more than 300 export products and value caps on about 400 export items were abolished under the DEPB scheme in October, 2001.
- A medium term export strategy was unveiled by the Government in January, 2002 to provide a quantum jump to exports in the next five years. The strategy, which would be co-terminus with the 10th Five Year Plan period, provides a mix of macro policies and sector specific policies, indicating attainable goals with appropriate checkpoints.
- To boost exports of farm goods, quantitative restrictions on exports of agricultural items like wheat, wheat products, coarse grains, butter and non-basmati rice and packaging restrictions on exports of pulses were removed in February, 2002.