The New Foreign Trade Policy:An Overview

The new Foreign Trade Policy was unveiled by Hon'ble Commerce and Industry Minister, Mrs. Nirmala Sitharaman on 1st April 2015 at Vigyan Bhawan, Delhi. The new Foreign Trade Policy 2015-20 focuses upon increasing exports of goods and services as well as generation of employment and is integrated with three important missions of the Union Government - Make in India, Digital India and Skills India. The government intends to support both the manufacturing and service sector with a special emphasis on "trade facilitation" and "ease of doing business".

The Foreign Trade Policy, 2015-20 may be categorised into following four parts for better understanding:

A. Simplification and Merger of Reward Schemes

In order to simplify the existing reward schemes, the earlier reward schemes have been merged into two new schemes. The newly defined Export from India Schemes aim to provide rewards to exporters to offset infrastructural inefficiencies and associated costs involved and to provide exporters a level playing field. The following two new schemes are brought in for exports of merchandise and services, respectively:

1. **Merchandise Exports from India Scheme (MEIS)**
   The earlier five schemes for rewarding merchandise exports with different kinds of duty scrips with varying conditions (sector specific or actual user only) attached to their use, namely, Focus Product Scheme, Market Linked Focus Product Scheme, Focus Market Scheme, Agri Infrastructure Incentive Scrip and VKGUY have now been replaced by a single scheme called *Merchandise Export from India Scheme (MEIS)*. It is important to note that there would be no conditionality attached to the scrips issued under the scheme.

(Contributed by Indirect Taxes Committee of ICAI. Comments can be sent to idtc@icai.in.)

For grant of rewards under MEIS, the countries have been categorised into three groups, whereas the rates of rewards under MEIS would range from 2% to 5%. Notified goods exported to notified markets would be rewarded on realised FOB value of exports in free foreign exchange. The debits towards basic customs duty and additional duty of customs/ excise duty/service tax would also be allowed adjustment as duty drawback/CENVAT credit, as per Department of Revenue rules.

The basic objective of Merchandise Exports from India Scheme (MEIS) is to offset infrastructural inefficiencies and associated costs involved in export of goods/products, which are produced/manufactured in India, especially those having high export intensity, employment potential and thereby enhancing India's export competitiveness.

2. **Service Exports from India Scheme (SEIS)**
   Service Exports from India Scheme (SEIS) has replaced earlier Served from India Scheme (SFIS) and aims to encourage export of notified services from India. It applies to 'service providers located in India' instead of 'Indian service providers'. Service providers located in India covers exporters who are providing services from India, regardless of the constitution or profile.
   Under the new policy, the benefit is also extended to airport operations and ground handling services covering 77 services. Under SEIS, the selected services would be rewarded at the rates of 3% and 5% based on net foreign exchange earned. The rate of reward under SEIS would be based on net foreign exchange earned. The reward issued as duty credit scrip would be freely transferable and usable for all types of goods and service tax debits on procurement of services/goods. Debits would be eligible for CENVAT credit or drawback.

Other important features of both the schemes are as follows:

- All scrips issued under MEIS and SEIS and the goods imported against these scrips would be fully transferable and usable for payment of custom duty, excise duty and service tax.
- It is also proposed to extend benefits of both the reward schemes (MEIS and SEIS) to units located in SEZs.
- Business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognised as 'Status Holders'. These Status Holders would be able to self-certify their manufactured goods as originating from India with a view to qualify for preferential treatment under different agreements like Preferential Trading Agreements, Free Trade Agreements, Comprehensive Economic Cooperation Agreements and Comprehensive Economic Partnerships Agreements, which are in operation.
- The nomenclature of Export House, Star Export House, Trading House, Star Trading House, Premier Trading House certificate has been changed to One, Two, Three, Four, Five Star Export House.
- The criteria for export performance for recognition of status holder have been changed from Rupees to US dollar earnings. FOR value of exports in Indian Rupees shall be converted in US$ at the exchange rate notified by CBEC, as applicable on 1st April of each financial year. The new criteria is as under:

Status Category		**Export Performance FOB / FOR Value During Current and Previous Two Years**	
Old	New	Old Limit (₹ in Crore)	New Limit (in US $ million)
Export House	One Star Export House	20	3
Star Export House	Two Star Export House	100	25
Trading House	Three Star Export House	500	100
Star Trading House	Four Star Export House	2500	500
Premier Trading House	Five Star Export House	7500	2000

Business leaders who have excelled in international trade and have successfully contributed to country's foreign trade are proposed to be recognised as 'Status Holders'.

B. Boost To "Make In India"

1. Specific Export Obligation under EPCG scheme, in case capital goods are procured from indigenous manufacturers, which is currently 90% of the normal export obligation (six times at the duty saved amount) has been reduced to 75%, in order to promote domestic capital goods manufacturing industry.
2. Higher level of rewards under MEIS for export items with high domestic content and value addition as compared to products with high import content and less value addition.

