

UNIT – II : BASIC CONCEPTS RELATING TO EXPORT PROMOTION SCHEMES UNDER FTP

Export promotion schemes

Exports of a country play an important role in the economy. Government always endeavors to encourage exports by introducing various export promotion schemes.

1. DUTY EXEMPTION & REMISSION SCHEMES

The Duty Exemption and Remission Schemes are the most important schemes in the Foreign Trade Policy as they are most widely utilized.

Objective

Duty exemption and remission schemes enable duty free import of inputs for export production, including replenishment of inputs or duty remission.

Schemes¹⁵

(A) Duty exemption schemes: Duty exemption schemes enable duty free import of inputs required for export production.

The two duty exemption schemes are as follows: -

1. Advance Authorization Scheme (which will include Advance Authorisation for Annual Requirement).
2. Duty Free Import Authorization Scheme (DFIA)

(B) Duty remission schemes: Duty Remission Scheme enables post export replenishment / remission of duty on inputs used in export product. Duty Drawback (DBK) Scheme, administered by Department of Revenue is designed for this purpose.

¹⁵ Separate provisions have been prescribed for duty exemption/remission schemes applicable for Gems & Jewellery Sector. FTP provisions relating to Gems & Jewellery Sector are not relevant for examination purpose.

(C) Scheme for Remission of duties and taxes on exported products (RoDTEP): This scheme has been notified by Department of Commerce and administered by Department of Revenue.

(D) Scheme for Rebate on State and Central Taxes and Levies (RoSCTL), as notified by the Ministry of Textiles¹⁶.

A Duty exemption schemes

(1) ADVANCE AUTHORISATION SCHEME

❑ Items which can be imported duty free against advance authorization:

- Input that is physically incorporated in export product (making normal allowance for wastage).
- Fuel, oil, catalyst which is consumed / utilized in the process of production of export product.

❑ Eligible Applicant / Export

- (a) Advance Authorisation can be issued either to a manufacturer exporter or merchant exporter tied to supporting manufacturer.
- (b) Advance Authorisation for pharmaceutical products manufactured through Non-Infringing (NI) process shall be issued to manufacturer exporter only.

❑ Eligible Supply

Advance Authorisation is issued for procurement of inputs for the following kinds of supply:-

- Physical export (including export to SEZ)
- Intermediate supply; and/or
- Deemed exports¹⁷

¹⁶ This scheme has not been discussed in detail and not relevant from examination point of view.

¹⁷ The provisions relating to Deemed exports has been discussed subsequently.

- Supply of 'stores' on board of foreign going vessel / aircraft, subject to condition that there is specific SION in respect of item supplied.

❑ **Basis of issuance of Advance Authorisation**

Advance Authorisation is issued for inputs in relation to resultant product, on the following basis:

- As per Standard Input Output Norms (SION notified); or
- On the basis of self declaration or
- Applicant-specific prior fixation of norm by the Norms Committee or
- On the basis of Self Ratification Scheme

ADVANCE AUTHORISATION

❑ **Self-Ratification Scheme**

Where there is no SION/valid Adhoc Norms for an export product or where SION has been notified but exporter intends to use additional inputs in the manufacturing process, eligible exporter can apply for an Advance Authorisation under this scheme on self declaration and self ratification basis.

The expression "additional inputs" refers not to additionality in terms of quantity/value of an input specified in a norm, but to another additional input. Say, if the inputs specified in the norm are X1 and X2 only, then input Y would represent an additional input.

RA may issue Advance Authorisations and such cases need not be referred to Norms Committees for ratification of norms. Application under this scheme shall be made along with a Certificate from Chartered Engineer in the prescribed format.

❑ **Eligibility to opt for this scheme**

An exporter (manufacturer or merchant), who holds AEO Certificate under Common Accreditation Programme of CBIC is eligible to opt for this scheme.

A status holder who is a manufacturer cum actual user and holds valid 2-star or above status and who has already submitted its application for grant of AEO on CBIC's AEO portal is also eligible to apply for this scheme subject to the specified conditions.

However, DGFT may deny authorisation under this scheme to two star and above status holder based on its risk management principles. The scheme is not available for the specified export products as well as specified inputs.

❑ **Pre-import condition**

Imported inputs are subject to pre import condition and they should be physically incorporated in the export product (making normal allowance for wastage). In case of local procurement under invalidation/ARO, the inputs shall be procured prior to manufacture of export item and shall be physically incorporated in the export product.

Invalidation letter- Regional Authority shall issue Invalidation Letter when domestic supplier intends to **obtain duty free material for inputs through Advance Authorisation** for supplying resultant product to another Advance Authorisation / DFIA /EPCG Authorisation.

Advance Release Order (ARO) - Regional Authority shall issue Advance Release Order if the domestic supplier intends to **seek refund of duties exempted through Deemed Exports mechanism**.

❑ **Validity Period for Import**

Validity Period of an advance authorization in two situations is as follows:

- Validity period of Advance Authorisation shall be **12 months** from the date of issue of Authorisation. This means that import under the authorisation must be made within this period. Re-validation for another period of 12 months can be allowed once only. Application for re-validation can be made online.
- Validity of Advance Authorisation for supplies under deemed exports shall be co-terminus with contracted duration of project execution or 12 months from the date of issue of Authorisation, whichever is later.

12 months valid

❑ **Advance Authorisation for Annual Requirement and Eligibility Condition**

- Advance Authorisation for Annual Requirement shall only be issued for items notified in SION. And it shall not be available in case of adhoc norms under Self-Declared Authorisations where SION does not exist.

