CHAPTER-VI

Pre & Post Liberalisation
Reforms
On
Export Promotion
&
Foreign Trade.
6.1 INTRODUCTION

India as a developing country has mainly depended upon foreign trade policy as an essential instrument in the process of Economic growth. Promotion of exports and Restriction of imports are the twin objectives of India's trade policy. The basic problem of the Indian Economy happens to be the domestic non-availability of certain crucial inputs like industrial raw-materials, capital goods and technology. This impediment can be removed through larger inputs of such items which are required to accelerate the pace of Industrial development through increases the share of manufactured items in exports. Higher is the rate of development, greater is the demand for imports. Although in the short run, imports can be financed through foreign aid. In the long run imports must be financed by additional exports generated through Export promotion efforts of the country. The basic objective of the foreign policy therefore revolves round the instruments and techniques of export promotion and import management.

The importance of export promotion in the context of development planning was first recognized during the middle of the second five year plan. When India's foreign exchange reserves built up during then second world war faced a virtual exhaustion. The genesis of the crisis lay in the formulation of second plan strategy itself which place great emphasis on the development of capital intensive industries in order to build up the infrastructure of the economy. This required a large volume of imports which in the absence of the corresponding,
increase in export Earnings resulted in a severe balance of payments crisis.

India therefore followed the policy of Import substituting industrialization during second five year plan, which required a continuous increase in domestic investments. When ever there was a shortfall in the volume of investments, excess capacity occurred in the capital goods industries. At the same time it was not possible to reduce the level of imports beyond a certain limit. It therefore became imperative to increase foreign exchange. Earnings through exports.

**6.2 OBJECTIVES OF INDIÁS EXPORT POLICY**

Main objectives of our export policy can be enumerated as follows:

1. The main aim of India export policy has been to earn sufficient foreign exchange to finance the required volume of imports.

2. Another important objectives of export policy in India has been to affect a change in the directional pattern with a view to reduce dependence on a single country or limited number of countries.

3. The objective of the export policy has also been to supplement domestic demand for increasing employment opportunities and generating domestic income.
4. It has been always kept in mind while framing the policy of export promotion in the country, that unit value realization should be increased as far as possible by the promotion of exports of value added items.

5. Minimum price regulation where there is competition among exporters of the country, have also been imposed.

India was of having annual trade policy system up to the year 1984-85. But later on it was considered necessary, that some sort of stability in export policies should be provided to exporters. So that they can plan their export effort on a medium and long term basis. Keeping this objective in view the Government of India decided to have a three year medium term foreign trade policy from 1985. The first medium term foreign trade policy announced by the Govt. of India was effective from April 1985 to 31st March 1988.

2. Another three year medium term policy was announced by the Government to be effective from 1st April 1988 to 31st March 1991. How ever there was a change in the Government and a minority Government. came into power in 1989. The new government announced another three year trade policy to remain effective from 1st April 1990 to 31st March 1993. But the successive changes in the central Government in the country and unstable political situation deprived India of an opportunity not only to put the economy on a sound framing but also to promote exports to desired extent. As shall be seen from the statistics available for exports during later years of 80’s early 90’s it is evident that exports grew by impressive rates during the period 1990-91.
but the declining pattern set in from 1990-91 onwards. Although export policy measures adopted by the Government during late 90’s are not to be blamed, there were certain other factors which resulted in a declining pattern of export earning in general.

After introducing radical economic reforms by the Government of India as on 29th February 1991 and this policy shall remain effective from 1st April 1992 to 31st March 1997 Which is coterminous with the period of 8th five year plan.

6.3 MAIN FEATURES OF OUR EXPORT POLICY UPTO EIGHTIES

Some important changes in our export policy were made on the basis of Alexander committee recommendations. The policy frame work was made development oriented rather than control oriented as in the past. As a result some controls were lifted in order to speed up the process of industrial development and for maximizing capacity of several items was chanalised.

6.3.1 SILENT FEATURES OF INDIA’S EXPORT POLICY UP TO EIGHTIES CAN BE SUMMARIZED AS FOLLOWS:

1. Several incentives and concessions were granted to exporters during late sixties. Coverage of these incentives and concessions was also widened during seventies and eighties. Important among such facilities were cash compensatory support (CCS), duty draw back import
facility for actual users, import replenishment license for registered exporters, and the duty exemption scheme.

2. Certain facilities were also granted under industrial licensing regulation.

3. Establishment of export processing zones (EPZS) and hundred percent export oriented units (EOV'S) was also encouraged to step up export promotion.