EPCG authorisation holders are now required to maintain records for a period of 2 years as against earlier requirement of 3 years as in future the records would be available in electronic mode which can be archived and retrieved whenever required.

C. Trade Facilitation and Ease of Doing Business

Trade facilitation is a priority of the government for cutting down the transaction cost and time, in order to make Indian exports more competitive. Some of the measures taken by the government in the direction of trade facilitation for the benefit of stakeholders of import and export trade are as follows:

1. **Online Filing of Documents/Applications and Paperless Trade in 24x7 Environment**
   (a) DGFT already provides facility of online filing of various applications under FTP by the exporters/importers. In order to move further towards paperless processing of reward schemes, it has been decided to develop an online procedure to upload digitally signed documents by Chartered Accountant/Company Secretary/Cost Accountant and other online documents like annexures attached to Aayat Niryat Form ANF 3B, ANF 3C and ANF 3D, which are at present signed by these signatories and submitted physically.
   (b) Hardcopies of applications and specified documents under Chapter 3, 4 and 5 of FTP would not be required to be submitted to Regional Authorities (RA) of Directorate General of Foreign Trade (DGFT), saving paper, cost and time for the exporters. In this regard, to begin with, applications under Chapter 3 and 4 of FTP are being covered and applications under Chapter-5 would be taken up in the next phase.
   (c) Landing documents of export consignment as proofs for notified market would be digitally uploaded by exporters/status holders.

2. **Online Inter-Ministerial Consultations**
   In order to discontinue submission of hard copies of documents and reduce the time taken for approval, it is proposed to have online inter-ministerial consultations for approval of export of SCOMET (Special Chemicals, Organisms, Materials, Equipment and Technologies) items, norms fixation, import authorisations, export authorisation, in a phased manner.

3. **Simplification of Procedures/Processes, Digitisation and E-Governance**
   (a) Under EPCG scheme, obtaining and submitting a certificate from an independent Chartered Engineer, confirming the use of spares, tools, refractory and catalysts imported for final redemption of EPCG authorisations has been dispensed with.
   (b) EPCG authorisation holders are now required to maintain records for a period of 2 years as against earlier requirement of 3 years as in future the records would be available in electronic mode which can be archived and retrieved whenever required.
   (c) Facility has been created to upload documents like IEC, Manufacturing licence, RCMC, PAN, *etc.* in exporter/importer profile itself to do away with repeated submission.
   (d) In order to have better communication with exporters/ importers and to keep them updated about the issuance of authorisations or status of their applications, the information like mobile number, e-mail address, *etc.* have been added as mandatory fields in IEC data base. Online filing of application for refund of TED is also being introduced for which a new ANF has been created.
   (e) It has been decided to have online message exchange with CBDT for PAN data and with Ministry of Corporate Affairs for CIN and DIN data. For faster and paperless communication with various committees of DGFT, dedicated e-mail addresses have been provided to each Norms Committee, Import Committee and Pre-Shipment Inspection Agency for faster communication. This integration would obviate the need for seeking information from IEC holders for subsequent amendments/updatation of data in IEC data base

4. **Forthcoming e-Governance Initiatives**
   DGFT is working towards various electronic data interchange initiatives like online issuance

of Export Obligation Discharge Certificate (EODC), online payment of application fee, mobile applications for FTP, open API for submission of IEC application, *etc.*

D. Other New Initiatives

Objectives of various schemes like EOU, EHTP, STP, BTP, SCOMET, *etc.* are to promote exports, enhance foreign exchange earnings, attract investment for export production and employment generation. Certain new initiatives are discussed as follows:

1. New Initiatives for EOUs, EHTPs and STPs

(a) In order to enable units to utilise their infrastructural facilities in an optimum way and avoid duplication of efforts and cost, EOUs, EHTPs, STPs have been allowed to share infrastructural facilities among themselves.

(b) In order to reduce cost of transportation, other logistic costs and to maintain an effective supply chain, inter-unit transfer of goods and services has been allowed among EOUs, EHTPs, STPs, and BTPs.

(c) To reduce the lead time for delivery of goods and also to address the issue of un-predictability of supply orders, EOUs have been allowed facility to set up warehouses near the port of export.

(d) STP units, EHTP units, software EOUs have been allowed the facility to use all duty free equipment/goods for training purposes to develop skills of their employees.

(e) 100% EOU units have been allowed facility of supply of spares/components up to 2% of the value of the manufactured articles to a buyer in domestic market for the purpose of after sale services.

(f) Simplified procedure will be provided to fast track the de-bonding/exit of the STP/EHTP units to save time and reduce transaction cost.

(g) EOUs having physical export turnover of Rs.10 crore or more, have been allowed the facility of fast track clearances of import and domestic procurement on the basis of pre-authenticated procurement certificate, issued by customs/ central excise authorities.

In case of adverse market conditions or on grounds of any genuine hardship, EOU units have been allowed an extended period of one year in addition to current 5 year period to achieve positive Net Foreign Exchange Earning (NEE) cumulatively.