- Advance Authorisation for Annual Requirement shall also not be available in respect of SION where input is notified.
- Exporters having past export performance (**in at least preceding two financial years**) shall be entitled for Advance Authorisation for Annual requirement.
- **Entitlement in terms of CIF value of imports shall be upto 300% of the FOB value of physical export and / or FOR value of deemed export in preceding financial year or Rs 1 Crore, whichever is higher.**

❑ Value Addition

Value Addition for the purpose of this Chapter shall be:-

VA = (A – B) / B x 100, where

A = FOB value of export realized / FOR value of supply received.

B = CIF value of inputs covered by Authorisation, plus value of any other input used on which benefit of duty drawback is claimed or intended to be claimed.

❑ Minimum Value Addition¹⁸

Minimum value addition required to be achieved under Advance Authorisation is **15%**.

Minimum 15% value addition

However, in case of specified products (petroleum products etc), value addition could be less than 15%.

❑ Import of Mandatory Spares

Spares that are required to be supplied with the export product can be imported duty-free under the advance authorisation up to a value of **10% of the CIF value** of the authorisation.

Note: It may be noted that import of specified products is not permissible on self-declaration basis.

¹⁸ The separate rate of minimum value addition is prescribed in case of gems & jewellery sector, tea and spices.

❑ Details of Duties exempted

Imports under Advance Authorisation are exempted from payment of

- Basic Customs Duty,
- Additional Customs Duty,
- Education Cess,
- Anti- dumping Duty,
- Countervailing Duty,
- Safeguard Duty,
- Transition Product Specific Safeguard Duty, wherever applicable.

However, specified¹⁹ deemed exports are not exempted from payment of applicable anti-dumping duty, countervailing duty, safeguard duty and transition product specific safeguard duty, if any.

Note: Imports under Advance Authorisation for physical as well as deemed exports are also exempt from whole of the Integrated Tax and Compensation Cess.

❑ Actual User Condition for Advance Authorisation

- Advance Authorisation and / or material imported under Advance Authorisation is subject to 'Actual User' condition. **The same shall not be transferable even after completion of export obligation.** However, Authorisation holder will have option to dispose of product manufactured out of duty free input once export obligation is completed.
- If CENVAT/input tax credit facility on input has been availed for the exported goods, even after completion of export obligation, the goods imported against such Advance Authorisation shall be utilized only in

ACTUAL USER CONDITION

¹⁹Deemed exports specified for this purpose are Supply of capital goods against EPCG authorisation and supply of goods to UN or international organisations for their official use or supplied to projects financed by them.

the manufacture of dutiable goods whether within the same factory or outside (by a supporting manufacturer).

- Waste / Scrap arising out of manufacturing process, as allowed, can be disposed off on payment of applicable duty even before fulfillment of export obligation.

❑ **Free of Cost Supply by Foreign Buyer**

Advance Authorisation is also available where some or all inputs are supplied free of cost to exporter by foreign buyer. In such cases, notional value of free of cost input is added in the CIF value of import and FOB value of export for the purpose of computation of value addition. However, realization of export proceeds will be equivalent to an amount excluding notional value of such input.

❑ **Export Obligation Period and its Extension**

“Export Obligation” means obligation to export product or products covered by Authorisation or permission in terms of quantity, value or both, as may be prescribed or specified by Regional or competent authority.

EXPORT OBLIGATION

The Export Obligation Period (EOP) of Advance Authorisations issued for such items shall be **90 days** from the date of clearance of import consignment and no extension in EOP shall be allowed. Such import shall be subject to actual user condition and no transfer of imported raw material, for any purpose, including job work, shall be permitted.

❑ **Admissibility of Drawback**

Duty drawback as per rate determined and fixed by Customs authority is available for duty paid imported or indigenous inputs (not specified in the norms) used in the export product. For this purpose, applicant shall indicate clearly details of duty paid input in the application for Advance Authorisation.

❑ **Audit/Special audit**

Concerned Norms Committee may conduct audit of the manufacturer. Concerned Norms Committee may also initiate special audit, considering the nature and complexity of the case and revenue of government, if he is of the

opinion at any stage of scrutiny/enquiry/investigation that the norms have not been claimed correctly or the excess benefit has been availed. Special audit can be conducted even if the manufacturer has already been audited before.

(2) DUTY FREE IMPORT AUTHORISATION SCHEME (DFIA)

Provisions applicable to Advanced Authorisation are broadly applicable in case of DFIA. However, these Authorizations shall be issued **only for products for which Standard Input and Output Norms (SION) have been notified.**

- (a) Duty Free Import Authorisation is issued to allow duty free import of inputs as well as of oil and catalyst which is consumed/ utilised in the process of production of export product.
- (b) Import of Tyre under DFIA scheme is not allowed.

Duties Exempted

- Duty Free Import Authorisation shall be exempted only from payment of Basic Customs Duty (BCD).
- Drawback as per rate determined and fixed by Customs authority shall be available for duty paid inputs, whether imported or indigenous, used in the export product.

Eligibility

- Duty Free Import Authorisation shall be issued on **post export basis** for products for which SION have been notified.
- Application is to be filed with concerned Regional Authority **before starting export** under DFIA.
- Merchant Exporter shall be required to mention name and address of supporting manufacturer of the export product on the export document viz. Shipping Bill/ Bill of Export / Tax Invoice for export prescribed under the GST rules.



❑ **No DFIA for inputs with 'Actual User' condition**

No DFIA shall be issued for an input which is subject to pre-import condition or where SION prescribes 'Actual User' condition or certain other specified inputs with pre import condition.

