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Statement by Minster on Trade Policy

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STATEMENT BY MINISTER ON TRADE POLICY
[English]

THE MINISTER OF STATE OF THE MINISTRY OF COMMERCE (SHRI P. CHIDAMBARAM): On 4th July, 1991. I announced major changes in the Trade Policy. Subsequently, in consultation with the Ministry of Finance, several decisions have been taken. It is considered appropriate to put together all these decisions in the form of a Statement on Trade Policy. The Statement on Trade Policy is annexed here with. [Placed in Library. See No LT-366/91].

Hon'ble Members will be pleased to know that the Statement on Trade Policy contains major reforms in the Eximscrip system and Advance Licensing. It also contains a new package for 100% Export Oriented Units and Units in the Export Processing Zone. The Statement also deals with other matters such as the policy towards canalisation and the role of the public sector state trading organisations.

The functions of Chief Controller of Imports and Exports are being reoriented. The office itself is being redesignated as Directorate General of International Trade.

The Statement on Trade Policy recognises the major role that State Governments have to play in export promotion.

The Board of Trade has been reconstituted and it will meet shortly.

The Government attaches high priority to trade policy reform as an essential element in restructuring our economy to increase productivity and competitiveness and to achieve a strong export performance in the years ahead.

STATEMENT ON TRADE POLICY

International trade today, more than ever before, is the driving force of economic activity. It not only enables the exchange of goods and services among countries, but in today's world, it serves as the bedrock for the increasingly inter-dependent global network of technology, investment and production. No country can ignore these developments which pose both opportunities and challenges. India's trade policy must respond to these challenges.

2. The new Government took office at a time when the Balance of Payments position facing the country had become critical and foreign exchange reserves had been depleted to dangerously low levels. The export momentum built up during the period 1986-87 to 1989-90, when India's exports grew at an average annual rate of 17% in terms of US dollars, was lost in1990-91 when export growth decelerated to only 9% in US dollars.

[Sh. P. Chidambaram]

Exports in April-May 1991 have actually shown a decline of 5.8 per cent in terms of US dollars compared with April-May 1990. Imports had to be severely contained in the course of 1990-91because of the shortage of foreign exchange. This affected the availability of many essential items and also led to a distinct slow down in industrial growth.

3. Restoration of viability in our external payments situation was an urgent task requiring action on several fronts, including macro-economic stabilisation and reform of trade policy. Trade Policy reform has to aim at quick revival of the momentum of exports. It is only through rapid growth of exports that we can expect to overcome our persistent balance of payments problems, restore inter-national confidence and achieve true self- reliance with an expanding economy. The reform also has to aim at creating strong incentives to economise on imports but without resorting to proliferation of licensing controls which promote delay and inefficiency, spawn arbitrariness and stifle enterprise. The world economy is changing rap- idly and most countries, including developing countries and the countries of Eastern Europe, are gearing up to the challenges of competing in an increasingly integrated, highly global market place. India cannot afford to ignore these changes. India can grow faster only as part of the world economy and not in isolation. Our trade policy must therefore create an environment that will provide strong impetus to exports and render export activity more profitable. We must also create an environment free from bureaucratic control in which our exporters will be able to respond with speed and flexibility to changing international conditions.

4. To this end the Government announced as initial package of trade policy reforms on 4th July 1991. Several changes in trade policy were introduced aimed at strengthening export incentives, eliminating a substantial volume of import licensing and optimal import compression in view of the Balance of Payments situation. Essential imports of sensitive items such as POL and fertilisers were fully protected, but other imports of raw materials and components were linked to export performance, through an enlargement and restructuring of the replenishment licensing system. The system of cash compensatory support for exports was abolished consequent upon the change in the exchange rate and other measures of reform which provided substantial incentives for exports across the board.

5. Following the initial announcement, extensive consultations were held with various sections of industry and several additional steps have already been taken in pursuit of Government's stated objectives. Some others are being separately notified today. All these initiatives in trade policy and procedures are summarised in this statement.