(h) Time period for validity of Letter of Permission (LOP) for EOUs/EHTP/STPI/BTP units has been revised to 2 years initially, for faster implementation and monitoring of projects. Further extension can be granted by the Development Commissioner up to one year. Extension beyond 3 years of the validity of LOPS can be granted in case unit has completed 2/3rd of activities, including the construction activities.

(i) In case of adverse market conditions or on grounds of any genuine hardship, EOU units have been allowed an extended period of one year in addition to current 5 year period to achieve positive Net Foreign Exchange Earning (NEE) cumulatively.

(j) For transfer of capital goods amongst EOUs, EHTPs, STPs, SEZ units, if goods are rejected by the recipient unit, the same may be returned to supplying unit without payment of any duty.

2. Facilitating and Encouraging Export of Dual Use Items (SCOMET)

(a) In order to help industry to plan their activity in an orderly manner and obviate the need to seek revalidation or relaxation from DGFT, validity of SCOMET (Special Chemicals, Organisms, Materials, Equipment and Technologies) export authorisation has been extended from the present 12 months to 24 months.

(b) Verification of End User Certificate (EUC) is being simplified if SCOMET item is being exported under Defence Export Offset Policy.

(c) Outreach programmes will be conducted at different locations to raise awareness among various stakeholders.

3. Facilitating and Encouraging Export of Defence Exports

(a) To boost export of defence items and other high technology items, export obligation period for export items falling in the category of defence, military store, aerospace and nuclear energy will now be 24 months (as against standard 18 months' period) from the date of issue of authorisation or co-terminus with contracted duration of the export order, whichever is later.

(b) A committee has been formed to create ITC (HS) codes for defence and security items for which industrial licenses are issued by DIPP. A list of military stores requiring NOC of Department of Defence Production has also been notified by DGFT.

4. **e-Commerce Exports**
e-Commerce exports of handloom products, books/periodicals, leather footwear, toys and customised fashion garments through courier or foreign post office would also be able to get rewards entitled under MEIS (for FOB values upto 25,000 INR). Such goods can be exported in manual mode through foreign post offices at New Delhi, Mumbai and Chennai. Export of such goods under Courier Regulations shall be allowed manually on pilot basis through airports at Delhi, Mumbai and Chennai, as per appropriate amendments in regulations to be made by Department of Revenue. Department of Revenue shall fast track the implementation of EDI mode at courier terminals. These measures would not only capitalise on India's strength in these areas and increase exports but also will provide employment.

5. **Duty Exemption**
(a) Imports against Advance Authorisation shall also be eligible for exemption from Transitional Product Specific Safeguard Duty.
(b) In order to encourage manufacturing of capital goods in India, import under EPCG Authorisation Scheme shall not be eligible for exemption from payment of anti-dumping duty, safeguard duty and transitional product specific safeguard duty.

6. **Duty Free Tariff Preference (DFTP) Scheme**
FTP has notified extension of duty free tariff preference to 33 Least Developed Countries (LDCs) across the globe.
The DFTP Scheme grants duty free access on 94% of India's total tariff lines to be implemented over a period of five years. Specifically, it will provide preferential market access on tariff lines that comprise 92.5% of global exports of all LDCs. The scheme provides that in order to avail benefits under this scheme, individual LDC members submit a Letter of Intent to the Government of India. The scheme further provides that in order to enjoy tariff preference, the beneficiary country submits a Certificate of Origin along with the consignment.

In order to encourage manufacturing of capital goods in India, import under EPCG Authorisation Scheme shall not be eligible for exemption from payment of anti-dumping duty, safeguard duty and transitional product specific safeguard duty.

7. **Quality Complaints and Trade Disputes**
In an endeavour to resolve complaints or trade disputes and to create confidence in the business environment of the country, a mechanism is being laid down to address the complaints and disputes in an amicable way.
(a) For resolving quality complaints and trade disputes at a faster pace, a Committee on Quality Complaints and Trade Disputes (CQCTD) is being constituted in 22 offices and would have members from EPCs/ FIEOs/APEDA/EICs.
(b) Additionally, a new chapter, namely, Chapter on Quality Complaints and Trade Disputes has been incorporated in the Foreign Trade Policy which explains the proceedings and procedures to deal with complaints and trade disputes.

8. **Additional Ports Allowed for Export and Import**
Calicut Airport, Kerala and Arakonam ICD, Tamil Nadu have been notified as registered ports for import and export.

9. **Additional Towns of Export Excellence**
To add to 33 recognised export excellence towns, government has decided to add Vishakhapatnam and Bhimavaram in Andhra Pradesh as towns of export excellence (Product Category–Seafood).

Inference

Foreign Trade Policy 2015-20 focuses on stability and ease of doing business. The policy rightly aims to promote exports, use of technology and reduce transaction costs and manual compliances. Launching of new schemes to replace the old ones shows a clear step in direction of incentivising exports. The policy is a right move to accomplish the "Make in India" mission of the Government. ■