❑ **Minimum Value Addition**

Minimum value addition of **20%** shall be required to be achieved.

| | |
|-----------------------|------------|
| Minimum | 20% |
| value addition | |

❑ **Transferability of DFIA**

Regional Authority shall issue **transferable DFIA**.

❑ **Validity of DFIA**

- Export shall be completed within 12 months from the date of online filing of application and generation of file number.
- DFIA is valid for 12 months from the date of issue.
- No further revalidation shall be granted by Regional Authority.
- Separate DFIA shall be issued for each SION.

Common provisions applicable to Advance authorisation and DFIA schemes

❑ **Accounting of Input**

- Where SION permits use of either (a) a generic input or (b) alternative input, the name/description of the input used (or to be used) in the Authorisation must match exactly with the name/description endorsed in the shipping bill. At the time of discharge of export obligation (issue of EODC) or at the time of redemption, Regional Authority shall allow only those inputs which have been specifically indicated in the shipping bill together with quantity.
- The above provisions will also be applicable for supplies to SEZs and supplies made under Deemed exports.

❑ **Importability / Exportability of items that are Prohibited/ Restricted / STE**

Prohibited items

No export/import of an item shall be allowed under Advance Authorisation / DFIA if the item is prohibited. Export of a prohibited item may be allowed under Advance Authorisation provided it is separately so notified, subject to the conditions given therein.

STE

- Items reserved for **imports by STEs** cannot be imported against Advance Authorisation / DFIA. However, those items can be procured from STEs against ARO or Invalidation letter.
- Items reserved for **export by STE** can be exported under Advance Authorisation / DFIA only after obtaining a 'No Objection Certificate' from the concerned STE.

Restricted items

- **Import** of restricted items shall be allowed under Advance Authorisation/DFIA unless specifically disallowed.
- **Export** of restricted / SCOMET items however, shall be subject to all conditionalities or requirements of export authorisation or permission.

❑ **Domestic Sourcing of Inputs**

Holder of an Advance Authorisation / Duty Free Import Authorisation can procure inputs from indigenous supplier/ State Trading Enterprise/EOU/EHTP/BTP/ STP in lieu of direct import. Such procurement can be against Advance Release Order (ARO), or Invalidation Letter.

Validity of Advance Release Order / Invalidation Letter shall be co- terminous with validity of Authorisation.

❑ **Currency for Realisation of Export Proceeds.**

Export proceeds shall be realized in freely convertible currency or in Indian Rupees, except otherwise specified. Provisions regarding realisation and non-realisation of export proceeds are already discussed in general provisions regarding imports and exports.

☐ **Re-import of exported goods under Duty Exemption/ Remission Scheme**

Goods exported under advance authorisation/ duty free import authorisation may be re-imported in same or substantially same form subject to the specified conditions.

B Duty remission schemes

DUTY DRAWBACK (DBK)

- ☐ Various schemes like Advance Authorisation, DFIA, manufacture under bond, EOU, SEZ, etc. are available to obtain inputs without payment of customs duty or obtain refund of duty paid on inputs. Suppliers who are unable to avail any of these schemes can avail "duty drawback".
- ☐ Here, the customs duty paid on inputs is given back to the exporter of finished product by way of "duty drawback".
- ☐ Duty drawback is granted when imported materials are used in the manufacture of goods which are then exported as well as when imported goods are re-exported as it is, and article is easily identifiable.
- ☐ It is important to note that the duty drawback is only of customs duty. There is no duty drawback in respect of GST.

DUTY DRAWBACK

C Scheme for Remission of Duties and Taxes on Exported Products (RoDTEP)

RoDTEP scheme is based on the globally accepted principle that taxes and duties should not be exported, and taxes and levies borne on the exported products should be either exempted or remitted to exporters.

The Remission of duties & taxes on exported Product (RoDTEP) scheme aims to refund such duties and taxes on exported products, as are otherwise not being refunded under other provisions of law.

The rebate under the Scheme shall not be available in respect of duties and taxes already exempted or remitted or credited.

❑ Objective of the Scheme:

The objective of the scheme is to refund, currently unrefunded:

- (i) Duties/ taxes/ levies, at the Central, State & local level, borne on the exported product, including prior stage cumulative indirect taxes on goods & services used in **production** of the exported product, and
- (ii) Such indirect duties/taxes/levies in respect of **distribution** of exported products.

❑ Salient features of the scheme:

- Rebate amount is issued in the form of a transferable duty credit/electronic scrip (e-scrip), which will be maintained in an electronic ledger by the CBIC.
- Such duty credit shall be **used only to pay basic customs duty** on imported goods.
- The duty credit scrips are **freely transferable**, i.e. credits can be transferred to other importers.
- The rebate under the scheme **shall not be available** in respect of **duties and taxes already exempted or remitted or credited**.

RoDTEP

❑ Reward under the scheme

Rebate would be granted to eligible exporters at a notified rate as **a % of FOB value with a value cap per unit** of the eligible exported product, wherever required, on export of items. However, for certain export items, **a fixed quantum of rebate amount** per unit may also be notified.

❑ Sale proceeds

Rebate would not be dependent on the realization of export proceeds at the time of issue of rebate. However, rebate will be deemed never to have been allowed in case of non-receipt of sale proceeds within time allowed under the Foreign Exchange Management Act, 1999.

