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# FOREIGN TRADE POLICY 2009-14

## FOREWORD

The UPA Government has assumed office at a challenging time when the entire world is facing an unprecedented economic slow-down. The year 2009 is witnessing one of the most severe global recessions in the post-war period. Countries across the world have been affected in varying degrees and all major economic indicators of industrial production, trade, capital flows, unemployment, per capita investment and consumption have taken a hit. The WTO estimates project a grim forecast that global trade is likely to decline by 9% in volume terms and the IMF estimates project a decline of over 11%. The recessionary trend has huge social implications. The World Bank estimate suggests that 53 million more people would fall into the poverty net this year and over a billion people would go chronically hungry.

Though India has not been affected to the same extent as other economies of the world, yet our exports have suffered a decline in the last 10 months due to a contraction in demand in the traditional markets of our exports. The protectionist measures being adopted by some of these countries have aggravated the problem. After four clear quarters of recession there is some sign of a turnaround and the emergence of ‘green shoots’, though I would be hesitant to hazard a guess on the nature and extent of this recovery and the time the major economies will take to return to their pre-recession growth levels.

Announcing a Foreign Trade Policy in this economic climate is indeed a daunting task. We cannot remain oblivious to declining demand in the developed world and we need to set in motion strategies and policy measures which will catalyse the growth of exports.

Before defining the objectives of the new policy it would be useful to take stock of our achievements in the foreign trade over the last 5 years. The foreign trade policy announced by the UPA Government in 2004 had set two objectives, namely, (i) to double our percentage share of global merchandize trade within 5 years and (ii) use trade expansion as an effective instrument of economic growth and employment generation. Looking back, we can say with satisfaction that the UPA Government has delivered on its promise.

Agriculture and industry has shown remarkable resilience and dynamism in contributing to a healthy growth in exports.

In the last five years our exports witnessed robust growth to reach a level of US$ 168 billion in 2008-09 from US$ 63 billion in 2003-04. Our share of global merchandise trade was 0.83% in 2003; it rose to 1.45% in 2008 as per WTO estimates. Our share of global commercial services export was 1.4% in 2003; it rose to 2.8% in 2008. India’s total share in goods and services trade was 0.92% in 2003; it increased to 1.64% in 2008. On the employment front, studies have suggested that nearly 14 million jobs were created directly or indirectly as a result of augmented exports in the last five years.

The short term objective of our policy is to arrest and reverse the declining trend of exports and to provide additional support especially to those sectors which have been hit badly by recession in the developed world. We would like to set a policy objective of achieving an annual export growth of 15% with an annual export target of US$ 200 billion by March 2011. In the remaining three years of this Foreign Trade Policy i.e. upto 2014, the country should be able to come back on the high export growth path of around 25% per annum. By 2014, we expect to double India's exports of goods and services. The long term policy objective for the Government is to double India's share in global trade by 2020.

In order to meet these objectives, the Government would follow a mix of policy measures including fiscal incentives, institutional changes, procedural rationalization, enhanced market access across the world and diversification of export markets. Improvement in infrastructure related to exports; bringing down transaction costs, and providing full refund of all indirect taxes and levies, would be the three pillars, which will support us to achieve this target. Endeavour will be made to see that the Goods and Services Tax rebates all indirect taxes and levies on exports.

At this juncture, it is our endeavour to provide adequate confidence to our exporters to maintain their market presence even in a period of stress. A Special thrust needs to be provided to employment intensive sectors which have witnessed job losses in the wake of this recession, especially in the fields of textile, leather, handicrafts, etc.

We want to provide a stable policy environment conducive for foreign trade and we have decided to continue with the DEPB Scheme upto December 2010 and income tax benefits under Section 10(A) for IT industry and under Section 10(B) for 100% export oriented units for one additional year till 31st March 2011. Enhanced insurance coverage and exposure for exports through ECGC Schemes has been ensured till 31st March 2010. We have also taken a view to continue with the interest subvention scheme for this purpose.

