

## Learn more about the Export Promotion Schemes

- *Advance Authorization*
- *Export Promotion Capital Goods*
- *Remission of Duties & Taxes on Export Products*
- *Brand rate of duty drawback*
- *Export Oriented Unit*
- *Special Economic Zone*



- AA allows duty free import of inputs to be used in manufacture or process of export product and requires minimum value addition of 15% on imported content, to fulfill the export obligation ('EO') under the AA.
- AA holder is even allowed to import inputs on free of cost basis. AA is issued to a manufacturer exporter or a merchant exporter (who procures goods from supporting manufacturer) based on standard input output norms ('Norms') published by DGFT. In case, norms do not exist, then AA holder must get the norms approved from DGFT Headquarters.
- Further, where the AA is obtained for components then the AA is granted on net-to-net basis. AA can be applied on DGFT portal and generally AA is issued within a week's time from application. Importer needs to execute Bond with Customs and Bank Guarantee may apply

### Import/export of prohibited goods

Not allowed under AA. Further, import of restricted goods is allowed unless specifically disallowed under import policy - ITC (HS). Also, export of restricted/SCOMET items is allowed subject to applicable conditions. Import of inputs under AA without compliance to the mandatory QCOs (BIS) is allowed subjected to conditions

### Domestic procurement

Manufacturer supplier supplying inputs to AA holder can obtain AA to procure duty free imported inputs or can claim duty drawback (brand rate) of duty paid on imported inputs

### Exports

AA holder can simultaneously avail benefit under EPCG scheme (for duty free import of capital goods) and exports (including supply to SEZ)/deemed exports made can be considered for discharging EO under EPCG. Exports by AA holders were made eligible for RoDTEP from 1 April 24 till 31 Dec 24 & Government is considering extension of such benefit for subsequent FY subject to availability of funds specifically earmarked for RoDTEP scheme

**Export Obligation:** EO under the AA can be fulfilled by way of physical exports [proceeds to be realized in freely convertible currency or in Indian Rupees (subject to compliances)], supply to SEZ (realization from Foreign Currency Account of the SEZ unit) and deemed exports under FTP (realization in INR) such as supply to EPCG, AA holder, specified projects, etc. EO should be fulfilled within 18 months from the date of issue of authorisation (Import to be completed within 12 months). In case AA is obtained and EO is completed using domestically procured inputs or duty paid imported inputs, then the AA holder can import inputs without payment of BCD subject to condition that such inputs are used in manufacture of goods and cannot be sold as such.

AA holder is not entitled to claim duty drawback in the form of AIR. The duty drawback in the form of Brand rate can be claimed only to the extent of actual duty suffered if any and EoUs cannot get the AA

- EPCG allows duty free import of capital goods (except goods specified in negative list Appendix 5F - trucks, cars, construction equipment, used capital goods, etc) for pre-production, production & post- production. EPCG is issued to a manufacturer exporter, a merchant exporter (who procures goods from supporting manufacturer)/service providers
- EPCG can be applied on DGFT portal and generally EPCG is issued within a week's time from application. Importer needs to execute Bond with Customs and Bank Guarantee may apply

## Domestic procurement

EPCG holder can procure capital goods from a domestic manufacturer based on Invalidation Letter/Advance Release Order. Such domestic manufacturer is eligible for deemed export benefits under FTP like AA, brand rate to neutralize the specified duties of customs. EPCG holders can also procure duty free capital goods from EOUs (such supply is counted for fulfillment of NFE by EOU)

## Key compliance conditions

Applicant is required to submit nexus certificate from Chartered Engineer (CE) establishing nexus of capital goods with activity undertaken by applicant, submit certificate of installation of capital goods from jurisdictional Customs or CE within 6 months from date of import

## Other Benefits

Exports under AA, DFIA, Duty Drawback, RoSCTL and RoDTEP Schemes are also be eligible for fulfilment of EO under EPCG Scheme. EOU/SEZ units while de-bonding can claim EPCG benefit subject to conditions thereunder