The new Eximscrip system

6. The replenishment system has been enlarged and restructured o provide greater incentive for all categories of exports. REP licenses have been replaced by a new instrument named Eximscrips. Eximscrips will be the means of obtaining access to certain categories of imports of raw materials, components and spares. Eximscrips will be issued on the basis of FOB value of exports or Net Foreign Exchange (NFE) earning from exports as indicated below. The main features of the new system are:

i) The basic rate at which Eximscrips will be issued against exports will be 30% of FOB value. Exports to hard currency areas will be eligible for Eximscrips valid for hard currency imports while exports to rupee payment areas will be issued Eximscrips valid for imports from these areas only. However, as a measure of transition, exports to rupee payment areas may continue to anvil of REP licenses valid for hard currency imports at the rate prevailing prior to 4 July 1991. This transition facility will be available only for exports effected upto 31st December 1991.

ii) Products such as gems and jewellery, handicrafts, newspapers, journals and periodicals and cinematographic films, which enjoyed higher rates of REP will receive Eximscrips at the same rates as before.

iii) The basic rate of 30% is inadequate for exports of certain products such as value-added agricultural products, electronics, bulk drugs and marine products. Formulations and certain categories of advanced engineering goods. These products, Which are listed in Annexure I will be eligible for an additional Eximscrips entitlement of 10 percentage points, taking the total Eximscrips rate to 40% of FOB value.

iv) For exports made on the basis of duty free imports obtained against Advance Licenses. Eximscrips will be available at the general rate of 30% but this will be applied to the net foreign exchange earnings . On the same principle, Eximscrips at 30% of NFE will also be available for all EOU and EPZ units.

v) The 30% of NFE rate of Eximscrips is also applicable to service exports, including software exports which is a thrust area. The definition of services covered under this category is being rationalised and extended to include other services such as services of architects, textile designers, artistes, management consultants, lawyers etc. The benefit will be available to services exported by resident Indians for which remittances are made to India. The details are being notified separately.

7. Eximscrips issued to exporters will be tradeable and can be used to import any item in the limited permissible list (Appendix 3), the non-sensitive canalised list (Appendix 5 A) and for all OGL items for actual users (Appendix 6, List 8, Part I and List 10). Eximscrips earned by exporters on their own exports can also be used to import non-OGL capital goods other than those on the restricted list (Appendix I A). All REP licenses issued against exports prior to 4th July 1991 will continue to be valid for the life of the license and will have the same import entitlement as the new Eximscrips. Additional licenses issued to export houses/trading houses, which were earlier valid for a more limited range of imports, will also be valid for the same range of imports as Eximscrips.

8. With the introduction of Eximscrips, the system of issuing supplementary licenses for raw materials, components and spares listed in Appendix 3 will be discontinued except for small scale industries and for manufacturers of specified life saving drugs and equipment. In future, all import requirements of these items (with the exceptions indicated above) will be made-through Eximscrips. Similarly items in Appendix 4 and Appendix 9, which were earlier import- able against supplementary licenses, will henceforth be importable only against Eximscrips. Import of items appearing in Appendix 2 Part B (List of Restricted Items) and Appendix 8 (List of Scientific and Measuring Instruments Restricted for Import) of the Import-Export Policy 1990-93 will continue to require licenses. Such licenses as well as licenses required for small scale industries and manufacturers of l i e saving drugs/equipment will be called Special Licenses as these will be limited and indeed special cases.

9. As a measure of import compression and to strengthen the linkage between import capability and exports, two further changes have been made. The category of unlisted OGL has been abolished and these items have been shifted to Appendix 3. They are now importable only against Eximscrips (except for SSI and manufacturers of life saving drugs and equipment). In the case of units subject to the Phased Manufacturing Programme (PMP), many of which benefit

from concessional duty on their imports of OGL items, all such items will henceforth be importable only against Eximscrips.

10. Eximscrips will be issued only after export proceeds have been realised. The procedure for issue of Eximscrips has been streamlined and Government will ensure that Eximscrips are issued within 48 hours of the receipt of the application accompanied by a single document, namely, the bank certificate for the realisation of export proceeds.

