

F.NO.605/36/2006-DBK
Government of India
Ministry of Finance
Department of Revenue

Sub : Annual Supplement to Foreign Trade Policy, 2004-09 (updated as on 7th April,2006) –
Introduction of Duty Free Import Authorization (DFIA) Scheme and Changes made in
Existing Export Promotion Schemes – regarding.

The Foreign Trade Policy, 2004-2009 and Handbook of Procedures (Vol.I) incorporating the Annual Supplement as updated on 7th April, 2006 has been notified by DGFT vide notification No. 1(RE-2006) / 2004-2009 dated the 7th April, 2006. The new Foreign Trade Policy (FTP) and Handbook may be perused for details. It may be seen that a new scheme called the Duty Free Import Authorization Scheme has been introduced in place of DFRC Scheme w.e.f. 1.5.2006. The DFRC Scheme got abolished on 30.4.2006. Likewise, the Target Plus Scheme (TPS) has been deleted from the Policy. Besides, a number of changes have been made in the existing Export Promotion Schemes. The more important changes are explained below.

Duty Free Import Authorisation (DFIA) Scheme

2. As mentioned above, a new scheme titled 'Duty Free Import Authorisation Scheme' has been introduced vide paragraph 4.4 of the Policy. Under the scheme, the inputs required for export production are exempt from basic customs duty, additional customs duty, education cess, anti-dumping duty and safeguard duty. The scheme is similar to Advance Licence Scheme with certain differences. One significant difference is that unlike the Advance Licence Scheme where the value addition requirement is only positive value addition, under the new scheme minimum value addition requirement is 20% (except for items in gem & jewellery sector). Another vital difference is that under the new scheme once the export obligation is fulfilled, the licence or the inputs imported (other than fuel) against it can be transferred / sold. The scheme may be perused for details.

2.1 As in the case of erstwhile DFRC Scheme, under the new scheme, in respect of sensitive items mentioned in para 4.55.3 of the Handbook, the exporter shall be required to give declaration with regard to technical characteristics, quality and specifications in the shipping bill. Notification No. 40/2006-Customs dt. 1.5.2006 has been issued to operationalise the DFIA scheme.

Vishesh Krishi & Gram Udyog Yojana

3. The Vishesh Krishi Upaj Yojana has been expanded to include village industry products and is now called Vishesh Krishi & Gram Udyog Yojana. The list of products will be notified by DGFT in due course. Some other changes have also been made in this scheme. One important change is that the entitlement has been reduced to 3.5% (from 5%) for all products in cases where the exporter has availed the benefits of duty exemption / duty remission schemes under Chapter 4 of the Policy and Duty Drawback. The EOUs and SEZ units have been excluded from the purview of Vishesh Krishi Upaj & Gram Udyog Yojana, meaning thereby that these units will not be eligible for the benefits of the scheme.

3.1 Notification No. 41/2005-Customs dt. 9.5.2005 has been amended by notification No. 43/2006-Customs dt. 5.5.2006 and may be perused for details.

EPCG Scheme

4. Paragraph 5.11 of Handbook has been amended to provide that extension of export obligation period beyond 8+2 years can be considered for a further extension upto 2 years with a condition that 50% of duty payable in proportion to the unfulfilled export obligation is paid by the licence holder to the Customs authorities. Notification No. 97/2004-Customs dt. 17.9.2004 has been amended by notification No. 43/2006-Customs dt. 5.5.2006 and may be perused for details. Further, paragraph 5.18 of the Handbook dealing with clubbing of EPCG licences has been amended to restore the provisions of licences having been issued during the same licensing year and for export of the same product(s) or same services, as obtaining prior to 8.4.2005.

Advance Licence Scheme

5. A number of changes have been made in the Policy and Handbook in the chapter dealing with Advance Licence Scheme. Advance Licence can now be issued for supply of stores on board of the foreign going vessel / aircraft subject to the condition that there is specific SION in respect of the item(s) supplied. [Para 4.1.3 of the Policy] The provision providing for extension in export obligation period beyond 36 months in respect of advance licence (para 4.22.1 of Handbook) has been deleted restricting the export obligation period to 36 months even after 12 month extension. Likewise, the provision providing for extension in export obligation period in respect of advance licence for annual requirement has been deleted from the Handbook. [Para 4.24 A(e)]

5.1 As part of proposals for Annual Supplement, it was brought to the notice of the Board by DOC that although the requirement of logged DEEC book has been withdrawn from the FTP in consultation with DOR w.e.f. 1.4.2002 in the case of Advance License for Annual Requirement Scheme, the Customs field formations are insisting the same for want of deletion of the clause from the corresponding Customs notification. Notification No.94 / 2004-Cus dated 10.9.2004 has since been amended vide notification No. 43/2006-Customs dt. 5.5.2006 so as to delete the requirement of DEEC book.

