ANNEXURE V
FACILITIES AND INCENTIVES TO INDIAN EXPORTERS

Promotion of export has been a major thrust area of the Ministry of Commerce and Industry for the last three decades. Apart from this. many other Central / State Ministries have also been involved in the promotion of India's exports. Many Export Promotion Councils, Public Sector Undertakings, Chambers of Commerce, Industries' Associations and Services Organisations are also contributing towards the promotion of Indian exports.

The facilities and incentives presently available to the Indian exporters include the following.

Marketing Development Assistance (MDA)

The Ministry of Commerce and Industry has a scheme of MDA, which was launched in 1963 with a view to stimulate and diversify the export trade, along with the development of marketing of Indian products and commodities abroad. The MDA is utilized for: Market research, commodity research, area survey and research; Participation in trade fairs and exhibitions; Export publicity and dissemination of information; Trade delegation and study teams; Establishment of offices and branches in abroad; Grant-in-aid to Export Promotion Councils and other approved organizations for the development of exports and the promotion of foreign trade; and any other scheme which is generally aimed at promoting the development of markets for Indian products and commodities abroad.

Market Access Initiative (MAI)

The Ministry of Commerce and Industry has introduced the MAI in April 2001 with the idea that the Government shall assist the industry in R&D, market research, specific market and product studies, warehousing and retail marketing infrastructure in select countries and direct market promotion activities through media advertising and buyer-seller meets. Financial assistance shall be available under the scheme to EPCs, industry and trade associations and other eligible activities, as may be notified from time to time. A small allocation of Rs 42 crore has been made for 2002-03.

Central Assistance to States

The State Governments shall be encouraged to fully participate in encouraging exports from their respective States. For this purpose, a new scheme "Assistance to States for Infrastructural Development for Exports" (ASIDE) has been initiated which would provide funds to the States based on the twin criteria or gross exports and the rate of growth of exports from different States. Eighty per cent of the total funds would be allotted to the States based on the above criteria and remaining 20 per cent will be utilized by the Centre for various infrastructure activities that cut across State boundaries, etc. A sum of Rs 49.5 crore has already been sanctioned for 2001-02 and further a sum of Rs 330 crore has also been approved for 2002-03. The State shall utilize this amount for developing complementary and critical infrastructure.

Towns of Export Excellence

A number of towns in specific geographical locations have emerged as dynamic industrial locations and handsomely contributing to India's exports. These industrial cluster-towns have been recognized with a view to maximiing their export profiles and help in upgrading them to move up the higher value markets. A beginning is being made to consider industrial cluster towns such as Tirupur for Hosiery, Panipat for Woollen Blankets and Ludhiana for Woollen knitwear. Common service providers in these areas shall be entitled for EPCG Scheme, funds under the MAI scheme for creating focused technological services, priority assistance for identified critical infrastructural gaps from the Scheme on Central Assistance to States. Units in these notified areas would be eligible for availing all the Exim Policy Scheme.

Special Economic Zones (SEZ)

The Government of India had announced an SEZ scheme in April 2000 to promote India's exports. Four Export Processing Zones (EPZ), namely Noida (UP), Falta (West Bengal), Chennai (Tamilnadu), and Viskhapatnam (Andhra Pradesh) have been converted into SEZs from 1 January 2003. There are seven EPZs in the country. In addition, three formal approvals and 14 in-principle approvals have been granted for the establishment of SEZs in private, state, and joint sectors. Policy initiatives taken to promote SEZs include duty-free import/domestic procurement of goods for development, operation and maintenance of SEZs and SEZ units, external commercial borrowing up to $500 million in a year without any maturity restriction through recognised banking channels and a facility to set up overseas banking units in SEZs. The SEZ units have also been getting exemption from central sales tax on sales made from the domestic tariff area to SEZ units and exemption from service tax to SEZ units and developers.

Duty Drawback on Goods Exported

Under this Duty Drawback scheme export products get relief of incidence of customs and excise duties paid on raw materials and components used at various stages of production. It is defined as "rebate of duty chargeable on any imported or excisable material used in the manufacture of goods exported from India. Duty Drawback is admissible for exports irrespective of mode of export, i.e. whether despatched by Sea, Air, Land Customs or by Post.

