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For the Students of B.Com.- IV sem
Paper- Export-Import Procedure and Documentation

Topic- Export Incentives

Indian economy being one of the fastest growing economies in the world has witnessed tremendous increase in its foreign trade in past few years. This increase has taken pace after the results of economic reforms of 1991 have started producing visible results. As a part of economic reforms, the government has formulated many economic policies which have led to the country's gradual economic development. Subsequently, there has been an initiative to improve the condition of exports sector in the country. The primary objective of these benefits is to simplify the whole export process and make it more flexible to accelerate the pace of export promotion schemes and programmes launched time to time by the government.

Moreover, export development being an important element for economic development has occupied an important place in the economic policy of the government. When the domestic market isn't large enough, foreign market provides opportunities to achieve economies of scale and growth. Secondly, the supply of many commodities, as in the case of a number of agricultural products in India, is more than the domestic demand. Thirdly, exports enable certain countries to attain the export-led growth. Fourthly, export markets may help in mitigating the impacts of domestic recession. Fifthly, a country may need to boost its exports to earn enough foreign exchange to finance its imports and service its foreign debt.

Further, many countries are suffering from trade deficit and foreign debt. Lastly, even for the countries witnessing trade surplus, export promotion is likely to be required in a view to maintain its position against the international competition and the level of domestic economic activity as well. The primary objectives of providing the different type of export incentives are as follows:

- For compensating the exporters for the high domestic cost of production.
- For providing necessary assistance to the new and infant exporters to develop the export business.
- For increasing the relative profitability of the export business vis-à-vis the domestic business.

Major Export Incentives of Government

1. Advance Authorization Scheme

Under the Advance Authorization Scheme, the inputs which are imported in the country will be allowed to be made duty-free (after making normal allowance for wastage) if they are actually utilized in the production of such a product which is going to be exported out of the country.

The inputs which are imported are exempt from duties like Basic Customs Duty, Additional Customs Duty, Education Cess, Anti-dumping duty, Safeguard Duty and Transition Product-Specific Safeguard duty, Integrated tax, and Compensation Cess, wherever applicable, provided certain terms and conditions are fulfilled. The Advance Authorization Scheme is at hand to either a manufacturer exporter directly or a merchant exporter tied with a supporting manufacturer.

Moreover, the following items can be imported without payment of duty under this scheme:

- Inputs that are used in the product production to be exported after making normal allowance for wastage
- Fuel, oil, catalysts which are consumed or utilized to get the export product.
- Mandatory spares that are required to be exported along with the resultant export product are allowed only up to 10% of the CIF value of Authorization
- Specific spices would be allowed to be imported duty-free only for activities including crushing, grinding, sterilization, manufacture of oil or oleoresin and not for simpler activities like cleaning, grading, re-packing, etc.

Further, Advance Authorization can be issued for inputs used in the product that is to be exported on the basis of Standard Input Output Norms (SION) as notified by the DGFT on the recommendation of the Norms Committee; on the basis of self-declaration; on the basis of the application filed prior to fixation of the norm by the Norms Committee; and on the basis of self-ratification scheme to those exporters who hold the Authorized Economic Operator (AEO) Certificate under Common Accreditation Programme of CBEC.

2. Advance Authorization for Annual Requirement

Under the Advance Authorization for Annual Requirement scheme, advance authorization can also be issued for annual requirement of the concerned exporters. The Status Certificate Holder exporters and also other categories of exporters having requisite export performance in the last two years are entitled for Advance Authorization for annual requirement. Further, the entitlement in terms of CIF value of imports shall be up to 300% of the FOB value of physical export and/or FOR value of deemed export in preceding licensing year or Rs 1 crore, whichever is more.

3. MEIS (Merchandise Exports from India Scheme)

Merchandise Exports from India Scheme (MEIS) under Foreign Trade Policy of 2015-20 is one of the important schemes introduced in Foreign Trade Policy of India 2015-20, as a part of Exports from India Scheme. The scheme has replaced the five other similar schemes operationalized in the Foreign Trade Policy of 2009-14 which were as follows:

- Focus Product Scheme (FPS)

- Focus Market Scheme (FMS)
- Market Linked Focus Product Scheme (MLFPS)
- Agri. Infrastructure incentive scheme
- Vishesh Krishi Gramin Upaj Yojna (VKGUY)

According to the FTP 2015-20, the MEIS scheme does not focus to only replace these five schemes but also aims to rationalize the incentives and enlarges their scopes by eliminating various restrictions. Additionally, in order to offset the infrastructural inefficiencies and the associated costs of exporting products produced in India, the government is giving special emphasis on those which are of India's export interest and have the capability to create employment opportunities and enhance India's competitiveness in the world market.

The incentives under this scheme are given at a defined rate on the basis of FOB value; the realized FOB value of exports or the FOB value of exports as given in the shipping bill in freely convertible currency, whichever is lesser. Moreover, the provisions and benefits under the scheme are different from product to product and from country to country.

4. SEIS (Service Exports from India Scheme)

The Service Exports from India Scheme (SEIS) was launched under the Foreign Trade Policy of India (FTP 2015-20), replacing the scheme named 'Served from India Scheme' under Foreign Trade Policy of India (FTP 2009-14). Under this scheme, the services providers of notified services are incentivized in the form of Duty Credit Scrips at some defined rate on their net forex earnings which are transferrable and may be used for payment of a number of Central duties/taxes including the basic customs duty as well.

