ADDRESS
BY

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AT THE
RELEASE OF THE
ANNUAL SUPPLEMENT
TO THE
FOREIGN TRADE POLICY 2004-2009

NEW DELHI
APRIL 19, 2007

INTRODUCTION

1. I am very happy to welcome all of you to the release of the third Annual Supplement to the Foreign Trade Policy, 2004-09. Over the years, India's foreign trade has come to occupy a pivotal position in the economic scenario and prosperity of the country. Exports are no longer means of generating dollars, as was the position in the country during our initial phase of development. Now exports are the engines of growth and the drivers of employment generation. While the remarkable growth in exports which we have witnessed in recent years has contributed immensely to the higher rates of economic growth recorded in the country, our imports have helped modernize the Indian industry and built capacities for enhanced production.

2. Our Prime Minister has been a source of guidance and constant encouragement for promoting India's foreign trade. I am encouraged by the efforts of our exporting community, which despite the spiralling oil prices, strengthening of the Rupee and many other constraints, have achieved the ambitious targets set by us in 2004. They have demonstrated that they are as competitive and capable as the best in the world. My sincere gratitude to the Prime Minister and congratulations to the exporters.

TRADE PERFORMANCE

3. Three years ago while announcing the Foreign Trade Policy I set goals and target and the vision I enunciated has borne fruit. When the UPA Government assumed office, our merchandise exports were US$ 63.84 billion. In the year ending March 2007, the exports surged to US$ 125 billion. This near doubling in three years represents an annual compounded growth of 25% compared to 12.73% in the previous three years. Our exports have become globally competitive and found many new markets. Our export basket is expanding with the addition of new items and this includes many value added petroleum products produced by our oil refineries and petro-chemical complexes. Our exports of machinery, instrumentation and engineering goods grew by 35% last year. We are increasingly exporting automobile components and becoming an international hub for automobile and component making.

4. With merchandise-imports growing faster than exports of goods, we do have a trade deficit. But, taking into account the export of services, the position improves substantially and the trade gap in goods and services becomes much smaller and more manageable. In fact, I find that our non-oil imports consist significantly of capital goods, raw-materials and other critical inputs which are required for sustaining our industrial growth, particularly the manufacturing process. As the Minister in-charge of the Industry portfolio also, I would consider this as a healthy development, which augurs well for creation of production capacity and employment generation for the future.

EXPORTS FOR MORE INCLUSIVE GROWTH

5. Working for a more inclusive growth process, I am ensuring that the Foreign Trade Policy becomes a vehicle for faster development of our rural areas and of agriculture, on which over 60% of our people still depend for their livelihood. Exports of agriculture products like spices, fruits and vegetables are growing rapidly at 35 to 40% annually.

Incentivising Agri exports

6. Our '**Vishesh Krishi and Gram Udyog Yojana' (VKGUY)** is being expanded to include coconut oil, soyabean oil, potato flakes, meals and flours, cardamom, food preparations like soups, sauces, pasta & bakery products, artistic wooden furniture, herbal extracts of forest products, malt and minor forest produce, etc.

7. I am also introducing a new Scheme for incentivising agro processing with status holders being rewarded with duty credit scrips equal to 10% of the value of agricultural exports, provided they use them for duty redemption on imports of cold storage, pack houses, reefer vans, etc. This would be over and above the benefits available from the existing schemes of Ministries of Agriculture and Food Processing, etc. Benefits under VKGUY would also be given to such EOUs which do not avail direct tax benefits. I lay the highest emphasis on developing agricultural exports to ensure that product diversification improves in Indian agriculture. As we all know, we have widespread subsistence farming which has to move towards producing marketable surpluses, be it for domestic or export markets.

Enlarging Focus Product & Focus Market Schemes

8. Buoyed with the success achieved by the Focus Product Scheme (FPS), I am not only enlarging the items included under it, but also increasing the allocation for it by more than 50% from the existing level of Rs.650 crores to Rs.1000 crores. Mica and its variants, barley, oats, soyabean, cigar/cheroots, bovine fats and copra are being included under it. Also, 16 new countries including 10 former CIS countries are being included under the Focus Market Scheme (FMS).