4. Import of technology was also facilitated.

5. The policy of export houses, trading houses and star trading houses was also introduced to encourage exports.

6. Certain concessions were allowed under the category of demand exports.

7. Several facilities in the area of export marketing and credit.

8. Tax concessions and facilities were provided to exporters for promoting exports.

6.4 EXPORT POLICY CHANGES DURING NINENTIES

I. Suspension of cash compensatory support (CCS).

II. Replenishment license were freely traded.

III. Financial institutions were also allowed to trade in EXIM scripts.

IV. Uniform replenishment rate of 30% was allowed for all exports with few exceptions.

V. All supplementary licenses were abolished except for small scale sector and for life saving drugs and equipments.

VI. All additional licenses granted to export houses /trading houses were abolished.

VII. All items listed in the permissible list. Open General license (OGL) items imported by PMP units. All capital goods in appendixes and machinery and shares to be imported through special replenishment licenses.

VIII. Unlisted OGL category was abolished.

IX. Advance licensing procedure was modified.

X. Decimalization and rupee convertibility was also indicated. The new trade policy introduced in the first week of July 1991 was a liberal policy calling for more transparency and globalization effort on the part
of the exporting community as well as the Government. This policy mainly emphasized on import compression measures to restrict the volume of imports wherever it was considered essential and allow easy access to critical inputs, technology and capital goods for augmenting export production.

In the budget for 1992-93 rupee was made partially convertible allowing 60% of foreign exchange earning to be retained by exporters and 40% to be retained by exports and 40% to be surrendered to R.B.I. At official rate of exchange, a new system of exchange rate management was introduced in the budget for 1992-93 where by the foreign exchange surrendered at official exchange rate was to be utilized to import essential items. All other imports of raw material, components and capital goods, were made feel & importable under open general license. But the foreign exchange for these imports was to be obtained from open market. A specific negative list of items was also allowed to be imported against licenses; foreign exchange required for other payments on private account including travel, debt service payments, dividends, royalties and other remittances was to be obtained at market rate. Although the new system was introduced as a transitional arrangement towards an unified exchange rate which was announced with the introduction of the Budget for 1993-94 allowing full convertibility on trade account. The earlier policy simulated the trade policy regime by Eliminating total exchange control.

The import licensing system developed over the years was characterized by bureaucratic delays and arbitrariness and was also
vulnerable to charges of corruption and misuse the system operated against difficult and costlier to obtain license. A step towards simplification of the system was taken in July 1991 with the introduction of exam script. Import license was issued to exporters for 30 percent of the value of exports, EXIM script could be used to import a wide range of items which were earlier importable against supplementary licenses.

Strict fiscal and monitory discipline was introduced to control aggregate demand. The central fiscal deficit was reduced form 8.4 percent of GDP in 1990-91 to 6.2 percent of GDP 1992-93. Monitory policy was also aimed at slowing down the growth of money supply from 18.5 percent in 1991-92 to 10.5 percent in 1992-93. The result of such a change in monitory policy was to be seen in brining down the inflation rate which could help export activity in a considerable manner.

### 6.5 EXPORT POLICY 1992-2000

A new export policy was announced on march 31st 1992 for the five year period 1992-2002 subsequently foreign trade (Development and Regulation) Act 1992 was enacted with the approval of the parliament in August 1992 repacking the Imported and exports (Control) act. 1947 The export and import policy was simplified under the new legislation which seeks to give a positive orientation to our foreign trade.
Some important changes were also made in the export and import policy after 1st April 1993. These changes were made with a view to further liberalizing the export and import policy and making it more supportive of our export. The changes are also based on our interaction with trade and industry and the experience which we gained in implementing the policy over last one year, particular attention was given to simplification and streaming of the policy and procedures in making these changes.

In the revised policy special attention is being paid to the growth of exports in the agriculture and allied sectors, this is considered essential. If we want to step up investment in the agricultural sector, raise the income generation capacity in rural areas and have sustainable growth with equity in our export. Governments, therefore have attached high priority to encourage the establishment of export oriented units in this sector. It has been decided that units engaged in agriculture, sericulture, Poultry and sericulture can avail the benefits of duty free imports under the export oriented units and export processing zone scheme. Even if they export 50% of their production they can sell the remaining 50% percent in the domestic market as against the limit of 25% permitted for non agricultural sector.

The definition of capital goods under the policy has also been widened to cover capital goods used in agriculture and allied activities so that units engaged in this sector can avail of the export promotion capital goods scheme for importing their equipments at a concessional rate of duty. Further, more critical inputs and materials required by the
agriculture sector such as, prawn, shrimp and poultry feed. Edible wax for waxing fresh fruits and vegetable grape guard paper. Dipping oil for treatment of grapes wheat Gluten etc, are being removed from the negative list of imports so that they are freely importable, together with the incentives announced for the agricultural sector in the budget 1993-94. It is hoped that these changes will give an impetus to exports from agricultural and allied activities; trade in service is increasingly becoming important segments of world trade. India is endowed with abundance of higher skilled human resource that give us an advantage in the service sector. In order to tap the potential of this sector, a new scheme called the “Export promotion capital goods scheme for the service sector” has been introduced in the policy. Under this scheme capital equipments at a concessional rate of duty of 15 percent may be imported by those who render professional service such as architects artists character accountants, consultants, doctors, economists, engineers, Journalists lawyers and scientists. The scheme is also open to services such as hotels and restaurants travel agents, tour operators and diagnostic centers. The export obligation to be achieved by them will be in the form of the foreign exchange earned by them regardless of whether the services are being rendered in India or abroad. This new scheme will meet a long standing demand that the service sector should be treated at par with manufacturing sector.