Moreover, in order to avail the benefits under SEIS, following conditions must be fulfilled:

- The service providers should have minimum net free foreign exchange earnings of US \$15,000 in the year of rendering the services, and in case of Individual Service Providers and sole proprietorship, such minimum net free foreign exchange earnings criteria would be US\$ 10,000 in the year of rendering the services.
- The service providers shall have to have an active Import Export Code (IE Code) at the time of rendering such services for which rewards are claimed.

5. Duty Free Import Authorization Scheme

Under the Duty Free Import Authorization (DFIA) scheme, the duty free import of inputs, fuel, oil, energy sources is permitted which are actually used as the catalyst required for the production of export goods. There are certain conditions need to be fulfilled to meet the eligibility criteria under this scheme which are as follows:

- The authorization under the scheme shall be issued on post export basis only for those products for which Standard Input Output Norms (SION) has been fixed by the DGFT on the recommendations of Norms Committee.

- For merchant exporters, it is mandatorily required to mention the name and address of supporting manufacturer of the export goods on the export documents like ARE-1, ARE-3, Shipping Bill, Airway Bill, Bill of Export etc.

Further, the minimum value addition of 20% is mandatorily needed to be achieved to avail the benefits of DFIA scheme. However, Appendix 4C of the Advance Authorization contained the items requiring higher value addition than prescribed limits and for them, such higher value addition shall be applicable for while filing the application.

6. Export Promotion Capital Goods Scheme

With an aim to facilitate the import of capital goods for producing quality goods and services and enhance India's manufacturing competitiveness, the government has been implementing the Export Promotion Capital Goods Scheme for the manufacturer exporters with or without supporting manufacturer(s), merchant exporters tied to supporting manufacturer(s) as well as service providers.

Under the Scheme, EPCG Authorizations are issued with actual user condition and import validity of 24 months to import capital goods for pre-production, production and post-production at zero customs duty. These authorizations skip the items listed in the negative list. Further, these authorizations are subject to fulfillment of specific Export Obligation equivalent to six times of duties, taxes and cess saved on capital goods which are to be in six years from date of issue of Authorization. Moreover, the Authorization holder is required to fulfill the Average Export Obligation achieved by him in the preceding three licensing years for the same and similar products. However, if the minimum 75% of specific Export Obligation and 100% of Average Export Obligation is met within half of the original export obligation period. In addition to this, for indigenous sourcing of capital goods and for exports of Green Technology products, specific Export Obligation is 75%, while the units located in North-East Region and Jammu & Kashmir, the specific Export Obligation is only 25%.

7. Market Access Initiative (MAI)

Market Access Initiative (MAI) Scheme was launched by the government of India to encourage the India's exports on a sustained basis. This scheme is designed on focus product-focus country approach to find a specific strategy for specific market and specific product through market studies and surveys. The assistance, under the scheme, would be provide to Export Promotion Organizations, Trade Promotion Organizations, Exporters etc. for increasing the country's exports through accessing new markets or through increasing the share in the existing markets. Further, the level of assistance for each eligible activity has been pre-determined under the framework of the scheme.

Moreover, the activities included for the purpose of financial assistance under the scheme include;

- Identifying the research priorities relevant to the Department of Commerce and sponsoring research studies consistent with the priorities.

- Supporting the export promotion councils in undertaking market studies and surveys for evolving proper strategies.
- Supporting marketing projects abroad based on focus product-focus country approach, like, opening of showrooms, warehouses, undertaking publicity & brand promotion campaigns, advertising through departmental stores, research product & development, etc.
- Supporting recognized associations in industrial clusters for marketing abroad.

Furthermore, the criteria for availing the benefits under the Market Access Initiative (MAI) Scheme is based on focus country-product approach and those who satisfy the eligibility requirements should formulate a comprehensive project for market access on the basis of the aforementioned approach. The project should be for a particular product for a particular market for a minimum defined period so as to get the desired outcomes. The proposal should be original in nature and the assistance will not be provided for the project for which assistance under MDA has already been sanctioned. Moreover, the funding for the project will be on cost-sharing basis.

8. Market Development Assistance (MDA)

An important export promotion initiative as taken by the Government is institution of the Market Development Assistance (MDA). Assistance under this scheme is available for market and commodity researchers; trade delegations and study teams; participation in trade fairs and exhibitions; establishment of offices and branches in foreign countries; and grants-in-aid to EPCs and other approved organizations for export promotion on Export Credit by commercial banks and approved cooperative banks enjoyed a subsidy out of the MDA. Most of the MDA expenditure in the past was absorbed by the Cash Compensatory Support. The Cash Compensatory Support helped the exporters to increase the price competitiveness of the Indian products in foreign markets. Furthermore, the scheme is implemented by the Department of Commerce to support the following activities:

- To help the exporters for export promotion activities abroad.
- To help the Export Promotion Councils (EPCs) to undertake export promotion activities for their product(s) and commodities.
- To help recognized organizations and trade clusters in undertaking exclusive non-recurring innovative activities connected with export promotion efforts.
- To help the Focus Export Promotion Programme in specific regions of the world.

9. Duty Free License

Duty Free License includes Advances License, Advance Intermediate License and Special Imprest License. The import of inputs like raw materials, intermediates, components, consumables, parts, accessories, mandatory spares (not exceeding 5% of the CIF value of a duty free license) and packing materials may be permitted against a duty free license.

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10. Duty Entitlement Pass Book

Under the DEPB scheme, an exporter is eligible to claim credit as specified percentage of FOB value of exports made in freely convertible currency. Any item, except those in the negative list, is allowed to import without payment of customs duties against the credit under a DEPB. Further, the third party exports are also admissible for grant of DEPB.