Thrust on Handloom, Handicrafts, Cottage and Tiny Industries

9. Our handloom and handicraft industries will receive a special focus in this year's Trade Policy, and the new initiative will provide for tools, machinery and equipment for handicrafts within the present duty-free entitlement ceiling. This would allow these rural-based activities to modernize and scale up operations to meet the market challenges. Also, exemption from duty is being granted on the machinery and

equipment needed for effluent treatment plants required by handloom and handicraft industries. In a similar measure to further support the cottage and the tiny industrial sector, the export obligation period under EPCG Scheme for them is being increased from 8 to 12 years.

10. By enlarging and better funding, the VKGUY, FPS, FMS, handloom and handicrafts and the cottage and tiny sectors, our endeavour is to reach out to the over 650 million people who live in the rural areas and whose lives have not been really touched by the process of industrial and services led growth we are currently witnessing. I am of the firm conviction that if our growth has to be sustainable over time, it should not remain urban-centric or be confined to only a few cities and their peripheral areas.

SECTOR-SPECIFIC INITIATIVES

Gems & Jewellery

11. Sectors like gems and jewellery, which are in the forefront of our export efforts, are being given greater attention in the New Policy. Tools, machinery and equipment needed by it would be covered within the present duty-free entitlement limit and keeping in view the increase in global prices of precious metals, the duty-free entitlement for consumables for export of rhodium plated finished silver jewellery has been increased to 3% of FOB value of exports. To ensure quality and competitiveness of our diamond exporters, we have included the testing facility at Dubai in our approved list of Certifying Agencies.

Export of Services exempted from Service Tax

12. With a view to facilitating the export of services from India, all the services rendered abroad and charged on exports from India would henceforth be exempted from payment of service tax. This was a long pending demand of our exporting community and I am happy to be able to accede to it. Similarly, service tax on services rendered in India, but utilized by exports would be exempted or remitted. A remission mechanism, where exemption is not available, is being put in place in consultation with Department of Revenue.

13. India’s IT sector had so far led the Business Process Outsourcing (BPO) boom and made India one of the leading players in export of services. With increasing competition in the BPO sector emerging from China, East European countries and others, we need to evolve new avenues for exports of services. Knowledge Process Outsourcing (KPO) and Engineering Process Outsourcing(EPO) are fast emerging as the new areas of opportunity. The current global EPO market is estimated at 2 to 3 per cent of the total global expenditure and is likely to become 5 per cent by 2010 and 9 to 10 per cent by 2015. Given our comparative advantage in manpower, skills and design capabilities, we should aspire to capture 20 to 25 per cent of the global market share. Several initiatives in this regard would need to be taken, both at the Central and

State Government levels.

GENERAL EXPORT PROMOTION SCHEMES

14. Though the DEPB(Duty Entitlement Pass Book) Scheme stands extended for another year upto 31.3.2008, I am aware of the need to have a new scheme in its place by next year. I hope that all stakeholders particularly Export Promotion Councils and Commodity Boards would give their views to DGFT regarding the new scheme latest by May 31, 2007.

15. Realising the growing potential of India to export high-tech items, an Export Promotion Scheme for them is being launched under which a duty credit of 10% of incremental export growth would be given as an incentive. The list of eligible products is being drawn up in consultation with the concerned scientific Ministries.

16. We have also been able to meet another pending demand of the exporters, who would now become eligible for reimbursement of cost of duty on Fuel and Special Additional Duty (SAD).

17. I am also increasing the limit for duty free import of samples from Rs.60,000 to Rs.75,000.

18. Import of spares, tools, spare refractories for all the existing imported plant and machinery would also be now allowed under Export Promotion Capital Goods (EPCG) Scheme. This should allow the manufacturers to replace and more optimally utilize their machinery imported earlier.