Export Financing

Financial assistance extended by the banks to exporters at pre-shipment and post-shipment stages. While the pre-shipment finance is provided for working capital for the purchase of raw material, processing, packing, transportation, warehousing, etc, of the goods meant for export, post-shipment finance is generally provided in order to bridge the gap between the shipping of goods and the realization of proceeds. With a view to providing pre-shipment credit to Indian exporter at internationally competitive rates, interest, Reserve bank of India announced a new scheme in November 1993 to provide Pre-shipment Credit in Foreign Currency (PCFC) by the banks in India. The PCFC scheme is in addition to normal packing credit schemes in Indian rupees presently available to Indian exporters. Exporters are also permitted to draw foreign exchange from the authorized dealers for the purposes such as foreign travel or for giving advertisement aboard. Therefore, a person resident in India may open, hold and maintain with an authorized dealer, a foreign currency to be known as Exchange Earners' Foreign Currency (EEFC) Account, subject to the terms and conditions of the EEFC Account Schemes.

Exim Bank Finance

The Export-Import Bank of India (Exim Bank) provides financial assistance to promote Indian exports through direct financial assistance. Overseas investment finance, term finance for export production and export development pre-shipment credit, buyers' buyers credit, lines of credit, relining credit facility, export bills rediscounting, refinance to commercial banks finance for computer software export, finance for export marketing, and bulk import finance. The Exim Bank also extends non-funded facility to Indian exporters in form of guarantees. The diversified landing of the Exim Bank now covers various stages of export, that is from the development of export market to expansion of production capacity for exports, production for export and pre-shipment financing. The Exim Bank's focus is on export of manufactured goods, project exports and export of technology services.

Indian JVs / WOS Abroad

Facilities are provided for the proposals from Indian companies for overseas investment in joint ventures and wholly owned subsidiaries abroad are considered in terms of the Foreign Exchange Management (Transfer or Issue of any Foreign security) Regulations, 2000.

Technology Trade Promotion

The Department of Scientific & Industrial Research (DSIR) operates a scheme called Transfer and Trading in Technology (TATT) under which it can grant assistance for technology exports. Apart from financial assistance, the prospective technology / service exporters can also identify possible export opportunities by studying profiles of various developing countries, which have been prepared with the support of DSIR to identify the technology needs of those countries. Under this scheme, the DSIR provides support by way of grant, to finance efforts for technology exports. The quantum of grant and eligibility is determined on case-to-case basis, but grant can be extended to 100 per cent of the eligible expenses.

Exim Policy 2002-07

The objectives of the Exim Policy 2002-07 include the enhancement of the technological strength and efficiency of Indian agriculture, industry and services, thereby improving their competitive strength while generating new employment opportunities, and encouraging the attainment of internationally accepted standards of quality.

Objectives to be met through the coordinated efforts of the State Governments and all the Government Departments.

