

CHAPTER-4

DUTY EXEMPTION/REMISSION SCHEME

Duty Exemption/ Remission Scheme	4.1	The Duty Exemption Scheme enables duty free import of inputs required for export production. An Advance Licence is issued under Duty Exemption Scheme. The Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in the export product. Duty Remission scheme consist of (a) DFRC and (b) DEPB. DFRC permits duty free replenishment used in the export product. The DEPB scheme allows drawback of import charges on inputs used in the export product.
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Advance Licence	4.1.1	An Advance Licence is issued to allow duty free import of inputs, which are physically incorporated in the export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts etc. which are consumed in the course of their use to obtain the export product, may also be allowed under the scheme. Duty free import of mandatory spares upto 10% of the CIF value of the licence which are required to be exported/ supplied with the resultant product may also be allowed under Advance Licence. Advance Licence can be issued for:-
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Physical exports:- Advance Licence may be issued for physical exports to a manufacturer exporter or merchant exporter tied to supporting manufacturer(s) for import of inputs required for the export product.

Intermediate supplies:- Advance Licence may be issued for intermediate supply to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter/ deemed exporter holding another Advance Licence.

Deemed exports:- Advance Licence can be issued for deemed export to the main contractor for import of inputs required in the manufacture of goods to be supplied to the categories mentioned in paragraph 8.2 (b), (c), (d) (e) (f),(g) (i) and (j) of the Policy.

In addition, in respect of supply of goods to specified projects mentioned in paragraph 8.2 (d) (e) (f),(g) and (j) of the Policy, an Advance Licence for deemed export can also be availed by the sub-contractor of the main contractor to such project provided the name of the sub contractor(s) appears in the main contract. Such licence for deemed export can also be issued for supplies made to United Nations Organisations or under the Aid Programme of the United Nations or other multilateral agencies and paid for in foreign exchange.

	4.1.2	Advance Licence is issued for duty free import of inputs, as defined in paragraph 4.1.1 subject to actual user condition. Such licences (other than Advance Licence for deemed exports) are exempted from payment of basic customs duty, additional customs duty, anti dumping duty and safeguard duty, if any. However, Advance Licence for deemed export shall be exempted from basic customs duty and additional customs duty only.
	4.1.3	Advance Licence and/or materials imported thereunder shall not be transferable even after completion of export obligation.
	4.1.4	Advance Licences (including Advance Licence for deemed exports and intermediate supply) shall be issued with a positive value addition. However, for exports for which payments are not received in freely convertible currency, the same shall be subject to value addition as specified in Appendix-32 of Handbook (Vol.1), 2002-07.
	4.1.5	Advance Licence shall be issued in accordance with the Policy and procedure in force on the date of issue of licence and shall be subject to the fulfillment of a time bound export obligation as may be specified.
	4.1.6	The facility of Advance Licence shall also be available where some of the inputs are supplied free of cost to the exporter. In such cases, for calculation of value addition, the notional value of free of cost inputs alongwith value of other duty-free inputs shall be taken into consideration.
Export Obligation	4.1.7	The period for fulfillment of the export obligation under Advance Licence shall be as prescribed in the Handbook (Vol.1).
Advance Release Orders	4.1.8	An Advance Licence holder (except Advance Licence for intermediate supply) and holder of DFRC intending to source the inputs from indigenous sources/state trading enterprises/ EOU/ EPZ/SEZ/ EHTP/STP units in lieu of direct import has the option to source them against Advance Release Orders denominated in foreign exchange/Indian rupees. The transferee of a DFRC shall also be eligible for ARO facility.
Back-to-Back Inland Letter of Credit	4.1.9	An Advance Licence holder, (except Advance Licence for intermediate supply) and holder of DFRC may, instead of applying for an Advance Release Order, avail of the facility of Back-to-Back Inland Letter of Credit in accordance with the procedure specified in Handbook (Vol.1).
Prohibited Items	4.1.10	Prohibited items of imports mentioned in ITC(HS) shall not be imported under the licence issued under the scheme.
Compliance with Export Policy	4.1.11	Goods mentioned as restricted for exports in ITC(HS) may be exported without specific export licence/ certificate/ permission under Advance Licence for physical exports issued with prior import condition. In such cases, the licence/certificate/permission holder shall not be allowed to use indigenous inputs and the export product shall be manufactured only out of imported inputs under Advance Licence for physical exports.
Re-import of Exported Goods under Duty Neutralisation Scheme	4.1.12	Goods exported under Advance Licence/ DFRC/ DEPB may be re-imported in the same or substantially the same form subject to such conditions as may be specified by the Department of Revenue from time to time.
Admissibility of	4.1.13	In the case of an Advance Licence, the drawback shall be available in respect

