Address by
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Minister of Commerce, Industry and Textiles

At the Release of Annual Supplement 2012-13

To the FTP 2009-14

5th June 2012

Ladies and Gentlemen, I have the privilege of presenting the Annual Supplement 2012-13 to the Foreign Trade Policy.

Three years ago, the Government had announced the 5-year Foreign Trade Policy for the period 2009-14 and we are now halfway through this 5-year period. This presents for us an opportunity to take stock of our performance, recognize the challenges we face and make mid-course correction where necessary to ensure that we are able to achieve the target of US$ 500 billion exports by 2013-14.

It is indeed a difficult task to present a policy which aims for rapid growth in exports in the face of weak global demand and the unabated persistence of the global economic crisis which erupted 4 years ago. The difficult economic situation in the **Euro Zone crisis** poses a real risk of destabilizing the fragile recovery and sinking the world into yet another recession. We are also faced with an unprecedented **volatility in commodity prices** and **the crude oil prices touched** a new high last year, adding pressure on our import bill.

The Indian economy has also not remained insulated from these developments and the GDP figures of last quarter are indeed a cause of serious worry. The **Index of Industrial Production** has also highlighted the slowdown in manufacturing. The **Gross Fixed Capital Formation** has also slipped to **less than 30%** indicating a deceleration in investments. The weakening of the rupee will have its own implication on our annual import bill. Clearly Indian economy is passing through a difficult phase.

However, as we look at the achievements of the year gone by, we can derive some satisfaction from the fact that Indian exports maintained their momentum registering a 20.9% growth last year to touch **US$ 303 billion.** This by all accounts is a commendable achievement and a critical turnaround, given the fact that exports had declined to US$ 178 billion in 2009-10. We have been able to reach thus far by providing a stable policy environment and the market diversification strategy which enabled an outreach to newer markets in Asia, Africa and Latin America has clearly paid off. Throughout the last 3 years, we have worked in a spirit of true partnership between government and the exporting community, and we have intervened effectively when necessary to give stimulus to the struggling sectors.

We had unveiled an Action Plan in May 2011 for doubling India's merchandise exports to US$ 500 billion which was based on a strategy which hinged on four pillars:

a) **Developing products with a considerable growth potential**
b) **Market diversification strategy**
c) **Nurturing high technology exports**
d) **Build a Brand India**

In the last 3 years, we have significantly expanded the scope and coverage of the Focus Market Scheme which now covers 112 markets across the world. This has clearly yielded results as last year, India's exports to Asia, Africa and Latin America put together totaled US$188 billion which constitutes 62% of India's total export basket which is a significant development. Another redeeming feature of our export performance last year was substantial increase in value added exports, engineering exports touched US$ 60 billion, gems and jewellery crossed US$ 46 billion, and textiles exports crossed US$ 14 billion and pharmaceutical exports stood at US$ 13 billion.

Free Trade Agreements (FTAs) are an important element of India's trade strategy and through FTAs, we have sought to enhance our presence in new and emerging markets to increase our market share. We also view these agreements as vehicles for ensuring raw-material and intermediate products for our domestic industry at competitive prices. In the **last 3 years**, we have signed **Trade in Goods Agreement with ASEAN**, **Comprehensive Economic Partnership Agreements with Republic of Korea, Japan, and Malaysia** and are now negotiating similar Agreements with New Zealand, Australia, Canada. We are at an advanced stage of concluding an ambitious Broad based Trade and Investment agreement with EU. We expect that as a result of these agreements, Indian exports will be able to gain significant market access in newer territories.

Now, I would like to share with you the **measures which we are taking this year for giving a boost to exports.** As I mentioned earlier that a stable policy regime has been a key ingredient of our Foreign Trade Policy and the schemes which were put in place earlier have served us well and we intend to continue with these schemes in this Annual Supplement as well with suitable modifications.