We need to encourage value addition in our manufactured exports and towards this end, have stipulated a minimum 15% value addition on imported inputs under advance authorization scheme.

It is important to take an initiative to diversify our export markets and offset the inherent disadvantage for our exporters in emerging markets of Africa, Latin America, Oceania and CIS countries such as credit risks, higher trade costs etc., through appropriate policy instruments. We have endeavored to diversify products and markets through rationalization of incentive schemes including the enhancement of incentive rates which have been based on the perceived long term competitive advantage of India in a particular product group and market. New emerging markets have been given a special focus to enable competitive exports. This would of course be contingent upon availability of adequate exportable surplus for a particular product. Additional resources have been made available under the Market Development Assistance Scheme and Market Access Initiative Scheme. Incentive schemes are being rationalized to identify leading products which would catalyze the next phase of export growth.

As part of our policy of market expansion, we have signed a Comprehensive Economic Partnership Agreement with South Korea which will give enhanced market access to Indian exports. We have also signed a Trade in Goods Agreement with ASEAN which will come in force from January 01, 2010, and will give enhanced market access to several items of Indian exports. These trade agreements are in line with India's Look East Policy. We have also concluded the Mercosur Preferential Trade Agreement. It shall be our endeavour to deepen our trade engagement with other major economic groupings in the world.

The Government seeks to promote Brand India through six or more 'Made in India' shows to be organized across the world every year.

In the era of global competitiveness, there is an imperative need for Indian exporters to upgrade their technology and reduce their costs. Accordingly, an important element of the Foreign Trade Policy is to help exporters for technological upgradation. Technological upgradation of exports is sought to be achieved by promoting imports of capital goods for certain sectors under EPCG at zero percent duty.

Under the present Foreign Trade Policy, Government recognizes exporters based on their export performance and they are called ‘status holders’. For technological upgradation of the export sector, these status holders will be permitted to import capital goods duty free (through Duty Credit Scrips equivalent to 1% of their FOB value of exports in the previous year), of specified product groups. This will help them to upgrade their technology and reduce cost of production.

For upgradation of export sector infrastructure, ‘Towns of Export Excellence’ and units located therein would be granted additional focused support and incentives.

The policy is committed to support the growth of project exports. A high level coordination committee is being established in the Department of Commerce to facilitate the export of manufactured goods / project exports creating synergies in the line of credit extended through EXIM Bank for new and emerging markets. This committee would have representation from the Ministry of External Affairs, Department of Economic Affairs, EXIM Bank and the Reserve Bank of India. We would like to encourage production and export of ‘green products’ through measures such as phased manufacturing programme for green vehicles, zero duty EPCG scheme and incentives for exports.

To enable support to Indian industry and exporters, especially the MSMEs, in availing their rights through trade remedy instruments under the WTO framework, we propose to set up a Directorate of Trade Remedy Measures.

In order to reduce the transaction cost and institutional bottlenecks, the e-trade project would be implemented in a time bound manner to bring all stake holders on a common platform. Additional ports/locations would be enabled on the Electronic Data Interchange over the next few years. An Inter-Ministerial Committee has been established to serve as a single window mechanism for resolution of trade related grievances.

These are difficult times and we have set an ambitious goal for ourselves. I am sure that the industry and the Government, working in tandem, will be able to ensure that the Indian exports become globally competitive and that we are able to achieve the target, which we have set for ourselves.

(Anand Sharma)
Minister of Commerce & Industry
Government of India

New Delhi
August 27, 2009

# HIGHLIGHTS

# OF

# FOREIGN TRADE POLICY 2009-2014

**Higher Support for Market and Product Diversification**

1. Incentive schemes under Chapter 3 have been expanded by way of addition of new products and markets.

2. 26 new markets have been added under Focus Market Scheme. These include 16 new markets in Latin America and 10 in Asia-Oceania.