In the case existing export promotion capital goods scheme applicable to the other sectors the window of import of capital goods at the concessional rate of duty of 15 percent is only being kept open and
the other window of import at 25 percent duty is being deleted in view of the general lowering of customs duties in the budget 1993-94.

There was representation from the trade and industry that the advantage of the export promotion capital goods scheme has been eroded with the reduction in the normal customs duties on capital goods. In order to provide certain flexibility in the scheme in the case of capital intensive project or projects involving sophisticated technology, alternatives were also worked out and detailed guidelines in this behalf, have been announced recently further the requirements relating to the provision of bank guarantee by the importers have been liberalized and the procedures simplified in order to reduce the cost to the importer in furnishing bank guarantee.

A total number of 144 items were removed from the negative list of exports. In respect of those items which were excluded from the negative list. But were attached with certain terms and conditions like the minimum export price, a separate public notice was issued specifying those terms and conditions. However no export license will be required for their export.

The criteria for recognition of export house, trading house and star trading house was based on the net foreign exchange earning, on the willingness of trade and industry and the due to difficulties faced by them in competition the procedures has been simplified. It was decided that the criterion for recognition of export house trading house and star trading house will be based on F.O.B value of physical exports. The
quantum of F.O.B. value has been adjusted suitably. As a consequence. The scheme for special import licenses for these houses is now based on F.O.B. value of physical exports inspite of net foreign exchange earnings.

Under the export oriented unit and export processing zone scheme, the export obligation to be achieved by these units was subjected to prescribed value addition. Before the announcement of the new policy the value of indigenous import of, purchase these units was also deducted in the computation of the value addition. In order to encourage the use of indigenous inputs by such units, the formula of value of indigenous imports from the computation of value addition, the new formula also provides a special dispensation for capital intensive units.

Under the duty exemption scheme both the quantity based advanced licenses and the value based advanced licenses were continued. In order to expedite the grant of licenses under the scheme standard input output and value addition norms were published for over 2200 items. Efforts are continuing to be made to increase substantially the number of items covered by standard input output norms now. In the light of experience gained in the operation of the value based advanced licensing scheme. It was decided that both the quantity and value of the exports specified in the license will have to be achieved by the license holder in order to minimize the possibility of the misuse of such license. Obligation by duty free license holder is also being strengthened a new revised edition of the hand book of the procedure was published. Efforts
were made to simplify the procedures and make them more transparent, to carry the process of liberalization. Certain changes in this policy will continue to be announced periodically.

Certain Measures were also taken to help the export sector. Exporters who had completed their exports and had realized the export proceeds before the introduction of the full convertibility were in a disadvantageous position in case they had not complete their imports under the duty Free licenses before 1st March 1993. In order to remove this dis-advantage, it was decided that they will be given a cash amount equivalent to 8% of their unutilized import licenses. Secondly in the case of those exporters who had completed their exports before first march 1992, and who had not exchanged their REP/ Exam scrip before February 27, 1993, they would be given a further opportunity to surrender this EXIM scrip leaning a premium of 20 % on them.

The commitment and involvement of the state government in our export effort is crucial .A centrally sponsored scheme for assisting the states for the establishment of industrial parts with high standards of infrastructural facilities was also announced. Our performance on the export front holds the key, not only for management of balance of payment position but also for our orderly economic development. We need to build a strong export culture in the country not only for our trade and industry but also for the Government departments. Institutions and infrastructural a genies. The export and import policy should be considered as an important instrument to unable as to realize our potential on the export front.
An attempt this year has been made to reverse the liberalization process initiated earlier. The value based advanced licensing system has been abandoned for all practical purposes. Selective frightening of the procedure is coupled with prohibition on revalidation of freely transferable licenses. The proponents of liberalization would have hiked a substantial pruning of this list in the light of full convertibility and reduction in excise duty announced in recent budgets, on the export side the list of items subject to quantitative calling has been dropped. Similarly the list covering items which can be exported without a license subjects to specific conditions was also dropped. These lists cover 47 main items. However by a public notice issued in March 1993 a list of 34 items subject to conditions like contract registration and minimum export price was also announced.