## Export Obligation:

- Import under EPCG Scheme shall be subject to an Export Obligation (EO) equivalent to 6 times of duties saved on capital goods, over and above average exports (export of same/similar products for last 3 licensing years) to be fulfilled in 6 years from date of issue of Authorization
- EO can be fulfilled by way of physical exports [realization in freely convertible currency or in Indian Rupees (subject to compliances)], deemed exports under FTP (realization in Indian Rupees) and supply to SEZ units/developer/co-developer (irrespective of currency of realization)/SEZ unit (realization from Foreign Currency Account of the SEZ unit)
- Reduced EO of 75% for green technology products such as solar/wind energy generating systems/parts/equipment's thereof, LED lights, etc
- EO must be fulfilled block wise – 50% (1<sup>st</sup> to 4<sup>th</sup> year) & balance 50% (5<sup>th</sup> & 6<sup>th</sup> year). Incentive for early EO fulfillment, in cases where EPCG holder achieves 75% or more of specific EO & 100% of Avg EO in half or less than half the original EO period, then remaining EO shall be condoned and EPCG can be redeemed
- Import/export of prohibited goods is not allowed under EPCG. Import/export of restricted goods is allowed subject to approval from Exim Facilitation Committee (EFC), DGFT HQ
- Imported capital goods shall be subject to Actual User condition till EO is completed and EO Discharge Certificate (EODC) is granted by DGFT
- EPCG can be applied on DGFT portal and generally EPCG is issued within a week's time from application. Importer needs to execute bond with Customs Authorities and BG may apply

- RODTEP scheme is rebate of duties/taxes/levies, at the Central, State and local level, borne on the exported product, including prior stage cumulative indirect taxes on goods and services used in the production of the exported product and in respect of distribution of exported product.
- RODTEP is granted to eligible exporters (other than ineligible exports/exporters specified in para-FTP [such as export of imported goods, restricted/prohibited, deemed exports, goods manufactured partly/wholly in MOOWR, etc] at a notified rate [vide Appendix 4R and Appendix 4RE [for exports by AA holders (except Deemed Exports), EOU & SEZ units] as a percentage of FOB value with a value cap per unit of the exported product, wherever required, on export of items which are categorized under the notified 8-digit HS Code

## Key Factors

- **Rate:** RODTEP rate generally ranges from 0.01% to 1.4% (without cap)/3.9% (with cap)
- **Administration:** RODTEP is implemented by CBIC, Department of Revenue by end-to-end digitization on ICEGATE and issuance of rebate amount by way of transferable duty credit/electronic scrip (e-scrip). Such scrip can be utilized for payment of BCD
- **Exports by EOU/AA holders** were made eligible for RoDTEP from 1 April 2024 till 31 Dec 2024. SEZ units were made eligible for RODTEP for the period 1 July 2024 till 5 Feb 2025 and Government is considering extension of such benefit for subsequent financial year subject to availability of funds specifically earmarked for RoDTEP scheme
- **Administration:** RODTEP scheme operates in a Budgetary framework for each financial year and necessary calibrations/revisions in rates. Rates are determined by a RODTEP Committee (Department of Revenue/Drawback Division, Department of Commerce (DoC)/DGFT, line ministries and experts). The overall budget/outlay for the RoDTEP Scheme are finalized by the Ministry of Finance in consultation with DoC, must all the relevant factors

## Annual Return:

- Exporters (IEC basis) having total RoDTEP claim of more than Rs. 1 crore in a financial year across all 8-digit HS codes, are required to file Annual RoDTEP Return ('ARR') to assess the nature of inputs and amount of actual taxes and duties incurred in export production
- Physical/digital records substantiating the duty remission claims are to be maintained for a period of five years
- Some ARR cases may be identified for further IT-assisted risk-based scrutiny of nature of inputs and actual taxes & duties incurred to identify excess claims which shall be regularized by surrendering the same against an order

Duty Drawback is refund of non-creditable Customs duty suffered (BCD & SWS) on imported materials used in manufacture of export of manufactured goods. This drawback is governed by provisions of Section 75 of the Customs Act read with Drawback Rules. Duty drawback on export of manufactured goods is of two types:

### All Industry Rate (AIR) (Rule 3)

AIR is as a % of Fob value of export and notified, generally every year, by the Government in the form of a Drawback Schedule based on the Industry average of quantity, value of inputs and duties (both Customs & Central Excise) borne by export products.