Advance Licenses

11. The system of advance licenses is designed to provide exporters with duty free access to the inputs they need to produce competitively for world markets. This is an important instrument of trade policy especially in our situation where tariff levels are still high. The Government has taken the following steps to strengthen the system of Advance Licenses as an instrument of export promotion:

i) The procedures for considering Advance License applications have been simplified to ensure that Advance Licenses will be issued within 15 days of application in all cases where input-output norms have been fixed. Where norms have not been fixed, the license will be issued within 45 days.

ii) The number of documents accompanying an Advance License application has been reduced from 9 to 3 where norms are prescribed and to 4 where they are not prescribed. At present norms have been prescribed for 540 items. This will be increased to over IOOC items by 31st October 1991 and more items will be covered thereafter.

iv) Substantial Manufacturing Activity as a necessary condition under the Advance License Scheme will no longer be applicable for exports to the general currency area. However, the value additional norms will remain in force. A larger number of exporters will benefit under this scheme.

v) A new Scheme of Transferable Advance License has been introduced for GCA exports in selected thrust areas, namely textiles, leather goods and engineering industries. Under this scheme exporters can undertake exports based on duty paid inputs obtained from the market and subsequently obtain Advance Licenses for replenishment of these inputs by duty free imports. These Advance Licenses will be freely transferable. The coverage of the scheme will be extended on merits.

vi) Advance licenses will specify values in free foreign exchange both for the purposes of import and export. The currencies in which such values are dominated will be limited to those notified for this purpose by the RBI.

vii) The existing procedure for obtaining Bank Guarantee (BG) and Legal Undertaking (LUT) from different categories of exporters is being streamlined and liberalized as follows:

a) Export/Trading/Star Trading Houses and public sector undertakings will have the facility of obtaining Advance License against LUT only without any monetary limit.

b) All manufacturing units having an annual turnover of at least Rs. 5 crores (including both domes- tic and exports turnover) during the previous 3 years would also be able to avail of the LUT facility upto a value limit of 50% of their annual production.

c) A new unit without any production or export performance to its credit would also be allowed LUT facility provided it is promoted by an existing company with an annual production of Rs. 5 crores for more than three years. In such a case, both the new company and the promoting company would have to provide LUT.

d) Bank guarantee and/or LUT obligations will be concurrent to the fulfilment of export obligation.

viii) Exporters would be allowed to dispose of the materials imported against Advance Licenses by way of replenishment without seeking prior permission of the licensing authority in cases where no MODVAT facility has been availed of on the domestic material used in exports.

ix) Adjustment needed on account of fluctuation of prices of imported individual items would be permitted within the overall CIF value of Advance License.

x) The power of revalidation which presently vests in the Licensing Committee at the Headquarters has been delegated to the Licensing Authorities.

xi) In cases where applications for an Advance License are turned down, the exporter will be permitted to convert to the Duty Drawback regime by the Collectors of Customs so that shipments made in advance can be imported on payment of duty for subsequent claims of duty drawback.

xii) Exporters can obtain Advance release orders for domestic supply against Advance Licenses under which the domestic supplier gets the benefit of deemed exports. Henceforth, release orders will be issued across the counter without requiring the name of the domestic supplier, which could be given later.

12. The adoption of these procedures would reduce discretionary controls and delays and afford much greater freedom to exporters in procuring essential duty free raw materials to maintain there competitiveness in the world market thereby promoting exports from the country.

Export Processing Zones and 100% EOUs

13. The Export Processing Zone scheme and the 100% EOU scheme were introduced to provide for duty-free enclaves, which would enable entrepreneurs to concentrate on production exclusively for exports. However, with increasing liberalisation in the DTA, the duty advantages enjoyed by EPZs/EOUs have become less important, while the procedures of Customs Bonding are very onerous. The schemes have not therefore taken off as expected and they have also not attracted foreign investment aimed at tapping export markets to the ex- tent that was expected. The working of these schemes has been reviewed and the following changes made:

i) All EOUs/EPZ units will be eligible for Eximscrips at the basic rate of 30% applied to net foreign exchange earning.