The new policy claims to put special emphasis on agriculture and service sectors which the object is laudable. There is little fresh thinking in terms of design if new scheme tailored to the specific conditions in these industry segments the Government had chosen to work through the old instruments like export promotion capital goods and export oriented unit scheme. The agricultural sector would prefer the normal export route as customs duty on agricultural machinery is only 25 percent compared to the export promotion capital goods duty of 15%. The commerce ministry has tried to view the policy from the angle of indigenous industry and the foreign exchange budgeting division of the department of economic affairs. The value based advanced licensing scheme leaves the field to the relatively less profitable quantity based
advanced license. As of now, both vale and quantity will be limited factors for the incentives policy for the export sector is back again special import licenses will be given to export houses to import selected consumer goods from the negative list. The value of these licenses will be quite high (estimated) at Rs.2 thousand corers. Since the percentage varying between 2 to4 percent depending upon the zone of the export houses will be based on FOB earning rather than the net foreign exchange. This will not take real export value of exports the abandonment of the net foreign exchange earning criteria is justified on the ground of simplification.

As mentioned earlier the consumer goods sector is shielded from import competition by licensing restrictions, not with standing the recent cuts in excise duty imports is possible only through the package route. A limited number of items can be imported against the special import license available to export houses. The restriction extend to even parts of consumer goods which can be imported only by actual users as certified by the state directors of the industry or directorate General of technological development.

Certain items were removed from the consumer goods list, for example trimming and embellishment fasteners, buttons for garments and make up knit wares, plastic and rubber goods etc, this change will be a welcome relief for the garments, and leather goods importers. The problem arises because the scope of the term consumer goods is left to the customs officer. The cotton consumer goods is yet to be identified and certain items which have been removed from the list of consumer
goods deserve consideration. Drugs and Pharmaceuticals accept the specified items are now freely importable. In the previous policy, free imports were limited to life saving drugs only other imports required clearance from the Directorate General of Health service. This step will ease availability and improve the variety of drugs available in the country.

The principal objectives of 1992-2000 policy can now be summed up as follows.

1. To establish the game-work for globalization of Indian foreign trade.

2. To promote the productivity modernization and competitiveness of Indian industry and thereby to enhance its export capabilities.

3. To encourage the attainment of high and internationally accepted standard of quality and thereby enhance the image of Indian products abroad.

4. To augment India’s exporters by facilitating access to raw materials intermediate components, consumables, and capital goods from the international market.

5. To promote efficient and internationally competitive import substitution and self-reliance under a deregulated framework for foreign trade.
6. To culminate or minimize quantitative licensing and other disc reactionary controls in the frame work of India foreign trade.

7. To faster the country’s research and development and technological capacities.

8. To simplify and streamline the procedures governing exports and imports.

6.6 ASSISTANCE AND INCENTIVES FOR EXPORT PROMOTION

Export subsidies and incentives in India received due attention of our planers only after mid sixties. These incentives have been offered in different areas and have also been modified from time to time. In the beginning export incentives were aimed at removing internal and external constraints and encouraging producers to enter the area of international marketing. Initial measures consisted of incentives and such as import entitlement schemes and fiscal concessions. Under these incentives exporters, Manu factures were provided the facility of importing raw materials and components so as to step up production meant for export. Import entitlement scheme was started in 1958 considering the necessity of export diversification and growing demand of new items of manufactures in the would market. Duty draws back and re-fund of excise and sales tax were also allowed to compensate exporters against heavy burden of indirect taxes. Income tax
concessions were introduced in early sixties exporters were also allowed the facility of using internal means of transport at concessional rates.

Indian rupee was devalued on 6th June 1966 with a view to provide a push to stagnating exports. However imports become costlier and export did not increase.

Immediately due to some unfavorable circumstance beyond our control, Government introduced several schemes to cash compensatory support and a host of institutional services to help exports at various stages, these concessions continued up to late seventies when it was realized that certain specific measures should be initiated to widen the scope of export incentives and make them more effective in the changing international business senrio. Several policy changes were introduced to enlarge the scope of such incentives from the point of view of making our export effective export pass book scheme was introduced from January 1, 1986, for certain categories of exporters and Importers, Importers of capital goods and components were further liberalized by introducing radical changes in industrial licensing policy New export processing zones were established and rates of the cash compensatory support and duty drawback were revised. A long term view of such incentives, eliminating speculation about export assistances programmes, was taken up. In a bid to upgrade the technology, concessional imports of raw materials and capital goods were also allowed and suitable changes were made in import policy regulation. Export promotion councils and other institutions which were established to assist exporters have also not been functioning properly.
Grants given to export promotion councils are also proposed to be phased out within five to seven years. These promotional bodies will now be required to function on their own strength.

A brief description of different schemes which have been introduced for providing export assistance and incentives from time to time is given in the ensuing paragraphs. Export assistance can be classified under three major heads namely.

1. Assistances for export production incentives

2. For reducing price disadvantages and

3. Assistances for marketing including other facilities.

6.7 ASSISTANCE FOR EXPORT PRODUCTION, AND PROMOTION

Export production is a necessary pre-condition for export expansion. The basic idea of the governments help in the area of production has been to enable the exporters to undertake export production on a continuing and long-term basis by ensuring regular supply of imported indigenous raw materials. The following facilities were allowed to manufacturers, exporters before recent policy changes which have modified and revised earlier polices in this regard.
6.8 IMPORT FACILITIES FOR ACTUAL USERS

Under the import policy, the actual users (industrial) could meet their requirements of imported raw materials, components, consumables and spares under the following provisions.