3. The incentive available under Focus Market Scheme (FMS) has been raised from 2.5% to 3%.

4. The incentive available under Focus Product Scheme (FPS) has been raised from 1.25% to 2%.

5. A large number of products from various sectors have been included for benefits under FPS. These include, Engineering products (agricultural machinery, parts of trailers, sewing machines, hand tools, garden tools, musical instruments, clocks and watches, railway locomotives etc.), Plastic (value added products), Jute and Sisal products, Technical Textiles, Green Technology products (wind mills, wind turbines, electric operated vehicles etc.), Project goods, vegetable textiles and certain Electronic items.

6. Market Linked Focus Product Scheme (MLFPS) has

been greatly expanded by inclusion of products classified under as many as 153 ITC(HS) Codes at 4 digit level. Some major products include; Pharmaceuticals, Synthetic textile fabrics, value added rubber products, value added plastic goods, textile madeups, knitted and crocheted fabrics, glass products, certain iron and steel products and certain articles of aluminium among others. Benefits to these products will be provided, if exports are made to 13 identified markets (Algeria, Egypt, Kenya, Nigeria, South Africa, Tanzania, Brazil, Mexico, Ukraine, Vietnam, Cambodia, Australia and New Zealand).

7. MLFPS benefits also extended for export to additional new markets for certain products. These products include auto components, motor cars, bicycle and its parts, and apparels among others.

8. A common simplified application form has been introduced for taking benefits under FPS, FMS, MLFPS and VKGUY.

9. Higher allocation for Market Development Assistance (MDA) and Market Access Initiative (MAI) schemes is being provided.

**Technological Upgradation**

10. To aid technological upgradation of our export sector, EPCG Scheme at Zero Duty has been introduced. This Scheme will be available for engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products and leather & leather products (subject to exclusions of current beneficiaries under Technological Upgradation

Fund Schemes (TUFS), administered by Ministry of Textiles and beneficiaries of Status Holder Incentive Scheme in that particular year). The scheme shall be in operation till 31.3.2011.

11. Jaipur, Srinagar and Anantnag have been recognised as 'Towns of Export Excellence' for handicrafts; Kanpur, Dewas and Ambur have been recognised as 'Towns of Export Excellence' for leather products; and Malihabad for horticultural products.

**EPCG Scheme Relaxations**

12. To increase the life of existing plant and machinery, export obligation on import of spares, moulds etc. under EPCG Scheme has been reduced to 50% of the normal specific export obligation.

13. Taking into account the decline in exports, the facility of Re-fixation of Annual Average Export Obligation for a particular financial year in which there is decline in exports from the country, has been extended for the 5 year Policy period 2009-14.

**Support for Green products and products from North East**

14. Focus Product Scheme benefit extended for export of 'green products'; and for exports of some products originating from the North East.

**Status Holders**

15. To accelerate exports and encourage technological

upgradation, additional Duty Credit Scrips shall be given to Status Holders @ 1% of the FOB value of past exports. The duty credit scrips can be used for procurement of capital goods with Actual User condition. This facility shall be available for sectors of leather (excluding finished leather), textiles and jute, handicrafts, engineering (excluding Iron & steel & non-ferrous metals in primary and intermediate form, automobiles & two wheelers, nuclear reactors & parts, and ships, boats and floating structures), plastics and basic chemicals (excluding pharma products) [subject to exclusions of current beneficiaries under Technological Upgradation Fund Schemes (TUFS)]. This facility shall be available upto 31.3.2011.

16. Transferability for the Duty Credit scrips being issued to Status Holders under paragraph 3.8.6 of FTP under VKGUY Scheme has been permitted. This is subject to the condition that transfer would be only to Status Holders and Scrips would be utilized for the procurement of Cold Chain equipment(s) only.

**Stability/ continuity of the Foreign Trade Policy**

17. To impart stability to the Policy regime, Duty Entitlement Passbook (DEPB) Scheme is extended beyond 31-12-2009 till 31.12.2010.

18. Interest subvention of 2% for pre-shipment credit for 7 specified sectors has been extended till 31.3.2010 in the Budget 2009-10.

19. Income Tax exemption to 100% EOUs and to STPI units under Section 10B and 10A of Income Tax Act, has been

extended for the financial year 2010-11 in the Budget 2009-10.