❑ Ineligible supplies/ items/ categories under RoDTEP

Following categories of exports/exporters shall not be eligible for rebate under the scheme:

Export of imported goods in same or substantially the same form

Exports through trans-shipment, meaning thereby exports that are originating in third country but trans-shipped through India

Export products which are subject to minimum export price or export duty

Products which are restricted/prohibited for export under FTP

Deemed Exports

Supplies of products manufactured by DTA units to SEZ/FTWZ units.

Products manufactured partly or wholly in a warehouse under section 65 of the Customs Act

Products manufactured or exported availing the benefit of *Notification No. 32/1997 Cus. dated 01.04.1997*²⁰ (job work and re-export of goods supplied by the foreign supplier)

Exports for which the electronic documentation in ICEGATE EDI has not been generated/ exports from non-EDI ports

Goods which have been taken into use after manufacture

Note: The support under RoDTEP scheme for export of products manufactured by DTA units is available till 30-09-2025²¹.



- 'Advance Authorisation' is not transferable. DFIA is transferable after export obligation is fulfilled.
- Advance Authorisation scheme requires 15% value addition, while in case of DFIA, minimum 20% value addition is required.
- The method of computing value addition for all the schemes is same.

²⁰ Goods which are imported for execution of an export order placed on the importer by the supplier of goods for jobbing are exempt from basic customs duty, IGST and GST compensation cess subject to conditions specified therein.

²¹ **Notification No. 32/2024-25 dated 30.09.2024 read with NN 66/2024-25 dated 20.03.2025. Further, the RoDTEP Scheme benefit will be available for export of products manufactured from Advance Authorisation units, SEZs, and EOUs with effect from 01.06.2025, vide Notification No. 11/2025-26 dated 26.05.2025.**



2. EXPORT PROMOTION CAPITAL GOODS SCHEME (EPCG)

❑ Objective of EPCG scheme

The objective of the EPCG Scheme is to facilitate import of capital goods for producing quality goods and services and enhance India's manufacturing competitiveness.

Export Promotion Capital Goods Scheme (EPCG) permits exporters to import capital goods (except specified goods) for pre-production, production and post-production at **zero customs duty** or procure them indigenously without paying duty in the prescribed manner. In return, exporter is under an obligation to fulfill the export obligation.

❑ Eligible exporters:

Following are eligible for EPCG scheme:

- ◆ Manufacturer exporters with or without supporting manufacturer(s),
- ◆ Merchant exporters tied to supporting manufacturer(s), and
- ◆ Service providers including service providers designated as Common Service Provider (CSP) subject to prescribed conditions.

❑ Eligible capital goods

- ◆ Capital Goods including capital goods in CKD/SKD condition
- ◆ Computer systems and software which are a part of the Capital Goods being imported
- ◆ Spares, moulds, dies, jigs, fixtures, tools & refractories
- ◆ Catalysts for initial charge plus one subsequent charge

Meaning of capital goods for purpose of FTP²²

"Capital Goods" means any plant, machinery, equipment or accessories required for manufacture or production, either directly or indirectly, of goods

²² The definition of capital goods has been given only for information purpose and not relevant from examination point of view.

or for rendering services, including those required for replacement, modernisation, technological up-gradation or expansion.

It includes packaging machinery and equipment, refrigeration equipment, power generating sets, machine tools, equipment and instruments for testing, research and development, quality and pollution control.

Capital goods may be for use in manufacturing, mining, agriculture, aquaculture, animal husbandry, floriculture, horticulture, pisciculture, poultry, sericulture and viticulture as well as for use in services sector.

☐ **Applicability of IGST and compensation cess**

Capital goods imported under EPCG Authorisation for physical exports are also exempt from IGST and Compensation Cess .

In case integrated tax and compensation cess are paid in cash on imports under EPCG, incidence of the said integrated tax and compensation cess would not be taken for computation of net duty saved provided, input tax credit is not availed.

EPCG

☐ **Restricted import/export**

Import of items which are restricted for import shall be permitted under EPCG Scheme only after requisite approval. Similarly, if the goods proposed to be exported under EPCG Authorisation are restricted for export, the EPCG Authorisation shall be issued only after requisite approval for issuance of Export Authorisation.

☐ **Actual User Condition**

Imported capital goods shall be subject to Actual User condition till export obligation is completed and Export Obligation Discharge Certificate (EODC) is granted.

☐ **Validity**

Authorisation shall be valid for import for **24 months** from the date of issue of Authorisation. Revalidation of EPCG Authorisation shall not be permitted.

24 months valid

❑ Indigenous Sourcing of Capital Goods and benefits to Domestic Supplier

A person holding an EPCG authorisation may source capital goods from a domestic manufacturer either through Invalidation letter or through Advance Release Order. Such domestic manufacturer shall be eligible for deemed export benefits. Such domestic sourcing shall also be permitted from EOUs.

❑ Export Obligation

Export obligation means obligation to export product(s) covered by Authorisation/permission in terms of quantity or value or both, as may be prescribed/specified by Regional or competent authority.

Import under EPCG scheme shall be subject to an export obligation equivalent to **6 times of duties, taxes and cess saved on capital goods to be fulfilled in 6 years reckoned from the date of issue of authorization.**

Import/procurement under EPCG scheme shall also be subjected to Average Export Obligation (AEO)

Export obligation consists of average export obligation and specific export obligation

Specific export obligation (Specific EO) under EPCG scheme is equivalent to 6 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 6 years reckoned from Authorization issue-date. Specific EO is over and above the Average EO.

Average export obligation(Average EO) under EPCG scheme is the average level of exports made by the applicant in the **preceding 3 licensing years** for the same and similar products. It has to be achieved within the overall EO period (including extended period unless otherwise specified).