ii) The duty applicable on DTA sales from EOUs/EPZ units is being reduced to 50% of the normal customs duty subject to the duty payable not being less than the excise duty on the same product. The extent of DTA sales allowed will be in accordance with their entitlement. DTA sales will be permitted in the ratio of 25:75 in relation to export sales in case of units whose use of indigenous raw material is more than 30% of production. In all other cases the ratio of permissible DTA sales to export sales will be 15:85. The procedures for clearing goods from the EOUs/EPZ units for DTA sales are also being streamlined.

iii) In order to encourage exporters to set up EOUs or EPZ units the net foreign exchange earned by EOUs or EPZ units can be clubbed with the earning of their parent/associated companies in the DTA for the purpose of according Export House. Trading House or Star Trading House status for the latter.

The IPRS scheme for supply of steel to exporters will also be extended to EOUs and EPZ units. The Development Commissioners are being empowered to is- sue "payment authorities" in lieu of JCCI&Es.

14. Under the New Industrial Policy, most industries do not require an industrial license except for a defined list. Clearances for imports of capital goods have also been made automatic where capital goods imports are covered by foreign equity or where they are 25% of the value of plant and investment subject to a limit of Rs. 2 crores. With a view to bringing about comparable streamlining in the procedure of EOU/EPZ approvals, a system of automatic approvals is being established for all proposals which fall within certain parameters. Capital goods imports will be allowed under the automatic approval procedure if they are fully covered by foreign equity or if

they do not exceed 50% of the value of plant and equipment subject to a ceiling of Rs. 3 crores. All proposals within the automatic approval parameters will be cleared within two weeks. All other proposals will be submitted to the Board of Approvals for consideration and decisions including issue of licenses will be taken within 45 days.

15. A large number of issues relating to the operation of EOUs/EPZ units required centralised clearance in the Ministries of Commerce and Industry. Powers are being delegated to the Development Commissioners so that these approvals can be given on a decentralised basis. The specific approval of the Development Commissioner would not be required in cases of broad banding by EPZ units, where value addition is being maintained. The unit concerned would need only to provide relevant information to the Development Commissioner.

16. The following specific concessions to EOUs/EPZ units have also been extended:

i) allowing entry of imported raw material on "provisional assessment" basis, to expedite customs clearance;

ii) permitting units under the EPZ and EOU schemes to supply/transfer finished goods among themselves;

iii) replacement of multiple bond by a single bond, for obtaining import clearance;

iv) increasing the list of items under the "Special lmprest License Scheme". on selective basis;

v) Expediting supplies from the DTA, without payment of excise duty, by issuing pre-authenticated CT-3 form booklets to EOUs, which would obviate the necessity of approaching Central Excise Offices each time such exemption is sought.

vi) clarifying that containers stuffed in EPZs and EOUs are not to be re-inspected at other points, as long as seals are intact.

17. Government have also decided to allow private parties to establish bonded warehouses within EPZ for stocking and sale of duty free raw materials, components, consumables and spares to EPZ units and EOUs. This will cut down delay in obtaining supplies of duty free materials which are in constant and regular demand by exporters. The details of this scheme will be notified shortly.

Simplified Procedure for Import of Capital Goods

18. The procedure for import of capital goods has been simplified following the statement on Industrial Policy. New units and units undergoing substantial expansion will automatically be

granted licenses for import of capital goods other than those in Appendix I Part A (Restricted List) of the Import-Export Policy, without any clearance from the indigenous availability angle provided the import of capital goods is fully covered by foreign equity or the import requirement is upto 25% of the value of plant and machinery subject to a maximum of Rs. 2 crores.

19. Access to non-OGL capital goods other then those in Appendix I Part A has also been expanded for all exporters and export houses by the fact that the Eximscrip entitlement has been increased and exporters are allowed to use Eximscrips earned on their own exports for import of such capital goods.

Harmonising Trade and Customs Classification

20. The classification system used in the import-export policy and the system used by the customs are not identical and this has often created difficulties in determining the tariffs applicable to different items. The two codes are being harmonized and the harmonised classification will be released in September 1991. This will reduce the scope for discretionary decision making at lower levels and introduce greater transparency in the import policy including tariff structure.