Drawback		of any of the duty paid materials, whether imported or indigenous, used in the goods exported, as per the drawback rate fixed by Ministry of Finance (Directorate of Drawback). The Drawback shall however be restricted to the duty paid materials as mentioned in the licence.
Value Addition	4.1.14	The value addition for the purposes of this chapter shall be:-
	V.A	A - B
		= ----- x 100, where
		B
	V.A	is Value Addition
	A	is the FOB value of the export realised /FOR value of supply received.
	B	is the CIF value of the imported inputs covered by the licence, plus any other imported materials used on which the benefit of duty drawback is being claimed.
Duty Free Replenishment Certificate	4.2	DFRC is issued to a merchant-exporter or manufacturer-exporter for the import of inputs used in the manufacture of goods without payment of basic customs duty, and special additional duty. However, such inputs shall be subject to the payment of additional customs duty equal to the excise duty at the time of import.
	4.2.1	DFRC shall be issued on minimum value addition of 33%.
	4.2.2	DFRC may be issued in respect of exports for which payments are received in non-convertible currency. Such exports shall, however, be subject to value addition and conditions as specified in Appendix-32 of Handbook (Vol.1).
	4.2.3	DFRC shall be issued only in respect of export products covered under the SIONs as notified by DGFT. However, DFRC shall not be issued in respect of SIONs which are subject to "actual user" condition or where the input is allowed with prior import condition or where the norms allow import of Acetic Anhydride, Ephedrine and Pseudo Ephedrine in the Handbook (Vol-II).
		However DFRC may be issued for SIONs allowing import of Acetic Anhydride, Ephedrine and Pseudo Ephedrine provided these items are specifically deleted from the list of import items.
	4.2.4	DFRC shall be issued for import of inputs as per SION as indicated in the shipping bills. The validity of such licences shall be 18 months. DFRC and or the material(s) imported against it shall be freely transferable.
	4.2.5	The export products, which are eligible for modified VAT, shall be eligible for CENVAT credit. However, non excisable, non dutiable or non centrally vatiable products, shall be eligible for drawback at the time of exports in lieu of additional customs duty to be paid at the time of imports under the scheme.
	4.2.6	The exporter shall be entitled for drawback benefits in respect of any of the duty paid materials, whether imported or indigenous, used in the export product as per the drawback rate fixed by Directorate of Drawback (Ministry of Finance). The drawback shall however be restricted to the duty paid materials not covered under SION.

Jobbing, Repairing etc. for re-export	4.2.7	Import of goods, including those mentioned as restricted in ITC(HS) but excluding prohibited items, in terms of paragraph 4.1.1 supplied free of cost, may be permitted for the purpose of jobbing without a licence/ certificate/ permission as per the terms of notification issued by Department of Revenue from time to time.
Duty Entitlement Passbook Scheme	4.3	The objective of DEPB is to neutralise the incidence of Customs duty on the import content of the export product. The neutralisation shall be provided by way of grant of duty credit against the export product.
	4.3.1	Under the DEPB, an exporter may apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency. The credit shall be available against such export products and at such rates as may be specified by the Director General of Foreign Trade by way of public notice issued in this behalf, for import of raw materials, intermediates, components, parts, packaging material etc.
	4.3.2	The holder of DEPB shall have the option to pay additional customs duty, if any, in cash as well.
Validity	4.3.3	The DEPB shall be valid for a period of 12 months from the date of issue.
Transferability	4.3.4	The DEPB and/or the items imported against it are freely transferable. The transfer of DEPB shall however be for import at the port specified in the DEPB, which shall be the port from where exports have been made. Imports from a port other than the port of export shall be allowed under TRA facility as per the terms and conditions of the notification issued by Department of Revenue.