### Brand Rate (Rule 6 & 7)

- Exporter is refunded Customs duty paid (BCD & SWS) on imported goods used in manufacture of export product based on verification of documents and proof of use of actual quantity of materials in the manufacture of export product and duty paid on such materials.
- An exporter can apply for Brand Rate fixation if there is no AIR for the HS code or if the AIR applicable, falls short by four-fifths/80% of the actual incidence of import duties. Presently, the exporters have to claim AIR through shipping bill and make specific declarations in export invoice/shipping bill for claiming differential duty drawback over and above AIR.
- Post export, manual application has to be filed with jurisdictional Customs Authorities for fixation of brand rate by establishing imported content used in export product and duty paid on such goods. Once brand rate is approved, the exporter has to file a differential drawback claim with Customs Authorities at port of export.
- Exporter can also claim brand rate of duty paid by domestic supplier subject to prescribed procedure

AA holders cannot claim the duty drawback unless the duties of customs actually suffered in the export product is substantiated. Further, even a MOOWR unit can claim duty drawback of the specified duties of customs where the exporter is able to substantiate the actual duty suffered in the export product

- EOU can be set up for export of entire production except permissible local sale, for manufacture of goods, including repair, re-making, reconditioning, re-engineering, rendering of services, development of software, etc. EOU cannot engage in trading activity. EOU has to be a positive net foreign exchange (NFE) earner. Projects with a minimum investment of Rs.1 Crore in plant & machinery are eligible for establishing EOU. Existing DTA unit can also convert into EOU subject to conditions like payment of duties where EPCG is claimed
- EOUs are administered by Ministry of Commerce (Development Commissioners office) for issuance of letter of permission, filing of periodical returns under FTP, various permissions, etc and Customs for duty exemption related matters including permissions like undertaking job work, re-export of imported goods

## Import

EOU can claim exemption from duties of Customs for import of inputs, capital goods, etc for the purpose of manufacture/rendering of services subject to prescribed procedures. Further, ADD (refer Section 9A(2A) of the Customs Tariff Act)/Countervailing duty (refer section 9 of the Customs Tariff Act) is not imposable on imports by EOU unless specifically made applicable in such notification. EOUs can import used/second-hand capital goods, with/without payment of duty/taxes, without any age limit by EOU. Exemption from mandatory (BIS Quality Control Orders) on import of inputs which are required for export production subject to conditions

## Domestic procurement

- GST is payable by manufacturer supplier/supplier on supply of goods to EOU, however, refund of GST paid on such supply can be claimed by EOU/supplier subject to conditions, procedures specified under GST law. Manufacturer supplying goods to EOU for use in their manufacture for exports can claim benefits of deemed exports under FTP, subject to conditions thereunder (FTP defines it as transactions in which goods supplied do not leave country & payment is received in Indian rupees or in free foreign exchange). Benefits include AA for import of duty-free inputs, EPCG for import of capital goods, Brand rate, etc
- An EOU, based on a firm contract between parties, source capital goods from a domestic/foreign leasing company with or without payment of duties/taxes. EOUs are eligible to claim electricity duty benefit subject to conditions/procedure

## Exports

An EOU can export all kinds of goods and services except items that are prohibited in ITC (HS) [permission to export prohibited item(s) may be considered by BOA on a case-to-case basis]. Export of SCOMET is allowed subject to conditions. Exports by EOUs were made eligible for RoDTEP from 1 April 2024 till 31 Dec 2024 and Government is considering extension of such benefit for subsequent financial year subject to availability of funds specifically earmarked for RoDTEP scheme. Further, exports from EOUs are not eligible to claim duty drawback (All Industry Rate)

## DTA Sale

EOU can sell finished goods manufactured by them as specified in LoP (including by-products, rejects, waste and scrap) in DTA, subject to fulfillment of positive NFE, on payment of GST along with reversal of BCD availed as exemption, if any on the inputs. The units undertaking activities in the nature of repairs, reconditioning, etc. cannot sale resultant goods in DTA. For services, including software units, sale in DTA in any mode is permissible up to 50% of FOB value of exports and/or 50% of FE earned, where payment is received in FE

Key compliances: Monthly return (Form A) to be filed with Customs, Quarterly & Annual Performance Report with SEEPZ, etc

**NFE:** Following supplies are counted for fulfillment of positive NFE:

- Physical exports,
- Supplies to Advance Authorisation/DFIA/EPCG,
- Supplies in DTA against FE remittance received from overseas,
- Supplies to other EOU/ EHTP/STP/BTP/SEZ units,
- Supplies to bonded warehouses and FTWZ, where payment is received in FE
- Further, following payments are reduced from NFE: CIF value of imported inputs/capital goods, value of goods obtained from another SEZ unit/EOU, all payments made in foreign exchange like commission, royalty, fees, etc.