20 The adjustment assistance scheme initiated in December, 2008 to provide enhanced ECGC cover at 95%, to the adversely affected sectors, is continued till March, 2010.

**Marine sector**

21. Fisheries have been included in the sectors which are exempted from maintenance of average EO under EPCG Scheme, subject to the condition that Fishing Trawlers, boats, ships and other similar items shall not be allowed to be imported under this provision. This would provide a fillip to the marine sector which has been affected by the present downturn in exports.

22. Additional flexibility under Target Plus Scheme (TPS) / Duty Free Certificate of Entitlement (DFCE) Scheme for Status Holders has been given to Marine sector.

**Gems & Jewellery Sector**

23. To neutralize duty incidence on gold Jewellery exports, it has now been decided to allow Duty Drawback on such exports.

24. In an endeavour to make India a diamond international trading hub, it is planned to establish “Diamond Bourse (s)”.

25. A new facility to allow import on consignment basis of cut & polished diamonds for the purpose of grading/ certification purposes has been introduced.

26. To promote export of Gems & Jewellery products, the

value limits of personal carriage have been increased from US$ 2 million to US$ 5 million in case of participation in overseas exhibitions. The limit in case of personal carriage, as samples, for export promotion tours, has also been increased from US$ 0.1 million to US$ 1 million.

**Agriculture Sector**

27. To reduce transaction and handling costs, a single window system to facilitate export of perishable agricultural produce has been introduced. The system will involve creation of multi-functional nodal agencies to be accredited by APEDA.

**Leather Sector**

28. Leather sector shall be allowed re-export of unsold imported raw hides and skins and semi finished leather from public bonded ware houses, subject to payment of 50% of the applicable export duty.

29. Enhancement of FPS rate to 2%, would also significantly benefit the leather sector.

**Tea**

30. Minimum value addition under advance authorisation scheme for export of tea has been reduced from the existing 100% to 50%.

31. DTA sale limit of instant tea by EOU units has been increased from the existing 30% to 50%.

32. Export of tea has been covered under VKGUY Scheme benefits.

**Pharmaceutical Sector**

33. Export Obligation Period for advance authorizations issued with 6-APA as input has been increased from the existing 6 months to 36 months, as is available for other products.

34. Pharma sector extensively covered under MLFPS for countries in Africa and Latin America; some countries in Oceania and Far East.

**Handloom Sector**

35. To simplify claims under FPS, requirement of 'Handloom Mark' for availing benefits under FPS has been removed.

**EOUs**

36. EOUs have been allowed to sell products manufactured by them in DTA upto a limit of 90% instead of existing 75%, without changing the criteria of 'similar goods', within the overall entitlement of 50% for DTA sale.

37. To provide clarity to the customs field formations, DOR shall issue a clarification to enable procurement of spares beyond 5% by granite sector EOUs.

38. EOUs will now be allowed to procure finished goods for consolidation along with their manufactured goods, subject to certain safeguards.

39. During this period of downturn, Board of Approvals (BOA) to consider, extension of block period by one year for calculation of Net Foreign Exchange earning of EOUs.

40. EOUs will now be allowed CENVAT Credit facility for the component of SAD and Education Cess on DTA sale.

**Thrust to Value Added Manufacturing**

41. To encourage Value Added Manufactured export, a minimum 15% value addition on imported inputs under Advance Authorization Scheme has now been prescribed.

42. Coverage of Project Exports and a large number of manufactured goods under FPS and MLFPS.

**DEPB**

43. DEPB rate shall also include factoring of custom duty component on fuel where fuel is allowed as a consumable in Standard Input-Output Norms.

**Flexibility provided to exporters**

44. Payment of customs duty for Export Obligation (EO) shortfall under Advance Authorisation / DFIA / EPCG Authorisation has been allowed by way of debit of Duty Credit scrips. Earlier the payment was allowed in cash only.

45. Import of restricted items, as replenishment, shall now be allowed against transferred DFIAs, in line with the erstwhile DFRC scheme.