The underlined philosophy of this year's Supplement is based on seven broad principles:

a) Give a focused **thrust to employment intensive industry** because **we view exports not only in terms of their economic contribution but as a means of generating gainful employment**

b) **Encourage domestic manufacturing for inputs to export industry and reduce the dependence on imports**

c) **Promote technological upgradation of exports** to retain a competitive edge in global markets

d) **Persist with a strong market diversification strategy** to hedge the risks against global uncertainty

e) **Encourage exports from the North Eastern Region given its special place in India's economy**

f) **Provide incentives for manufacturing of green goods recognising the imperative of building capacities for environmental sustainability**

g) **Endeavour to reduce transaction cost through procedural simplification and reduction of human interface**

Last year FM had agreed to create a special dispensation for labour intensive industry by extending the facility of 2% interest subvention for Handlooms, Handicrafts, Carpets and SMEs. We have now decided to extend the scheme for another year till 31st March 2013 and expand its coverage to include other labour intensive sectors namely Toys, Sports Goods, Processed Agricultural Products and Ready-Made Garments.

One of the key objectives of our Foreign Trade Policy has been to give a thrust to technology upgradation of exports in order to enhance global competitiveness of our products. The **Zero Duty EPCG Scheme** which was operational till 31st March 2012 has been a key policy instrument to achieve this objective and we have taken a decision now to extend it upto 31st March 2013 . We have also decided to enlarge the scope of the Scheme. Presently, benefits under the Scheme are not available to units which are availing benefits under **Technology Upgradation Fund Scheme (TUFS)** and **Status Holder Incentive Scheme (SHIS)**. However, now benefits under the Zero Duty EPCG Scheme will be allowed to be taken by companies for another line of business for which TUFS benefits have not been availed. Alternately, if benefits under TUFS or SHIS have been availed and were subsequently surrendered or remain unused, the facility of Zero Duty EPCG Scheme will be available.

We are now **introducing a new post-export EPCG scheme**. This scheme provides flexibility to exporters for importing capital goods on payment of duty, based on which an Export Obligation at a level of 85% to the original shall be stipulated. Thereafter, the exporter will be entitled to obtain Duty Free Scrips in proportion to the actual exports effected, thereby doing away with the requirement of monitoring the Export Obligation, thus reducing the transaction cost.

In order to give a thrust to labour intensive exports, we are doing away with the condition of maintaining average level of exports for labour intensive sectors like carpets, coir, jute in addition to already notified sectors-handicraft, handloom, cottage, sericulture etc.

To facilitate setting up of Common Service Centres located in the town of excellence, a Common Service Provider under EPCG Scheme will be **permitted to give a single Bank Guarantee (BG)**. Three new towns are being declared as towns of export excellence- Ahmedabad (Textiles), Kolhapur (Textiles), and Saharanpur (Handicrafts)

In order to **promote manufactured exports of green technology products**, export obligation under EPCG scheme is being reduced to 75% of the normal export obligation for 16 identified products like solar cells, wind turbines, water treatment plants, electrically operated vehicles etc. .

We recognize the need of promoting manufacturing activity and generating employment in the **North Eastern States**. We have taken a decision to reduce the Export Obligation under the EPCG Scheme to 25% of the normal export obligation and this facility will be applicable to North Eastern States and Sikkim.

We are also going to provide additional incentive of **1% of FOB value of exports for specified products through all Land Customs Stations of North Eastern Region.**

The Foreign Trade Policy allows duty free scrips under different Schemes of Chapter-3 of our Foreign Trade Policy – FPS, FMS, VKYGUY, SHIS, MLFPS, SFIS and Agri-infrastructure Incentive Schemes – for utilization of duty free import of goods as per conditions stipulated under these Schemes. **Now, in a major decision, we will be permitting utilization of these scrips for procurement of goods from domestic market for payment of excise duty.** This decision has been taken to promote domestic manufacturing and value addition and employment and will be a significant measure of import substitution.

Recognizing the efficacy of the market diversification scheme, this year we are adding **7 new markets to**

Focus Market Scheme (FMS). These countries are Aruba, Austria, Cambodia, Myanmar, Netherland Antilles, and Ukraine

7 new markets are being added to the Special Focus Market Scheme (Spl FMS)- Belize, Chile, El Salvador, Guatemala, Honduras, Morocco, and Uruguay.

46 new items are being added to Market Linked Focus Product Scheme (MLFPS). This would have the effect of including 12 new markets for the first time.

Market linked focus product scheme is being extended till 31st March 2013 for export to USA and EU in respect of the apparel sector.

100 new items are being added to the Focus Product Scheme (FPS) list.

Roasted cashew kernel, and protein concentrates & textured protein substances are being made eligible for benefits under VKGUY.