1. Open General licenses.

2. Supplementary licenses and

3. Allotment through canalized agencies; an actual user was free to; import under open general Licenses (OGL) a large number of raw materials, components, consumables and spares required for manufacturing purposes.

Restricted spares were allowed on there basis of the certified value of capital goods installed or in use as on 1st April of the licensing year. However this was limited to 2 percent of the C.I.F. value of imported capital goods and percent of the purchase price of indigenous capital goods with imported components value limit for a single spare was not to exceed Rs. 3 lakhs.

Import of emergency spares was allowed in the case of an actual breakdown or immediate breakdown of production machinery on, the basis of a declaration from the chief executive to that effect giving the broad particulars necessitating emergency import.
All indigenous manufactures of capital goods could get import licenses for spares at 1.5 percent of C.I.F. value of imported components. Which ever was higher to provide warranty of after sales service to consumers.

Import of spares was also allowed to consultancy, Designing and engineering firms, implanting turnkey projects up to 2% of the value of imported equipments or 1% of the total purchase price of the indigenous equipment.

6.9 SUPPLEMENTARY LICENCES

In case of the requirements of actual users and Industrial owners could not be met under the OGL provisions they could apply for supplementary import license through their sponsoring authorities.

Applications for the grant of supplementary licenses were to be entertained only for items listed in appendix-2 (part B) and (3) of the earlier import policy, import items appearing chief controller of imports and exports (CCI&F) where it was considered necessary.

6.10 REPEAT OPERATION OF SUPPLEMENTARY LICENCES

Units which exported a minimum of 25 percentage of the production in any of the two preceding financial years, subject to a
of Rs 10 lakhs in FOB value were permitted a repeat operation of the supplementary license issued in the previous years.

6.11 CANALISED ITEMS

The items which were canalized (appendix-5) parts A and B were imported through designated public sector agencies. The canalizing agency could sell the imported goods before their actual arrival at the Indian part. In the case of items appearing in Appendix-5 part A. The actual users were required to register their six-monthly requirements or annual requirements with the canalizing agency concerned together with earned money calculated at 2 percent of the sales value of the quantity so registered or Rs.1,00,000 whichever was less.

In case canalizing agency was in a position to make supplies, they can send requisite information to the actual user. In case however in canalizing a No objection certificate with in a period of 30 years from the date of receipt of requirements on the basis of such a N.O.C’s the actual users would apply for direct import licenses.

6.12 IMPORT REPLENISHMENT LICENCE FOR REGISTERRED EXPORTERS

The registered exporters comprise merchant exporters, manufacture exporters, and export and trading houses. The objective of import replenishment licenses was to provide to the registered exporters
imported materials required for manufacturing the product meant for exports.

6.13 DUTY EXEMPTION SCHEME

This scheme was introduced in 1977. The objective of the scheme has been to make available necessary inputs for export production at international prices without payment of customers duties so as to make exports competitive in the international market. The duty exemption scheme covered three categories of licenses.

1) Advance Licenses.

2) Intermediate License and

3) Special import licenses.

This scheme has now been modified and replaced by a new scheme. A system of value based advance license has been introduced this. Permits duty free imports of necessary raw materials and components keep to a stipulated percentage of the value of indicated exports, physical qualities and norms are not laid down for individual inputs. Self certification advance license are available for export houses, trading houses and star trading houses. All licenses under duty exemption scheme are also transferable.
6.14 EXPORT IMPORT PASS BOOK SCHEME

This scheme is available to manufacturer / exporter having a good record and export houses trading houses and star trading houses. The new export import policy has given the advantage of the scheme to manufacturers with three years average. Annual turn over of Rs.15 crores and above are eligible for the facility up to the extent of 10 percent of annual average turn over.

6.15 FREE TRADE ZONES

There are six free trade zones at Kandia Santa Cruz (Bombay) Cochin Madras falta (Calcutta) and Noida (near New Delhi) were, facilities are available for export production. Supplies can be obtained in these zones for further production, without payment of excise duty or import duty. Importation is possible without prior licensing. However it is obligatory on the exporting units to export 100 % of their production.

Exports from these zones are not eligible for replacement license or cash compensatory support. However all units In the free trade zones are eligible for a tax holiday for a period of 5 years in lie of the existing concession available under the Income tax laws. Tax holiday could be availed for any continuous block of 5 years within 8 years of commencement of production. In the free zones foreign investment is welcome and conditions for investment are more liberal than in the domestic tariff area.
6.16 100 PERCENT EXPORT-ORIENTED UNITS (EOU'S)

These units are given all the facilities of duty free imports of capital goods, raw materials and components, concession in central excise and other central levies and more liberal foreign collaboration terms on the lines of facilities available in free trade zones. These units can be located anywhere in India except MRTP/FERA. A new factory or a new branch of an existing factory or an expansion of an existing factory, the scheme is subject to the following conditions.

