

Centre considers continuing EPCG scheme for exporters in new foreign trade policy

In what could spell relief for exporters, the Centre is “strongly considering” the extension of the popular Export Promotion Capital Goods (EPCG) scheme, that allows duty-free imports of certain capital goods subject to a specific export obligation, in the new foreign trade policy (FTP) likely to be implemented from October 1, 2022.

“The government carried out a review of the EPCG scheme, which was found to be in violation of global trade norms by the WTO, and weighed in factors like the benefits accruing to exporters from the scheme and the costs involved. A consensus seems to be emerging on continuation of the scheme in the forthcoming FTP and it is strongly under consideration,” a person tracking the matter told *BusinessLine*.

Complaint filed by US

In 2019, a WTO dispute panel had ruled that a number of export promotion schemes in India, including the Merchandise Export from India Scheme (MEIS), the EPCG scheme and the SEZ scheme, flouted multilateral trade rules and should be discontinued. The judgement was based on a complaint filed by the US.

Subsequently, the government replaced the MEIS scheme with the Remission of Duties and Taxes on Exported Products (RoDTEP) scheme from January 1, 2021, and is working on amending the SEZ rules to make them more relevant for the Indian industry, and also turn them WTO compliant.

“There is a feeling within the government that the EPCG scheme is continuing to serve the purpose of helping exporters produce quality goods with the import of sophisticated capital goods duty free. That is why a consensus may be emerging on its continuation for some time and this would get reflected in the new FTP. A phase-out could happen later,” the source said.

Consequences of extension at WTO

The government is not too worried about the consequences of extension of the EPCG scheme at the WTO. “As the WTO Appellate Body continues to be in suspension since November 2020, there is no immediate threat of any action been taken against any member,” the source said.

According to DGFT classification, the EPCG scheme’s objective is to facilitate import of capital goods for producing quality goods and services, to enhance India’s manufacturing competitiveness. Manufacturers can import capital goods for pre-production, production and post-production at zero customs duty subject to specified export obligation.

In an official release issued in January this year, the Commerce and Industry Ministry pointed out that the impressive growth in engineering goods exports in recent years was largely due to the zero duty EPCG scheme which forms part of the existing FTP. The current FTP, which came into force on April 1, 2015, for five years, was extended in tranches, till September 30, 2022, to provide policy stability during the pandemic period.

Source: The Hindu Business Line