Provisions

- Entitled for the import of capital goods, raw material, intermediates, components, consumables, spares, parts, accessories, instruments and other goods, new or second hand capital goods, equipments, which are importable without any restriction. However, if such imports require a licence/certificate/permission, actual user condition is specifically dispensed with by the licensing authority.
- Import on export basis without a licence/certificate/permission on execution of legal undertaking/bank guarantee with the customs authority.
- Re-import of goods repaired abroad.
- Equipment may be sent for repairs, testing, quality improvement on upgradation or standardisation of technology and re-imported without a licence/certificate/permission.
- After completion of the projects abroad, project contractors may import, without a licence/certificate/permission, used goods including capital goods provided they have been used for at least one year.
- For duty free import or where otherwise specially stated, importer shall execute a legal undertaking (LUT), bank guarantee (BG) with the customs authority before clearance of goods through customs in the prescribed manner.
- Export of spares – warranty spares, whether indigenous or imported, of plant, equipment, machinery, automobiles or any other goods may be exported up to 7.5 per cent of FOB value of exports – within contracted warranty period of such goods.
- **Service Exports –** include all the 161 tradable services covered under the General Agreement on Trade in Services where payment for such service is received in free foreign exchange. The Services Sector includes:
  - *Business Services* – Computer and Related Services, R&D Services, Real Estate Services, Rental/Lending Services without Operators, Other Business Services, Communication Services, Construction and Related Engineering Services, Distribution Services, Financial Services, Health-Related and Social Services, Tourism and Travel-Related Services, Recreational, Cultural and Sporting Services, and Transport Services.
- The Duty Remission Scheme enables post-export replenishment/remission of duty on inputs used in the export product. This Scheme consists of Duty Free Replenishment Certificate (DFRC) and Duty Entitlement Pass Book (DEPB).
- The Duty Exemption Scheme enables duty-free import of inputs for export production. An Advance Licence is issued for Physical Exports, Intermediate Supplies, and Deemed Exports.
- Export Promotion Capital Goods Scheme (EPCG) allows import of new capital goods including CKD/SKD thereof as well as software system at 5 per cent customs duty

subject to an export obligation equivalent to 5 times CIF value of capital goods to be fulfilled under a period of 8 years.

- EOUs in Export Processing Zones, Electronics Hardware Technology Parks, and Software Technology Parks.

  - Import without payment of duty all types of goods including capital goods
  - Second hand capital goods may be imported without payment of duty

- **Deemed Exports –** refers to those transactions in which the goods supplied do not leave the country provided the goods are manufactured in India. Supply of goods against Advance Lincence / DFRC under the Duty Exemption/Remission Scheme

  - Supply of goods to EOUs, Units in EPZs, SEZs, STPs, EHTPs.
  - Supply of capital goods under the EPCG Scheme Licence holder.
  - Supply of goods to projects financed by multilateral or bilateral agencies/funds notified by the Department of Economic Affairs, Ministry of Finance.
  - Supply of projects founded by UN agencies.

***Special Focus on Cottage and Handicraft Sector* –** In recognition of the export performance of Cottage and Handicraft Sector, a special focus has been made to further increase its competitiveness and following facilities will be made available to them:

(i) Initially an amount of Rs 5 crore has been earmarked for promoting cottage sector exports for coming under the KVIC.

(ii) Units in Handicrafts Sector can also access funds from Market Access Initiative.

(iii) Under the EPCG Scheme, these units will not be required to maintain average level of exports.

(iv) Units shall be entitled to the benefit of Export House status on achieving lower average export performance of Rs 5 crore as against Rs 15 crore for others.

(v) Units in Handicrafts Sector shall be entitled to duty free imports of specified items as embellishments up to 3 per cent of FOB value of their exports.

***Brand Promotion and Quality* —** The Central Government aims to encourage manufacturers and exporters to attain internationally accepted standards of quality for their products. The Central Government will extend support and assistance to trade and industry to launch a nationwide programme on quality awareness and to promote the concept of total quality management.

Test Houses*—The Central Government will assist in the modernisation and upgradation of test houses and laboratories in order to bring them at par with international standards.*

Electronic Hardware—*The Electronic Hardware Technology Park (EHTP) scheme is being modified to enable the sector to face the zero duty regimes under Information Technology Agreement (ITA)-1. Units shall be entitled to following facility:*

(i) NFEP positive in 5 years.

(ii) No other export obligation for units in EHTP.

(iii)Supplies of ITA—1 Items having zero duty in the domestic market to be eligible for counting of export obligation.

Focus Africa Programme—*Focus Africa Programme is launched this year giving a boost to India's trade with the sub-Saharan African Region. In the first phase of the programme, the target countries are:*

Nigeria, South Africa, Mauritius, Kenya, Ethiopia, Tanzania, and Ghana.