- Such units will have to give a minimum value addition of 20 percent.

- Domestically procured raw materials will be treated as imports.

- Export obligation will be for 10 years. This period may be reduced to 5 years in case of products with high obsolescence.

- The entire production shall be exported however, can sell 25% of their production in the domestic tariff area against valid import licenses. In addition, these units can sell 5% of production in the domestic market provided such goods are in the nature of projects.

- The gestation period for generating exports would be two years from the date of sanction after which export obligation will commence.
100 percent E.O.U’s are also certified to a tax holiday for any continuous block of five years within 8 years of commencement of production.

Bonding charges for individual units having bonding arrangements are to be reduced from 150 percent to 100 percent of the cost of customs tariff.

6.17 EXPORT PROMOTION CAPITAL GOODS SCHEME

The export promotion capital goods (EPCG) scheme is a scheme under which import of capital goods is permitted at a concessional import duty of 25 percent subject to export obligation of three times the CIF value of imports to be achieved over a period of four years. It was further liberalized, also to allow imports of capital goods at a lower concessional customers duty of 15 percent subject to an export commitment equivalent to four times the CIF value of imports to be achieved over a period of five years.

6.18 CASH COMPENSATORY SUPPORT

This scheme was introduced in the year 1966. Although cash compensatory support has been suspended since 1st July 1991. The payments are still pending to exporters on this ground. Cash compensatory support was allowed on a selected basis and was granted primarily with the objective of making the exported items more competitive in international markets by compensating the India’s
exports for non refunded indirect taxes and dues paid on the physical imports of inputs for the exported goods. The scheme of c.c.s. which was valid up to 31st March 1992, but it was suspended earlier. All exports actually affected up to the mid of July 2 and 3, 1991 will, however be entitled to benefit the C.C.S.

6.19 THE SCHEME WAS BASED ON THE FOLLOWING PRINCIPLES

1. The main element of relaxation granted in form of cash compensatory support was compensation for rebated indirect taxes like sales tax, Actrai duty etc., which were not included in the duty draw back mechanism.

2. The disadvantage on account of higher freight due to various factors like low volume of trade discriminatory freight rates adopted by the conference lines etc. May be compensated to the extent they were discriminated.

3. Compensation for product and market development may be given on selected basis.

4. Special consideration will be given for agricultural and agro based products and for perishable agricultural items like fruits, vegetables by giving preference and rebate in transportation lasts within India from producing centers.
5. Special consideration for handicrafts and handlooms in value added form was also intended.

6.20 DUTY DRAW BACK SCHEME

A manufacturer has to purchase raw-materials and components in the process of manufacturing a product on such purchases, he has to pay customs duty on imported materials. These taxes result into increase in price of goods. The customs and excise duties paid on raw material components and other items by the manufacturers of exported goods are reimbursed to the exporter in the form of duty drawback to make the product competitive in the international markets. The working of duty drawback scheme was constantly monitored and a number of changes have been affected from time. A number of new products having export potential were identified and all industry rates of drawback were fixed for the first time for new items of electronics, engineering food and others allied industries recently. Amendments were also made to customs and central excise duty drawback rules 1971. In the year 1989 and the minimum differential of 25 percent for eligibility of special brand rates was reduced to 20 percent this has given considerable help to exporters in availing of drawback facilities specially to those who are exporting electronics goods drugs dye and their intermediaries.

6.21 MARKETING DEVELOPMENT ASSISTANCE

The Government of India established the market development fund now known as marketing development assistance in the years 1963
with a view to stimulate and diversify the export trade along with the
development of marketing of India product and commodities abroad is
utilized for the following important purpose:

a) Market research for commodities and area surveys.

b) Export publicity and dissemination of information.

c) Participation in trade fairs and exhibitions.

d) Trade delegations and study terms.

e) Establishment of office and branches in countries aboard.

f) Grant –in-aid to export promotion councils and other organizations
   for Promotion of foreign trade.

g) Any other scheme which is initiated generally to promote the
development of markets for India’s products and commodities aboard.

The marketing assistance is provided for the following purposes.

622 PRODUCT PROMOTION AND COMMODITY DEVELOPMENT

a) The provision under this head was, for cash compensatory
   support for selected export products like engineering goods chemicals
   and the acid products plastic goods, jute goods, cotton textiles, export
   goods processed food items leather and leather manufactures.
b) Grant-in-aid to export development and market development organizations

There are 19 export promotion councils to which the grant in aid is being provided. However no grant is given to export promotion council for cotton textiles.

c) Export credit development:

This scheme is a subsidy scheme to be paid towards interest charges on export finance provided by the banks.