The Average Export Obligation (AEO) shall be fulfilled every financial year, till export obligation is completed. Exports/supplies made over and above AEO shall only be considered for fulfillment of Export Obligation.

❑ Conditions applicable to the fulfilment of the Export Obligation (EO):

EO shall be fulfilled by the authorisation holder through export of goods which are manufactured by him or his supporting manufacturer / services rendered by him, for which the EPCG authorisation has been granted.

For export of goods, EPCG Authorisation holder may export either directly or through third party(ies).

In case of **indigenous sourcing of capital goods**,
Specific EO shall be **25% less than the EO** mentioned above, i.e. EO will be 4.5 times (75% of 6 times) of duty saved on such goods procured.
 There shall be **no change in average EO** imposed, if any.

Exports under Advance Authorisation, DFIA, Duty Drawback, RoSCTL and RoDTEP Schemes would also be eligible for fulfilment of EO under EPCG Scheme.

Exports made from DTA units shall only be counted for calculation and/or fulfilment of AEO and/or EO.

EO can also be fulfilled by the supply of Information Technology Agreement (ITA-1) items to DTA, provided realization is in free foreign exchange.

Both physical exports as well as specified deemed exports shall also be counted towards fulfilment of export obligation.

❑ Calculation of Export Obligation

In case of direct imports, EO shall be reckoned with reference to actual duty/Taxes/Cess saved amount. In case of domestic sourcing, EO shall be reckoned with reference to notional Customs duty /Taxes/Cess saved on FOR value.

❑ Incentives for early fulfillment of export obligation

In cases where Authorization holder has fulfilled 75% or more of specific export obligation and 100% of Average Export Obligation till date, if any, in half or less than half the original export obligation period specified, remaining export obligation shall be condoned and the Authorization redeemed.



3. EOU, EHTP, STP AND BTP

EOU, EHTP, STP and BTP stands for Export Oriented Unit (EOU) Scheme, Electronics Hardware Technology Park (EHTP) Scheme, Software Technology Park (STP) Scheme or Bio-Technology Park (BTP). Units **undertaking to export their entire production** of goods and services (**except permissible sales in DTA**), may be set up under these schemes for manufacture of goods, including repair, re-making, reconditioning, re-engineering, rendering of services, development of software, agriculture including agro-processing, aquaculture, animal husbandry, bio-technology, floriculture, horticulture, pisciculture, viticulture, poultry and sericulture. **Trading units are not covered** under these schemes.

EOU, EHTP, STP & BTP

Objectives of these schemes are to promote exports, enhance foreign exchange earnings, attract investment for export production and employment generation.

EOU/EHTP/STP/BTP units may **export all kinds of goods and services except items that are prohibited** in ITC (HS)²³. An EOU / EHTP/ STP/ BTP unit **may import and / or procure, from DTA or bonded warehouses in DTA / international exhibition held in India**, all types of goods²⁴, required for its activities, without payment of basic customs duty, additional duty (leviable u/s 3 of the Customs Tariff Act), IGST and compensation cess. However, procurement of goods covered under GST from DTA would be on payment of applicable GST and compensation cess. Units can also **import goods including capital goods** required for approved activity on a self-certification basis. Goods imported by a unit shall be with actual user condition and shall be utilized for export production.

State Trading regime shall not apply to EOU manufacturing units except for specified products.

Supplies **from DTA to EOU/EHTP/STP/BTP units** for use in their manufacture for exports will be eligible for **"benefits under deemed exports"**. DTA supplier shall be eligible for relevant entitlements under deemed exports provisions of FTP,

²³Export of gold jewellery, findings like posts, push backs, locks which help in collating the jewellery pieces together, SCOMET is governed by a separate procedure. The same is not relevant for examination.

²⁴ provided they are not prohibited items of import in the ITC (HS)

besides discharge of export obligation, if any, on the supplier. The refund of GST paid on such supply from DTA to EOU would be available to the supplier subject to specified conditions and documentations²⁵.

- ❑ **Other Entitlements:** Exemption from industrial licensing for manufacture of items reserved for micro and small enterprises. Export proceeds will be realized within 9 months. Units will be allowed to retain 100% of its export earnings in the EEFC (Exchange Earners' Foreign Currency) account. Unit will not be required to furnish bank guarantee at the time of import or going for job work in DTA subject to fulfilment of specified conditions. 100% FDI investment permitted through automatic route similar to SEZ units.

EOU, EHTP, STP & BTP

- ❑ **Net Foreign Exchange Earnings:**

EOU/EHTP/STP/BTP unit shall be a **positive net foreign exchange earner**. Moreover, certain sector specific provisions have also been laid down where a higher value addition and other conditions are given. NFE Earnings shall be calculated cumulatively in blocks of 5 years (extendible in specified cases), starting from commencement of production.

- ❑ **Applications & Approvals/Letter of Permission/ Letter of Intent and Legal Undertaking**

Application for setting up an EOU shall be considered by **Unit Approval Committee (UAC)/ Board of Approval (BoA)** as the case may be.

- ❑ **Investment Criteria**

Only projects having a **minimum investment of ₹ 1 crore in plant & machinery** shall be considered for establishment as EOUs. However, this shall not apply to existing units, units in EHTP/STP/BTP, and EOUs in handicrafts/agriculture/floriculture/aquaculture/animal

²⁵ In addition, EOU/EHTP/STP/BTP units shall be entitled to following:-

- (i) Reimbursement of Central Sales Tax (CST) on goods manufactured in India, wherever applicable. Simple interest @ 6% per annum will be payable on delay in refund of CST, if the case is not settled within 30 days of receipt of complete application.
- (ii) Exemption from payment of central excise duty on goods, falling in Fourth Schedule of Central Excise Act, procured from DTA on such goods manufactured in India.

husbandry/information technology, services, brass hardware and handmade jewellery sectors. BoA may allow establishment of EOUs with a lower investment criteria.