- **Key compliances:** Monthly return (Form A) to be filed with Customs, Quarterly & Annual Performance Report with SEEPZ, etc
- **Depreciation on capital goods:** EOU can claim depreciation for payment of duties of Customs, on debonding/removal of duty-free imported capital goods, subject to fulfillment of + NFE
- **Wastage:** EOU can clear/sale in DTA the scrap/waste/remnants arising out of production process, as per wastage norms notified vide SION /Ad-hoc norms, on payment of applicable duties and/or taxes. No duties/taxes on scrap/waste/remnants are payable, in case same are destroyed with permission of Customs authorities. By-products included in LoP may also be sold in DTA subject to achievement of positive NFE, on payment of applicable GST along with reversal of BCD, if exemption is availed on



- Special Economic Zone (SEZ) is a geographically delineated duty-free enclave/area and is deemed to be a foreign territory for the purposes of trade operations, duties and tariffs. SEZ unit can be set up in the SEZ for carrying out authorized operations in a SEZ namely manufacture of goods (including repair, re-making, reconditioning, re-engineering) or rendering services or for both or as a Free Trade and Warehousing Zone for trading of goods
- Recycling is not permitted in SEZ. SEZ unit has to achieve positive net foreign exchange (NFE) to be calculated cumulatively over a period of five years. Single Window clearance by SEZ Unit Approval Committee (Central & State Authorities like Environment, tax, etc) for all permissions and approvals required to set up and run a unit
- SEZ units are administered by Ministry of Commerce (jurisdictional Development Commissioners office for issuance of letter of permission, filing of periodical returns, various permissions, etc and Customs Authorities (Specified Officer of the SEZ) for movement of duty-free goods, zero rating of services, permissions like job work, re-export, etc

## Import

SEZ developer and SEZ unit are entitled for exemption from duties of Customs for import of inputs, capital goods, etc., to carry on the authorized operations (manufacture/rendering of services) subject to prescribed procedures. Exemption from Central Excise duty on goods brought from DTA, drawback on goods brought from DTA. Further, ADD (refer Section 9A(2A) of the Customs Tariff Act)/Countervailing duty (refer section 9 of the Customs Tariff Act) is not imposable on imports by SEZ unit unless specifically made applicable in such notification. SEZ can import used/second-hand capital goods. Exemption from mandatory (BIS Quality Control Orders issued by specific ministry/department) on import of inputs which arc required for export production subject to conditions

## Domestic procurement

- Supply of goods/services by domestic supplier to SEZ developer/unit are considered as inter State supply and qualify as zero-rated export under GST where goods/services are used for authorized operations subject to procedures
- In case GST is paid by manufacturer supplier/supplier on supply of goods/services to SEZ unit, the supplier can claim refund of such GST. Manufacturer supplying goods to SEZ unit can claim duty drawback where payments for the supply are made from the Foreign Currency Account of the SEZ Unit.
- Such manufacturer supplier can supply goods to SEZ unit by obtaining AA/EPCG provided payment is realized from Foreign Currency Account of the SEZ unit. The SEZ unit based on an agreement, source capital goods from a domestic/foreign leasing company with or without payment of duties/taxes

## Exports

SEZ units can export all kinds of goods and services except items that are prohibited in ITC (HS) [permission to export prohibited item(s) may be considered by BOA on a case-to-case basis]. Export of SCOMET items is allowed subject to conditions. Exports by SEZs were made eligible for RoDTEP from 1 July 2024 till 31 Dec 2024 (as may be extended) and Government is considering extension of such benefit for subsequent financial year subject to availability of funds specifically earmarked for RoDTEP scheme. Further, exports from SEZ units are not eligible to claim duty drawback (All Industry Rate)

## DTA Sale

SEZ unit can sell finished goods manufactured by them as specified in LoA (including rejects, waste, scrap, remnants, etc) in DTA, subject to fulfillment of positive NFE, on payment of duties of Customs. For services, sale in DTA is permitted subject to fulfillment of positive NFE and payment being received in foreign exchange.



- Following supplies are counted for fulfillment of positive NFE:
    - Physical exports,
    - Supplies to Advance Authorisation/DFIA/EPCG,
    - Supplies in DTA against FE remittance received from overseas,
    - Supplies to other EOU/ EHTP/STP/BTP/SEZ units,
    - Supplies to bonded warehouses and FTWZ, where payment is received in FE
  - Further, following payments are reduced from NFE:
    - CIF value of imported inputs/capital goods,
    - Value of goods obtained from another SEZ unit/EOU, etc.
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- **Key compliances:** SEZ has to execute a bond cum legal undertaking with Development Commissioner/Specified Officer, maintain detailed account of all goods (imported, domestic, etc), file quarterly & Annual Performance Report with SEEPZ
  - **Wastage:** Scrap/waste/remnants arising out of production process can be sold in DTA, on payment of applicable duties and/or taxes