19. I am now doing away with the present restrictive requirement of block-wise fulfillment of export obligations. This should not only reduce transaction cost and paper work, but also minimise the effect of cyclical fluctuations in international markets. I am further directing that wherever more than one concurrent EPCG authorization has been issued, the fresh EPCG authorization would build upon the last required average export obligation only, notwithstanding the actual achievements of the previous year. This way better performance would not be penalized. Additionally, we are providing for waiving the outstanding export obligations, where force majeure and other unforeseen circumstances have prevented the fulfillment of the export obligations.

20. Developers and co-developers of SEZs would be notified for benefits for duty neutralization under DEPB, DFIA (Duty Free Import Authorization) and Advanced Authorization Schemes. Supplies of accessories, such as buttons and hangers by EOUs to DTA units will be counted for net foreign exchange calculations, if these items are exported along with export product from DTA. With effect from 1st April 2006, interest would be given on delays on effecting refund on terminal excise duty, duty draw back on deemed exports and refund of CST on supplies to EOUs. This would be similar to the facilities being given on delays in customs and income tax refunds by the respective departments.

REDUCING TRANSACTION COSTS & DELAYS

21. I am fully aware that trade transaction costs in India tend to be high and can erode our competitiveness. If we have to continue to grow through the trade route, it is of utmost importance that we streamline our procedure and processes and adopt global best practices, including in port handling, customs clearances, and transportation arrangements. To start with, the following measures are being introduced to reduce the transaction costs:

Verification of documents under various export promotion schemes would be done in the same manner as under DEPB, which has now been online for quite some time. Second verification by the customs authorities under EPCG and advanced authorization scheme would be resorted to only on random basis.

Installation certificate on imported capital goods can now be obtained from a Chartered Engineer instead of only from an Excise official.

The length of the existing 'Aayat Niryat Form' has also been reduced substantially.

The word 'manufacturing' is being clearly defined in the new Income Tax Code to ensure greater predictability and stability in determining direct tax liability of domestic manufacturers.

TRADE POLICY & FOREIGN DIRECT INVESTMENT

22. I must mention here about the robust growth in our Foreign Direct Investment. A liberal Trade Policy has a direct effect on FDI flows and the two are closely inter-related. The year 2006-07 has seen our FDI equity inflow go up to almost US$ 16 billion from US$ 5.5 billion in the previous year – almost tripling of the inflows in one year. The last three years of our Government has seen a staggering 725% increase in FDI inflows – up from US$ 2.22 billion in 2003-04 to US$ 16 billion in 2006-07! In line with the international practice of including the retained earnings reinvested, our FDI touches US$ 19 billion in 2006-07, constituting 2.3% of our GDP. This is about 6.8% of the gross capital formation or gross investment in the economy. I am sure, you would agree, that this is quantum jump compared to only 0.5% of GDP and about 1.5% of gross investment three years ago. The directional flow of FDI into manufacturing and export of goods and services is contributing immensely to our export efforts.

Special Economic Zones (SEZs)

23. Our SEZs are also receiving considerable foreign investments and becoming instruments of employment generation and export promotion. 92 SEZs have been notified till date and 50 of these are at various stages of implementation. Over 18,000 direct jobs have already been created and it is expected that as many as 15 lakh jobs

would be created in the SEZs already approved. The total investment so far in these SEZ's is Rs 13,500 crores. During the current year, it is expected that an additional investment of over Rs 40,000 crores and 10 lakh jobs would be created in SEZ's.

24. I would like to conclude by recalling the long way we have come in developing our export capabilities and enhancing our global competitiveness. Till the early 90's, our focus was on import substitution measures and minimizing the trade gap. Since then we have crossed many milestones to emerge as a major trading nation with over one-third of our GDP coming from foreign trade. In this background, merchandise export target of US$ 160 billion is being set for the current year 2007-08 and US$ 200 billion for 2008-09. This upward revision in our goal – up from US$ 150 billion envisaged earlier – should not be too difficult to attain, given our strong economic fundamentals, the entrepreneurship of our exporting community and the collective resolve of government and trade & industry.

25. Thank you.

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