5.2 A sub para has been added below para 8.2(d) of the Policy to cover supply and installation of goods and equipment to projects financed by multilateral or bilateral agencies / funds where the bids are invited and evaluated on Delivered Duty Paid (DDP) basis. To implement this provision notification No. 91/2004-Customs dt. 10.9.2004 has been amended vide notification No. 43/2006-Customs dt. 5.5.2006.

Served from India Scheme

6. A number of changes have been made in this Scheme as mentioned below: -

- i) The foreign exchange earned through international credit cards or other instruments as permitted by RBI for rendering of service by the service providers shall also be taken into account for the purposes of computation of duty credit entitlement. The later part of the sentence beginning with "instruments as permitted by RBI for rendering of service by the service providers" is the new addition. [Para 3.6.4.3.1 of the Policy].
- ii) Transfer of duty credit scrips shall be allowed within the service providers of the Group company as defined in Chapter 9 and managed hotels with actual user condition.[Para 3.6.4.6 of the Policy].
- iii) The stand-alone restaurants will be entitled to duty credit equivalent to 10% of the foreign exchange earned by them in the preceding financial year as against 20% allowed earlier. [Para 3.6.4.4 of the Policy]
- iv) The imports against duty credit scrips shall relate to the service sector business of the applicant. [Para 3.6.4.5 of the Policy] Earlier, imports were relatable to the main line of business.

- v) Utilisation of duty credit earned under the scheme shall not be permitted for payment of duty in case of import of vehicles. [Para 3.6.4.5 of the Policy]
- vi) Utilisation of duty free credit scrip earned under the scheme shall be permitted for payment of duty in case of import of capital goods under lease financing in terms of provision in para 2.25 of the Policy. [Para 3.6.4.9 of the Policy]

6.1 Notification No. 92/2004-Cus, dt. 10.9.2004 has been amended by notification No. 43/2006-Cus, dt. 5.5.2006 and may be perused for details.

Other Miscellaneous Changes

7. Apart from the above, a number of other changes including some changes of procedural nature have been incorporated in the Policy and Handbook. Some of them are mentioned below:

- i) Two-Star Export Houses and above shall be permitted to establish Export Warehouses as approved by DOR. [para 3.5.2.1 of the Policy]
- ii) In Para 3.6.1, payment for services received by service exporters in Indian Rupees which are otherwise considered as having been paid for in free foreign exchange by RBI has also been made eligible for service exports. Earlier, payment for services was to be received in free foreign exchange only.
- iii) Interest for delayed payment of refunds would be made by the Government to ensure accountability and cut down delays.
- iv) For expeditious clearance of cargo, in lieu of test reports pre-shipment test certificates from accredited international agencies may be accepted.

8. In terms of paragraph 1B (vi) (a) of FTP, duty free import of specified specialised inputs / chemicals and flavouring oils etc. is allowed for marine sector to the extent of 1% of FOB value of preceding financial year's export. Presently, 13 items enjoy this duty free entitlement facility. 23 more items have been added in the list vide notification No. 42/2006-Customs dt. 5.5.2006 which amends notification No. 21/2002-Customs dt. 1.3.2002.

9 The Department of Commerce (DOC) and the Council for Leather Exports had brought to our notice that under notification No.21/2002-Cus dated 1.3.2002 the entry at (o) under serial 167A of the Table mentions 'Top Caps' and 'Top Puffs' whereas, it should actually be 'Toe Caps' and 'Toe Puffs'. In order to remove the difficulties in interpretation, the description has been amended from 'Top Caps' and 'Top Puffs' to 'Toe Caps' and 'Toe Puffs' vide notification No. 42/2006-Customs dt. 5.5.2006 which amends notification No. 21/2002-Customs dt. .

10. A suitable Public Notice and Standing Order may be issued for the guidance of the trade and staff. Difficulties faced, if any, in implementation of the Circular may be brought to the notice of the Board at an early date.