6.23 TAX CONCESSIONS AND OTHER FACILITIES

Tax concessions are available for export of technical knowledge and services and the divided income royalties, received from such exports are exempted from income tax. The deduction is equal to 1 to 33 times of the expenditure incurred directly during the previous years. Certain deductions under tax act are also allowed to exports on export proceeds under different sections of the Act. Technology and capital goods for export of such items which are produced indigenously are also allowed. Under monopolies and restrictive trade practices Act, big business houses are allowed to enter into certain collaboration agreements. Trade fairs and exhibitions are organized apprise the foreign buyers about India’s capability of production and exports realign to certain items. Indian business men are allowed concessional arrangement to participate in foreign trade fairs similarly meetings
between buyers and sellers are also organized with Government assistance to popularize India’s export items. Institutes like Indian institute of foreign trade and India trade promotion organization cooperate in sending study tours and market research delegation to foreign countries. Research studies on several aspects of international marketing are also conducted by Indian institute of foreign trade and export promotion councils and commodity boards. Training facilities to export executives are provided by the Indian institute of foreign trade. The institute to executives not only form different organizations, in India but also from several developing countries of the world foreign exchange facilities and insurance are also provided by institute like Reserve Bank of India, export import Bank of India and export credit Guarantee Corporation, Export awards have also been instituted which give a feeling of involvement to Indian exporting community in export promotion programme. Subsides in different cases are also granted through marketing development assistance. The government has also remained conscious about quality standards of the products exported from India, quality control and inspection act 1963 makes adequate arrangements for pre shipments quality inspection. The Indian government also initiated several steps to upgrade the quality standards of the Indian products so as to confirm to I.S.O. 9000 and B. 14000 standards.

6.24 DUTY DRAW BACK SCHEDULE

Duty draw back scheme was introduced by the Government with a view to provide rebate of duty charges on commodities borrowed used
in Epos. The working of duty draw back scheme was constantly monitored and a number of changes effected during the year as a part of Government's drive to ensure more realistic and expeditious payment of duty draw back to exporters. Keeping in view the immediate need to boost exports, special care was taken to add, as many new items as possible and to improve the existing rates in order to compensate the exporters to the fullest extent possible and enable them to complete in the international market.

Rule F.A., of the draw back rules, 1971, has been amended and the limit of Rs.10,000/- per shipment reduced to Rs.5,000/- as a result more exporters will be able to claim draw back where the rates work out to less than 2% off.

6.25 MAIN FEATURES OF THE DRAW BACK SCHEME RULES

1. The rates for 333 items have been announced for the first time by splitting the existing entries and also identifying new items having export potential.

2. The rates for 84 categories of items have been improved.

3. The existing rates for 65 items have been continued.

4. As per the export import policy, the drawback in respect of central excise duties remain admissible on products exported under
DEEC. Therefore the existing provision of providing the reduced rates of draw back for exporters availing DEEC scheme. There for the existing provision of providing the reduced rates of draw back for exporters availing DEEC scheme.

6.26 EXPORT PROMOTION CAPITAL GOODS SCHEME

Under this scheme, capital goods are allowed to be imported at a concessional rate of customs duty. For importers who are willing to undertake export obligation of certain items of the CIF value to be fulfilled in five years only 15% of the CIF value of customs duty is payable. The scheme is open to regular exporter as well as new exporters. Both new and second hand capital goods are allowed under this scheme. Subsequently some amendments have been made which include:

1. Permitting import of capital goods on leasing.

2. Permitting import of components duty free to the indigenous manufacturers of the capital goods but after fabrication could supply the same to the EPCG license holder.

3. To allow legal undertaking instead of book guarantee after the license holder has completed 50% of export obligation.

A new export promotion capital goods (EPCG) scheme of service sector was introduced vide revised addition of EXIM policy published on 31st March 1993. The said scheme permits import of capital
equipments by specified categories of professional hotels. Restaurants and other specified services provide at a concessional duty of 15% subject to the condition that free foreign exchange equivalent to four times the value of such capital equipments is earned with a period of five years.

6.27 ADVANCE LICENCE SCHEME

An advance license is granted for duty free import of items, subject to fulfillment of a time bound export obligation and specified value addition. The minimum value addition prescribed is 33%. On request lower value addition up to 25% could also be allowed an merits.

6.28 VALUE BASED ADVANCE LICENCE

The value based advance license system was introduced in the export import policy, 1992-2000 for the first time. Under this category only the C.I.F. value of imports and F.OB value of exports and also items of imports were required to be indicated. The value based advance license scheme introduced in the EXIM policy of 1992-2000 has become very popular with the exporters and has been continued in the current year also. Further improvement in the scheme was made by standardizing value based norms.