The **Agri-infrastructure Incentive Scrips** were envisaged to promote agricultural exports and strengthen and upgrade infrastructure including establishment of cold storages, pack house etc. Recognising that these scrips have not been used so far, we have now made them eligible for 14 specified equipments which will have a beneficial impact in strengthening agri export infrastructure.

The **Status Holder Incentive Scrips (SHIS)** allow import of capital goods for technology upgradation in specified sectors. Now, 1**0% of the value of these scrips** will be allowed to be utilized for import of components, spare parts of these capital goods as well. The SHIS scrips are so far subject to Actual User condition and transferability of the scrips is not permissible. It has now been decided that SHIS scrips holder may transfer the scrips to another SHIS holder who has a manufacturing facility.

It was brought to my attention that **small exporters of hand-made woolen carpet** very often suffer on account of ignorance of adversely loaded terms of export. In order to protect their interest, it has been decided that these exports will be suitably regulated to ensure secured payments.

In order to **reduce transaction cost** and ensure faster clearance of import consignment, we have decided that once an Advance Authorization is registered at any port, it will be **permitted for utilization at all EDI Ports.**

Visakhapatnam Airport has been identified as a new Port for the purpose of benefits under export promotion schemes.

The nature of world trade has changed considerably and today a large quantity of exports are being made by post, courier as well as through E-commerce. We have **now decided that exports shipped through Courier and E-Commerce platform will be eligible for export benefits if shipments are effected from Delhi and Mumbai**. An Inter-Ministerial Task Force constituted by the Ministry of Finance would expeditiously look into various aspects of e-Commerce to enable shipments through designated posts.

The **SEZs** have been a key instrumentality for providing robust infrastructure for export promotion. Today, these Zones provide direct employment to over 8.45 lakh people and last year contributed to exports of Rs. 3.65 lakh crores. They have received investment of over Rs. 2.02 lakh crores which is a significant achievement. However, after imposition of MAT and DDT, there has been a visible slowdown in growth of exports from SEZs. **We have undertaken a comprehensive assessment of the SEZ Scheme to re-visit** certain aspects of the policy and operational framework and after concluding the inter-ministerial consultation, we will be able to come out with new guidelines to make the operation of the SEZ policy more buoyant.

The 100% EOU Scheme has also been reviewed, to assess its remodeling after withdrawal of Income Tax exemption under section 10(B) of the Income Tax Act. A Committee was constituted for this purpose, which has now submitted its report and **over the next few months, we shall be making an announcement of the revamped 100% EOU Scheme**.

Deemed Exports Scheme which provides benefit of exemption and remission of duty for supplies to specified projects, to domestic manufacturers. This scheme **is also undergoing comprehensive review** and after concluding inter-ministerial consultations, we shall be announcing changes in this Scheme as well.

Electronic Data Interchange (EDI) is a core driver for facilitating international trade and one of the key initiatives this year is electronic transmission of foreign exchange realization details on exports by banks on a daily basis under the “e-BRC” (Electronic Bank Realization

Certificate) initiative. **Exporters will not be required to make any request to banks for issuance of Bank Export and Realization Certificate and this scheme will ensure seamless connectivity amongst DGFT, Customs, Banks and exporters for settlement and release of export benefits**. **This has been done with the objective of ensuring minimum human interface and reducing transaction cost.**

The Foreign Trade Policy document has been **comprehensively reviewed and edited, made more user friendly** and an effort has been made to remove all ambiguities and incorporate subsume all clarifications in a single document.

The guidelines for the Scheme for assistance to States for development of infrastructure and allied activities **(ASIDE)** to strengthen export related infrastructure has been re-formulated. The new guidelines will ensure that States should take up relatively larger projects which would have a visible impact for boosting exports.

In order to provide facility to Indian exporters to reach out to new markets, we administer another scheme **MAI (Market Access Initiative)** under which assistance is provided to exporters to organize buyer-seller meets, exhibitions abroad following an approach on specific focused products and focused countries. 13 India Shows have been planned for this financial year which will be held in different parts of the world to showcase the best of Indian industry and manufactured products and promote Brand India.

I hope that these measures will infuse necessary confidence in the exporting community and provide required dynamism even in this gloomy time. It is our expectation that with these measures and with the tenacity of our exporting community, we shall be able to sustain an annual export growth of 20% this fiscal as well. We shall be watching the global economic developments closely and shall intervene effectively to ensure that Indian exports stay well on course for achieving the targets.

Thank you.