Canalisation Exports and Imports

21.Overthe years a number of items of exports and imports have been canalised for export of import through specified public sector agencies. The Government has reviewed the list of items thus canalised and has decided that a number of items may be decanalised. In the case of exports 16 items are being decanalised immediately. In the case of imports 6 items are being decanalised and placed on OGL while 14 items are being decanalised and listed in Appendix 3 where they will be available for import against Eximscrips. The list of items is given in Annexure II. Notifications regarding these changes are being published separately.

22. There is a strong case for decanalising imports of more items of raw materials and placing them on OGL. However, in view of the present balance of payments position, a decision of these items is being deferred. The Government's policy is to progressively reduce the extent of canalisation. It is proposed to make a further review by March 1992 and take suitable decisions effective from 1st April 1992.

Objectives of Public Sector Trading Organisations

23. Public sector trading organisations like the STC and MMTC have traditionally depended heavily on canalised trade. They will now be reoriented to achieve the objectives of emerging as international Trading Houses capable of operating in a competitive global environment, of serving as effective instruments of public policy and of providing adequate support services to the small scale/cottage sectors.

Export Houses and Trading Houses

24.Government will continue to support the development of export houses and trading houses as instruments for promoting exports. To this end the following initiatives are being taken:

i) Export houses, trading houses and star trading houses received additional licenses at varying rates based on their Net Foreign Exchange earning in the previous year. For the year, 1991-92, it has been decided to widen the range of items which can be imported against additional licenses. The range will now be the same as that of Eximscrips.

ii) With effect from 1st April 1992, additional licenses will stand abolished and export houses, trading houses and star trading houses will receive additional Eximscrips at the rate of 5% of the FOB value of exports. The details of the scheme and the list of export items excluded from it because of their special nature are being worked out.

iii) Government has announced that permission will be given for setting up of Trading Houses with 51% foreign equity for the purpose of promoting exports. Such trading houses would be eligible for all the benefits available to domestic export and trading houses in accordance with the Import-Export Policy Procedures for recognition of these companies as export/trading houses are being notified separately.

Foreign Currency Accounts for Exporters

25. Government has decided to allow established exporters to open foreign currency accounts in approved banks and allow exporters to raise external credits, pay for export related imports from such accounts, and credit export proceeds to such accounts. This will facilitate payments by exporters for their essential imports. The details of this scheme will be notified separately by the Reserve Bank of India.

Board of Trade

26. The Board of Trade has been reconstituted and will be activated once again. The Board of Trade will be an apex forum to facilitate close and frequent close and frequent interaction between industry and trade on the one hand and Government on the other. Government will attach great importance to the advice and recommendations of the Board of Trade.

Re-orientation of the Office of CCl&E

27. The office of Chief Controller of Imports and Exports is being redesignated as the Directorate General of International Trade. The Principal function of the Directorate will henceforth be promotion of exports and facilitation of imports to promote export trade, Government is of the view that the Imports and Exports (Control) Act, 1947 and the Orders thereunder would require review. Such a review will be made as soon as possible. Besides, the

Manual of Office Procedure' and the functions performed by various Port Offices will be comprehensively reviewed and a new charter of duties and functions will be drawn up to reflect the new role of the Directorate.

States' Role in Export Promotion

28. Exports can only take place if we generate adequate volumes of surpluses in exportable commodities. Government recognizes that State Governments have a major role to play in achieving this objective. State Governments have been requested to exempt exports from all fiscal levels in order to ensure that our exporters are able to compete effectively in world markets. Government has taken steps to strengthen the State's Cell in the Ministry of Commerce so that interface with the State Governments becomes more effective. At the same time, Government has requested, and will continue to persuade, State Governments to set up a separate Export Promotion Cell or a Directorate of Export Promotion in each State Secretariat.