6.29 QUALITY BASED ADVANCE LICENCE

In the quality based advance licensing scheme, only the quantity of each item to be imported, the C.I.F. value of exports was required to
be indicated. The quality based advance licensing scheme was modified to allow draw back of both customs and excise duties on inputs allowed to be imported against advance license, but which are not actually imported and are got deleted from advance license and DEEC.

6.30 SELF-DECLARED PASS BOOK SCHEME

The self Declared pass Book scheme introduced W.E.F. 1-04-1992 is available to export houses, trading houses and statradings house for the export-products for which standard input output products norms under the value based advance licensing scheme is applicable for physical goods exports.

6.31 ADVANCE INTERMEDIATE LICENCE

An advance intermediate license is granted for the duty free import of raw materials etc. by the intermediate manufacturer for supply to the ultimate exporter, holding license under duty exemption scheme. The intermediate license holder has the option either supply to a license holder or export directly.

6.32 EXPORT PROMOTION MEASURES IN THE CENTAL BUDGETS FOR THE YEAR 1993-99

a). The dual exchange rate system was replaced by a unified market determined exchange rate system to enable exporters to convert 100 percent of their earnings at the market rate.
b) The five year tax holiday under section 10-A of the income tax act at present available to units set up in the free trade zones, was extended to units setup in the Software Technology Parks (STP) and Electronics Technology Parks (EHTP).

c) To Augment the availability of electricity, which is a major bottleneck currently being faced by exporters, a five year tax holiday was introduced in respect of profits of new industrial undertaking setup anywhere in India for generation and distribution of power.

d) 100 percent deduction from income tax granted to income from export of software was extended from one more year.

e) The peak import duties which were reduced from a maximum of 150 percent in the Budget for 1992-93 were further reduced to a maximum of 85 percent except from a few items including passenger baggage and alcoholic beverages.

f) Specifically import duty on projects and general machinery was reduced from 55 to 35 percent on coal mining and petroleum refining from 30 to 25 percent and that on power from 30 to 20 percent.

g) On a number of other capital goods including machine tools and instruments, import duties which ranged between 60 to 110 percent were rationalized into 3 duty rate slots namely 40 percent, 60 and 80 percent involving duty reduction of 20-30 percent.
h) In order to strengthen export capitalized in existing export thrust areas, such as electronics, cement, paper textiles, leather, marine products, gems and jewelry, where India enjoys comparative advantage import duty in specified capital goods for these sectors were reduced from 40 to 25 percent.

i) Import duty on various items of machinery used for agriculture, floriculture, forestry, was reduced from 55 to 25 percent.

j) Private sector participation has been encouraged in settling up of inland container depots/container freight stations (ICPS/CFSS) to generate completion and get over the problems of resources for development of such stations. An inter ministerial committee is functionary in the ministry of commerce to provide single window clearance to the proposals for setting up of ICPS/CFSS).

6.33 EXPORT IMPORT POLICY 1992-2002

1) The fundamental feature of the export to import policy is freedom in the field of foreign trade. The thrust is on lower restrictions and less administrative control.

2) All goods may be freely imported and exported. Same for two negative lists. One for exports and the other one for imports restrictions and import of few materials and capital goods have been removed.
3) Import of second hand capital goods is also allowed for 20 specified sectors including printing, garments, textile, leather sector rubber and canvas foot wear, sports goods, electric lamps, electronic components, package materials oil field service writing instrument and sea food.

4) Exporters are entitled to import capital goods at concessional rate duty, under the export promotion capital scheme. This scheme allows exporters to import capital goods at concessional import duty of 15 percent against export obligation of four times the value of Imports to be fulfilled within a period of five years. A domestic importer under EPCH is permitted to source capital goods from a domestic leasing company.

5) Under the duty exemption scheme, exporters can import duty free raw materials, intermediaries, components and other inputs required for export promotion, subject to fulfillment of time bound export obligation and value addition specified.

6) Merchant and manufacturer exporters and trading companies including those having foreign equity EDV's and units in EPLS are given recognition in as export/trading strap, trading houses based on certain minimum value of exports mode during the preceding licensing year.
6.24 IMPORTANT MEASURERS TAKEN DURING 2002 AND AFTER

1. The exporters may base a prior permission form the collector of customs and subject to such condition as may be specified by him, also effect importer and exports under duty exemption scheme from any seaport./Airport/ICDS and customs stations.

2. As a measure of trade liberalization the condition of MEP in the EXIM policy 1992-97 in respect of (i) FCV to ballo.(ii) Asia quality paper (iii) and (iv) wheat products has been done away with MEP on Basmati rice has been reduced.

3. With the issue of a public notice on 11th October 1993 by the D.G.F.T. export of wheat products has been decontrolled.

4) Procedure for approval of pocket fees by the Tea Board has been liberalized and hence forth only those pockets which use tea board logo would be required to be approved by the tea board.

5. For grant of duty free licenses on Adhoc norms financial powers of regional advance licensing committee have been enhanced from Rs 25 Lakhs to Rs.50 Lakhs.