Applicability of Drawback	4.3.5	Normally, the exports made under the DEPB Scheme shall not be entitled for drawback. However, the additional customs duty/excise duty paid in cash on inputs under DEPB shall be adjusted as CENVAT Credit or Duty Drawback as per rules framed by the Department of Revenue. In cases, where the additional customs duty is adjusted from DEPB, no benefit of CENVAT/ Drawback shall be admissible.
Scheme for Gem and Jewellery	4.4	Exporters of gem and jewellery are eligible to import their inputs by obtaining Replenishment (REP) Licences from the licensing authorities in accordance with the procedure specified in this behalf.
Replenishment Licence	4.4.1	The exporters of gem and jewellery products listed in Appendix-26 of the Handbook (Vol.1) shall be eligible for grant of Replenishment Licences at the rate and for the items mentioned in the said Appendix to import and replenish their inputs. Replenishment licence may also be issued for import of consumables as per the details given in paragraph 4.80 of Handbook (Vol.1).
Export of Cut & Polished Diamonds for Certification/ Grading	4.4.2	Gems and Jewellery exporters with a track record of at least three years and having an annual average turnover of Rs.5 crores and above during the preceding three licensing years or the authorised offices /agencies in India of Gemological Institute of America (GIA), The Robert Mouawad Campus, International Gemological Institute (IGI) and European Gemological Laboratory (EGL) in USA, Hoge Road Voor Diamand, Antwerp, (HRD), World Diamond Centre of Diamonds High Council, Antwerp, Belgium may be permitted to export cut & polished diamonds each weighing 0.50 of a carat and above to the said laboratories/agencies, for the purpose of certification/grading reports by them with a condition that the same should be re-imported with the certificate/ grading reports issued by them without any import duty at the time of re-import.

	4.4.2.1	At the time of export of cut and polished diamonds for certification/grading, exporter should give an undertaking to the customs that the cut and polished diamonds will be re-imported within three months of exports for certification/ grading. The export invoice should clearly indicate the estimated value, height, circumference, weight of each diamond to be exported for certification/ grading so that at the time of their import, the above specification could be compared with the original ones to establish their identity. Subsequently these cut and polished diamonds would be exported as per the provisions of the Policy.
Schemes for Gold/ Silver/ Platinum Jewellery	4.4.3	Exporters of gold/silver/platinum jewellery and articles thereof may import their essential inputs such as gold, silver, platinum, mountings, findings, rough gems, precious and semi-precious stones, synthetic stones and unprocessed pearls etc. in accordance with the procedure specified in this behalf.
Nominated Agencies	4.4.4	The exporter availing the schemes of gold/ silver/platinum jewellery and articles thereof may obtain gold/silver/platinum from the nominated agencies. The nominated agencies are MMTC Ltd, Handicraft and Handloom Export Corporation (HHEC), State Trading Corporation (STC), The Project and Equipment Corporation of India Ltd (PEC) and any agency authorised by Reserve Bank of India (RBI). A bank authorised by RBI is allowed export of gold scrap for refining and import in the form of standard gold bars.
Items of Export	4.4.5	<p>The following items, if exported, would be eligible for the facilities under these schemes:</p> <ul style="list-style-type: none"> (a) Gold jewellery, including partly processed jewellery and any articles including medallions and coins (excluding the coins of the nature of legal tender), whether plain or studded, containing gold of 8 carats and above; (b) Silver jewellery including partly processed jewellery and any articles including medallions and coins (excluding the coins of the nature of legal tender and any engineering goods) containing more than 50% silver by weight; (c) Platinum jewellery including partly processed jewellery and any articles including medallions and coins (excluding the coins of the nature of legal tender and any engineering goods) containing more than 50% platinum by weight.