Inter Unit Transfer

Transfer of manufactured goods/capital goods from one EOU/ EHTP/STP/BTP unit to another EOU / EHTP/ STP/ BTP unit is allowed on payment of applicable GST and compensation cess with prior intimation to concerned Development Commissioners of the transferor and transferee units as well as concerned Customs authorities as

EOU, EHTP, STP & BTP

per the specified procedure. Goods supplied by one unit to another unit shall be treated as imported goods for second unit for payment of duty, on DTA sale by second unit.

Exit from the Scheme

With approval of DC/Designated officer of EHTP/ STP/BTP, an EOU/EHTP/STP/BTP unit may opt out of scheme. Such exit shall be subject to payment of applicable excise and customs duties and on payment of applicable IGST/ CGST/ SGST/ UTGST and compensation cess, if any, and industrial policy in force. If unit has not achieved obligations, it shall also be liable to penalty at the time of exit.

Conversion

Existing DTA units may also apply for conversion into an EOU / EHTP / STP/ BTP unit. Existing EHTP / STP units may also apply for conversion / merger to EOU unit and vice-versa. In such cases, units will avail exemptions in duties and taxes as applicable.

4. DEEMED EXPORTS

The objective of deemed exports is to provide a level-playing field to domestic manufacturers and to promote make in India, in certain specified cases i.e. to ensure that the domestic suppliers are not in disadvantageous position *vis-à-vis* foreign suppliers in terms of the fiscal concessions. The underlying theory is that foreign

exchange saved must be treated at par with foreign exchange earned by placing Indian manufacturers at par with foreign suppliers.

Deemed Exports for the purpose of this FTP

It refers to those transactions in which goods supplied do not leave country, and payment for such supplies is received either in Indian rupees or in free foreign exchange. Supply of goods as specified in FTP shall be regarded as “Deemed Exports” provided goods are manufactured in India.

Deemed Exports for the purpose of GST

It would include only the supplies notified under section 147 of the CGST/SGST Act, on the recommendations of the GST Council. The benefits of GST and conditions applicable for such benefits would be as specified by the GST Council and as per relevant rules and notification.

We will restrict our discussion to ‘Deemed exports for the purpose for FTP’ in this chapter.

Deemed exports broadly cover three areas.

- a. Supplies to domestic entities who can import their requirements duty free or at reduced rates of duty.
- b. Supplies to projects/ purposes that involve international competitive bidding.
- c. Supplies to infrastructure projects of national importance.

(I) CATEGORIES OF SUPPLIES CONSIDERED AS ‘DEEMED EXPORT’

| Supply by manufacturer | Supply by main/sub-contractors(s) |
|--|--|
| Supply of goods against Advance Authorisation/Advance Authorisation for annual requirement/ DFIA | Supply of goods to projects or turnkey contracts financed by multilateral or bilateral agencies/Funds notified by Department of Economic Affairs (DEA), under International Competitive Bidding (ICB). |
| Supply of goods to units | Supply of goods to any project or for any |

| | |
|--|---|
| located in EOU/ STP/ EHTP/ BTP. | purpose where import is permitted at zero basic customs duty provided supply is made against International Competitive Bidding. |
| Supply of capital goods against EPCG authorisation | Supply of goods to mega power projects |
| | Supply of goods to UN or international organisations for their official use or supplied to projects financed by them. |
| | Supply of goods to nuclear projects through national/international competitive bidding. |

(II) BENEFITS FOR DEEMED EXPORTS

Deemed exports shall be eligible for any/ all of following benefits in respect of manufacture and supply of goods, qualifying as deemed exports, subject to specified terms and conditions:

a. Advance Authorisation/ Advance Authorisation for Annual requirement/ DFIA

b. Deemed Export Drawback

Refund of drawback on the inputs used in manufacture and supply under the deemed exports category can be claimed on '**All Industry Rate**' of Duty Drawback Schedule provided no CENVAT credit has been availed by supplier of goods on excisable inputs or on '**Brand rate basis**' upon submission of documents evidencing actual payment of basic custom duties.

c. Refund of terminal excise duty for specified excisable goods

Supply of goods will be eligible for refund of terminal excise duty provided recipient of goods does not avail CENVAT credit/rebate on such goods and supply is eligible under that category of deemed exports.

(III) COMMON CONDITIONS FOR DEEMED EXPORT BENEFITS

(i) Supplies shall be made directly to entities listed in the point (I) above. Third party supply shall not be eligible for benefits/exemption.