Reduction in Import Licensing

29. The Policy changes now being implemented imply a substantial reduction in the extent of licensing and in the number and types of licenses. Supplementary licenses for import of items in Appendices 3 (except for SSI and manufacturers of life saving drugs and equipment), 4 and 9 of the Import-Export Policy 1990-93 have been abolished. Additional Licenses which were issued as an incentive to Export Houses and Trading Houses will stand abolished with effect from 1st April 1992 and the incentive will take the form of an additional Eximscrip entitlement.

30. To achieve optimal import containment in the context of the present Balance of Payments situation, several steps have been taken. One of these is the shift of many terms which are now on OGL to the Limited Permissible List.

31. With these changes, the policy for import of raw materials, components and other Inputs needed for production has been simplified. Most raw materials and other inputs (except for those on the Restricted List) can be freely imported either against Eximscrips or on OGL. Some raw materials continue to be canalised but in most of cases requirements beyond those provided by the canalising agencies can be met through Eximscrips. It is the policy of the Government to move to a situation where imports of essential raw materials and components needed for industrial production are regulated through appropriate tariffs. However, in view of the Balance of Payments position which necessitates continued import containment, this cannot be done immediately. Many items must therefore remain on the limited permissible list, with imports permitted only against Eximscrips.

32. The medium term objective of the Government is to progressively eliminate licensing and quantitative restrictions on capital goods and raw materials/components so that all these items can be placed on OGL save for a small carefully defined negative list. This shift is proposed to

be achieved over a 3 to 5 year period. The Government will appoint a High Level Committee to work out the modalities of achieving this transition keeping in mind the Balance of Payments position and the need to rationalise and reduce tariffs progressively to provide Indian Industry with an appropriate environment to develop International competitiveness.

Dated: August 13, 1991

Products Eligible for Additional Eximscrips Entitled to 10 Percentage Points

I. Fish and fish products

1. Individually quick frozen fish (excluding frog legs), canned marine products.

II. Agricultural Items

1. Cashew kernels roasted/salted in consumer packs of 1 kg or less.

2. Fresh fruits vegetables, cut-flowers, plants and plant materials and spices going by air.

3. All types of canned, bottled and ascetically packed fruits, vegetable products and spices.

4. Pulverised/treated guargum.

5. Instant Tea, quick brewing black tea, tea bags, Packed tea, Tea caddies and Tea chestlets.

6. Instant coffee in all forms.

III. Drugs and drug intermediates (as appearing at S. No. B. Il(1) of Appendix 17 of IMPEX Policy

IV. All electronic products

V. High Technology Engineering Products (to be notified separately)

ANNEXURE-II

List of Import Items to be Decanalised

I. List of items to be decanalised and put under OGL

1. Silk Worm

2. Sodium Borate

3. Old Ships

4. Fluorspar

5. Platinum

6. Palladium

II. List of import items to be decanalised and put under REP

1. Jute Pulp

2. Manila Hemp

3. Raw Sisal Fibre

4. Raw Jute

5. Alkyl Benzene

6. Floppy Disketts

7. Lauric Acid

8. Oleic Acid

9. Stearic Acid

10. Palmitic Acid

11. Palm Fatty Acid

12. Palm Acid Oil

13. Other fatty acids, pure of mixed including acid oils

14. Soap Stocks

List of Export Items to be Decanalised Item

1. Castor Oil

2. Polythelene (LD)

3. Coal and Coke

4. Colour Picture Tubes and Sub- assemblies of colourTVcontaining colour TV Picture Tubes

5. Ethyl Alcohol or rectified spirit of any proof degree whether denatured or not

6. Exposed Cinematographic Films and Video Tape Cinema Films

7. Khandsari Molasses

8. Molasses

9. Mill Scale Scrap

10. Bimetal Ore (Black iron ore) with manganese contents from 3% upto 10% of Goa origin

11. Railway Passenger Coaches and Locomotives

12. Raw Jute, Mesta & Jute cuttings

13. Sugar

14. Iron ore of Redi origin

15. Iron ore of Goa origin when exported to China or Europe in addition to Japan, South Korea and Taiwan

16. Low grade bauxite of West Coast origin