Value Addition	4.4.6	The value addition will be as given in Handbook (Vol.1).
Wastage Norms	4.4.7	Under the schemes for gold/silver/platinum jewellery, the wastage or manufacturing loss shall be admissible as specified in the Handbook (Vol.1).
Export Against Supply by Foreign Buyer	4.4.8	Where export orders are placed on the nominated agencies/ status holder/ exporters of three years standing having an annual average turnover of Rs. Five Crore during the preceding three licensing years, the foreign buyer may supply to the nominated agencies/status holder/ exporter, in advance and free of charge, gold/ silver/ platinum, alloys, findings and mountings of gold/silver/ platinum for manufacture and export. The exports may be made by the nominated agencies directly or through their associates or by the status holder/ exporter as the case may be. The import and export of findings shall be on net to net basis. The foreign buyer may also supply to the nominated agencies/status holder/ exporter in advance and free of charge plain, semi finished gold/silver/ platinum jewellery including findings/ mountings/ components for repairs/re-make and export subject to minimum value addition of 10%. However, if the so imported semi finished gold/silver /platinum jewellery is exported as studded jewellery, value addition of 15% shall be achieved. In such cases of export, wastage of 2% may be permitted.

The procedures in this regard shall be as prescribed in the Handbook (Vol.1)

Export Promotion Tours/Export of Branded Jewellery

Export Against Supply by Nominated Agencies	4.4.10	The exporter may obtain the gold/ silver/ platinum as an input for export products from nominated agencies in advance or as replenishment after exports in accordance with the procedure specified in this behalf.
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Export Against Advance Licence	4.4.11	An Advance Licence may be granted for the duty free import of: <ul style="list-style-type: none"> (a) Gold of fineness not less than 0.995 and mountings, sockets, frames and findings of 8 carats and above; (b) Silver of fineness not less than 0.995
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and mountings, sockets, frames and findings containing more than 50% silver by weight;

- (c) Platinum of fineness not less than 0.900, mountings, sockets, frames and findings containing more than 50% platinum by weight.

4.4.12 Such licences shall carry an export obligation which will be required to be fulfilled in accordance with the procedure specified in this behalf.

The Advance Licence holder may obtain gold/silver/platinum from the nominated agencies in lieu of direct import in accordance with the procedure specified in this behalf.

Gem Replenishment Licence 4.4.13

Gem Replenishment (Gem REP) Licence may be issued under the schemes for export of gold/silver/platinum jewellery and articles thereof as given in paragraph 4.4.8, 4.4.9, 4.4.10 and 4.4.11 of the Policy. In the case of plain gold/silver/platinum jewellery and articles, the value of such licences shall be determined with reference to the realisation in excess of the prescribed minimum value addition. In the case of studded gold/silver/platinum jewellery and articles thereof, the value of Gem Replenishment Licence shall be determined by taking into account the value of studdings used in items exported, after accounting for the value addition on gold/silver/platinum including admissible wastage. Such Gem REP licences shall be freely transferable.

Gem REP Rate and Item 4.4.14

The scale of replenishment and the item of import will be as prescribed in Appendix 26A of Handbook (Vol.1).

Personal Carriage of Export/ Import Parcels 4.4.15

Personal carriage of gems and jewellery export parcels by foreign bound passengers and personal carriage of gems & jewellery import parcels by an Indian importer/foreign national may be permitted as per the conditions given in Handbook (Vol.1).

Diamond Imprest Licence 4.4.16

Diamond Imprest Licence for import of cut & polished diamonds including semi processed diamonds, half cut diamonds, broken in any form, for mixing with cut & polished diamonds or for export as it is, may be issued for export of cut & polished diamonds. Such licences shall carry an export obligation, which has to be discharged in accordance with the procedure specified in this behalf.

Eligibility 4.4.16.1

An exporter of cut & polished diamonds who is status holder may be issued a licence for import of cut & polished diamonds upto 5% of the export performance of the preceding year of cut & polished diamonds.

Export Obligation 4.4.16.2

The export obligation against each consignment shall be fulfilled within a period of five months from the date of clearance of such consignment through Customs. However, at no point of time, the importer shall be required to maintain records of individual import consignments nor will they be required to co-relate export consignments with the corresponding import consignments towards fulfillment of export obligation.

**Private/ Public
Bonded Warehouse** 4.4.17

Private/Public Bonded Warehouses may be set up in EPZ/DTA for import and re-export of cut & Polished diamonds, cut & polished coloured gemstones, uncut & unset precious & semi-precious stones. Import & re-export of cut & polished diamonds & cut & polished coloured gemstones will be subject to achievement of minimum value addition of 5%.