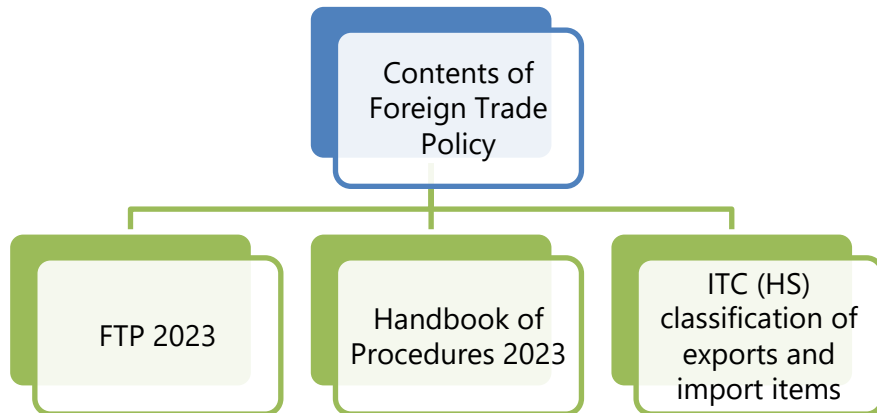
- (ii) In all cases, supplies shall be made directly to the designated Projects/Agencies/Units/ Advance Authorisation/ EPCG Authorisation holder. Sub-contractors may, however, make supplies to main contractor instead of supplying directly to designated Projects/ Agencies. Payments in such cases shall be made to sub-contractor by main-contractor and not by project Authority.
- (iii) Supply of domestically manufactured goods by an Indian Sub-contractor to any Indian or foreign main contractor, directly at the designated project's/ Agency's site, shall also be eligible for deemed export benefit.