46. Time limit of 60 days for re-import of exported gems and jewellery items, for participation in exhibitions has been extended to 90 days in case of USA.

47. Transit loss claims received from private approved insurance companies in India will now be allowed for the purpose of EO fulfillment under Export Promotion schemes. At present, the facility has been limited to public sector general insurance companies only.

**Waiver of Incentives Recovery, On RBI Specific Write off**

48. In cases, where RBI specifically writes off the export proceeds realization, the incentives under the FTP shall now not be recovered from the exporters subject to certain conditions.

**Simplification of Procedures**

49. To facilitate duty free import of samples by exporters, number of samples/pieces has been increased from the existing 15 to 50. Customs clearance of such samples shall be based on declarations given by the importers with regard to the limit of value and quantity of samples.

50. To allow exemption for up to two stages from payment of excise duty in lieu of refund, in case of supply to an advance authorisation holder (against invalidation letter) by the domestic intermediate manufacturer. It would allow exemption for supplies made to a manufacturer, if such manufacturer in turn supplies the products to an ultimate exporter. At present, exemption is allowed upto one stage only.

51. Greater flexibility has been permitted to allow conversion of Shipping Bills from one Export Promotion scheme to other scheme. Customs shall now permit this conversion within three months, instead of the present limited period of only one month.

52. To reduce transaction costs, dispatch of imported goods directly from the Port to the site has been allowed under Advance Authorisation scheme for deemed supplies. At present, the duty free imported goods could be taken only to the manufacturing unit of the authorisation holder or its supporting manufacturer.

53. Disposal of manufacturing wastes / scrap will now be allowed after payment of applicable excise duty, even before fulfillment of export obligation under Advance Authorisation and EPCG Scheme.

54. Regional Authorities have now been authorised to issue licences for import of sports weapons by 'renowned shooters', on the basis of NOC from the Ministry of Sports & Youth Affairs. Now there will be no need to approach DGFT(Hqrs.) in such cases.

55. The procedure for issue of Free Sale Certificate has been simplified and the validity of the Certificate has been increased from 1 year to 2 years. This will solve the problems faced by the medical devices industry.

56. Automobile industry, having their own R&D establishment, would be allowed free import of reference fuels (petrol and diesel), upto a maximum of 5 KL per annum, which are not manufactured in India.

57. Acceding to the demand of trade & industry, the application and redemption forms under EPCG scheme have been simplified.

**Reduction of Transaction Costs**

58. No fee shall now be charged for grant of incentives under the Schemes in Chapter 3 of FTP. Further, for all other

Authorisations/ licence applications, maximum applicable fee is being reduced to Rs. 100,000 from the existing Rs 1,50,000 (for manual applications) and Rs. 50,000 from the existing Rs.75,000 (for EDI applications).

59. To further EDI initiatives, Export Promotion Councils/ Commodity Boards have been advised to issue RCMC through a web based online system. It is expected that issuance of RCMC would become EDI enabled before the end of 2009.

60. Electronic Message Exchange between Customs and DGFT in respect of incentive schemes under Chapter 3 will become operational by 31.12.2009. This will obviate the need for verification of scrips by Customs facilitating faster clearances.

61. For EDI ports, with effect from December '09, double verification of shipping bills by customs for any of the DGFT schemes shall be dispensed with.

62. In cases, where the earlier authorization has been cancelled and a new authorization has been issued in lieu of the earlier authorization, application fee paid already for the cancelled authorisation will now be adjusted against the application fee for the new authorisation subject to payment of minimum fee of Rs. 200.

63. An Inter Ministerial Committee will be formed to redress/ resolve problems/issues of exporters.

64. An updated compilation of Standard Input Output Norms (SION) and ITC (HS) Classification of Export and Import Items has been published.

**Directorate of Trade Remedy Measures**

65. To enable support to Indian industry and exporters, especially the MSMEs, in availing their rights through trade remedy instruments, a Directorate of Trade Remedy Measures shall be set up.