These seven countries accounted for nearly 70 per cent of India's total trade with the sub-Saharan African Region in 2000-01. Certain target areas for export focus have also been identified. These are:

- Cotton yarn, fabrics and other textile items
- Drugs & pharmaceuticals
- Machinery & instruments
- Transport equipment
- Telecom and information technology

Exporters exporting to these markets would be given Export House status on export worth Rs 5 crore. Next year "Focus: CIS Programme" would be launched.

SALIENT FEATURES CONCERNING TECHNOLOGY EXPORTS AS ANNOUNCED IN UNION BUDGET 2002-03

1. Budget Strategy

- Continue the emphasis on agriculture and food economy reforms.
- Enhance public and private investment in infrastructure.
- Strengthen the financial sector and capital markets.
- Deepen structural reforms and regenarate industrial growth.

2. Agricultural Exports

Agri-export Zones, 15 zones approved so far. APEDA will catalyse development of infrastructure and flow of credit to the units in these agri-export zones.

3. Infrastructure Development

Power, Roads, Civil Aviation, Ports, Telecommunications, etc.

4. Capital Account Liberalisation

- Full convertibility of deposit schemes for NIRs.
- Indian companies wishing to invest abroad may now invest up to US$100 million on an annual basis through the automatic route, up from the existing limit of US$50 million.
- Indian companies making overseas investment in joint venture abroad by market purchases may now do so without prior approval up to 50 per cent of their net worth, up from the current limit of 25 per cent.
- Foreign currency convertible bond (FCCB) scheme under the automatic route up to US$50 million.

5. Exports

- Special Economic Zones
- Creation of new export promotion industrial parks and associated facilities through State Governments, outlay increased from Rs 97 crore to Rs 330 crore in 2002-03. Overall outlay for Department of Commerce increased by 55 per cent to Rs 775 crore in 2002-03. SEZ would be entitled to procure duty free equipment, raw materials, components, etc., also to units located therein.

6. Television Channels

India has technical capability to become an uplinking hub for television channels for the SAARC countries. In order to promote state of the art uplinking facilities at competitive cost, customs duty to be reduced on certain earth station equipment and studio equipment from 35 per cent to 25 per cent.

7. Fresh Investment

Additional depreciation of 15 per cent on new plant and machinery acquired on or after 1.4.2002 for setting up new industrial units or for expanding the installed capacity of existing units by at least 25 per cent.

8. Corporate Tax

Corporate tax reduced to 40 per cent from 48 per cent for foreign companies.

9. Indian System of Medicine

Budgetary support increased by 25 per cent to Rs 150 crore next year.

10. Science & Technology (S&T)

Fund for improvement of S&T (FIST) for augmenting laboratory facilities in universities, increased by 115 per cent to Rs 75 crore.

A micro venture capital fund for small innovators to be initiated by SIDBI, in cooperation with National Innovation Foundation to facilitate the transitions of innovations into enterprises.

Tenth Plan emphasises on promotion of technology intensive exports. The S&T budget outlay considerably increased for 2002-03.

11. Information Technology

Implementation of zero duty regime under ITAI agreement postponed from 2003 to 2005. Custom duty on a number of hardware inputs reduced to 5 per cent and on certain capital goods to 15 per cent duty on certain IT items would be reduced to 1 per cent or 5 per cent as per the WTO provisions.

12. Free Trade Zones etc. and 100% Export Oriented Units

Restrict the deductions to 90 per cent of profits and gains as are derived by an undertaking from the export of articles or things or complete software for the assessment year 2003-04 only.

13. FDI

Most of the sectors are open to automatic FDI.

14. Customs Duties

Moving towards customs duty on raw materials/components, etc. to be generally at 10 per cent and that for finished goods/products at 20 per cent.

15. Auto Policy

Auto policy does not envisage any limitations on investments and is being considered as a thrust sector for accelerating industrial and economic developments, enhancing exports and employment. generation. Excise duty exemptions for undertaking R&D in this sector are allowed.

16. Small Scale Industry

Removal of small-scale industry reservations for more than 50 items contributing substantially to the overall small industry production. These include knitwear, agricultural implements, auto components, some chemicals and drugs. Others will now be reserved. Credit linked capital subsidy scheme for technology upgradation is announced.