DEEMED EXPORT

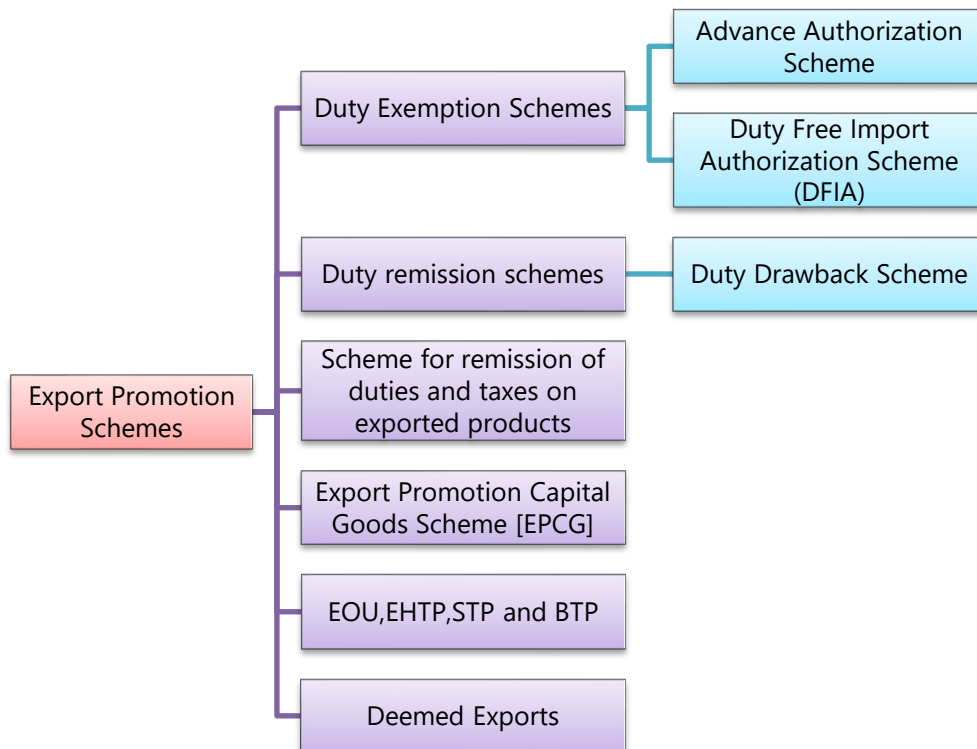


LET US RECAPITULATE

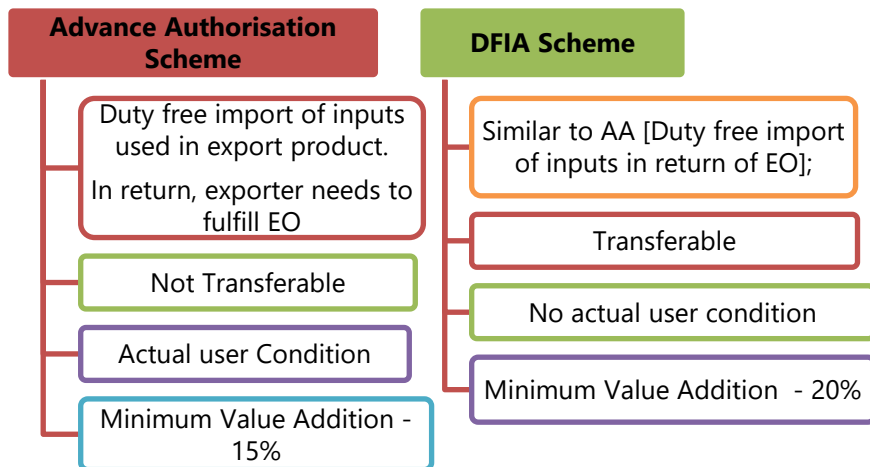
Contents of FTP



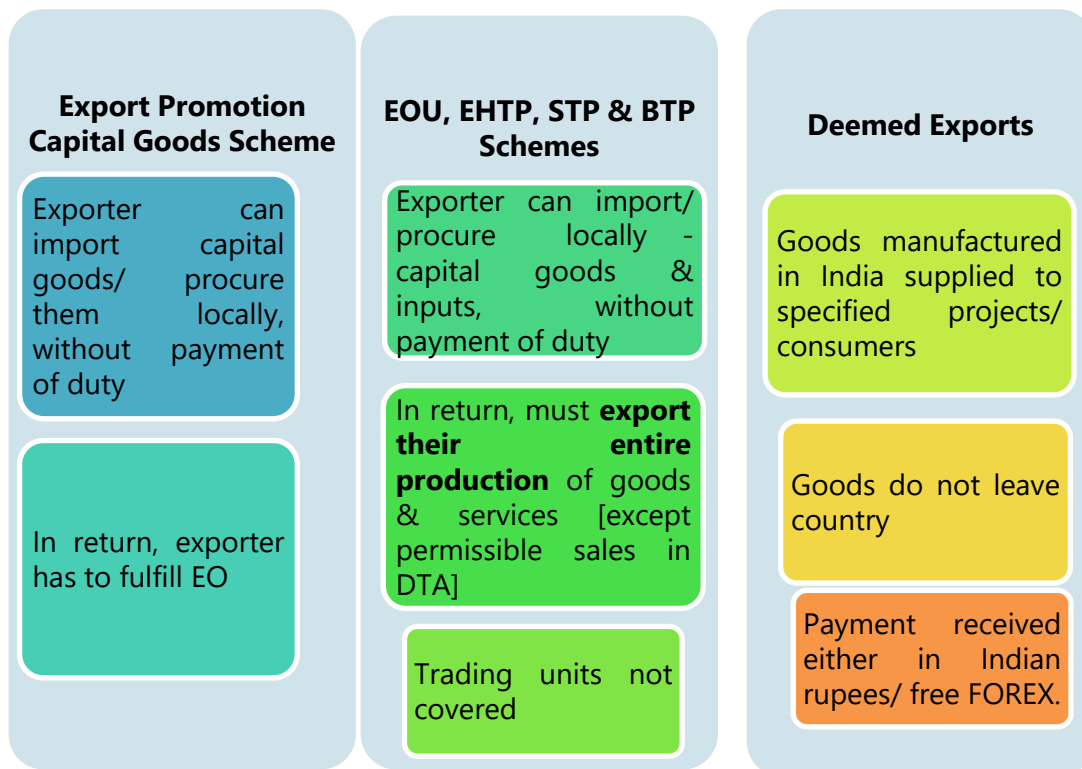
Export Promotion Schemes



Advance Authorisation and DFIA Scheme



EPCG, EOU, EHTP, STP & BTP Schemes, Deemed Exports





TEST YOUR KNOWLEDGE

1. *Mr. Ayush Bhandari wants to import samples from US. State in brief policy for import of samples.*
2. *State salient aspects of Advance authorisation for annual requirements to exporters.*
3. *Mr. X is desirous to know the benefits of deemed exports under FTP. You are required to discuss the same with reference to FTP.*
4. *Discuss the key similarities and differences between Advance Authorization and DFIA (Duty Free Import Authorization) schemes.*
5. *Discuss the privileges granted under FTP to Status Holders.*
6. *With reference to the provisions of FTP, discuss giving reasons whether the following statements are true or false:*
 - (i) *If any doubt arises in respect of interpretation of any provision of FTP, the said doubt should be forwarded to CBIC, whose decision thereon would be final and binding.*
 - (ii) *IEC is a unique 12 digit PAN based alphanumeric code allotted to a person for undertaking any export/ import activities*
7. *Two exporters namely, Red Sky Pvt. Ltd. and Black Night Pvt. Ltd. have achieved the status of Status Holders (One Star Export House) in the current financial year. Both the exporters have been regularly exporting goods (other than Gems and Jewellery) every year. What would have been the minimum export performance of the two exporters to achieve such status?*

Both the exporters want to establish export warehouses in accordance with the applicable guidelines. What should be their export turnover to enable them to establish export warehouses?
8. *Flintex Manufacturers manufactures goods by using imported inputs and supplies the same under Aid Programme of the United Nations. The payment for such supply is received in free foreign exchange. Can Flintex Manufacturers seek Advance Authorization with reference to the provisions of Foreign Trade Policy for the supplies made by it?*

9. XYZ Ltd. has imported inputs without payment of duty under Advance Authorization. The CIF value of such inputs is ₹ 10,00,000. The inputs are processed and the final product is exported. The exports made by XYZ Ltd. are subject to general rate of value addition prescribed under Advance Authorization Scheme. No other input is being used by XYZ Ltd. in the processing. What should be the minimum FOB value of the exports made by the XYZ Ltd. as per the provisions of Advance Authorization under FTP?
10. 'A' has used some duty paid inputs in its export products. However, for the rest of the inputs, he wants to apply for the Advance Authorization. Can he do so? Explain with reference to the provisions of Foreign Trade Policy



ANSWERS/HINTS

1. Import of samples of even 'restricted' items, is allowed without import authorisation. Exceptions are defence / security items, seeds, bees, and new drugs; these need authorisation.

Duty free import of samples upto ₹ 3,00,000 for all exporters shall be allowed subject to terms and conditions of customs notification as amended.

2. Annual Advance authorisation would be issued to exporters having past export performance in at least preceding two financial years, to enable them to import the inputs required by them on annual basis.

Advance authorization for annual requirement shall only be issued for items, notified in SION and not on basis of *ad hoc* norms under self-declared authorisations where SION does not exist.

Annual Advance Authorisation in terms of CIF value of imports will be granted upto 300% of FOB value of physical exports in preceding financial year and/or FOR value of deemed exports in preceding year or ₹ 1 crore, whichever is higher.

3. Deemed exports shall be eligible for any/ all of following benefits in respect of manufacture and supply of goods, qualifying as deemed exports, subject to specified terms and conditions:

a. Advance Authorisation/ Advance Authorisation for Annual requirement/DFIA

b. Deemed Export Drawback

Refund of drawback on the inputs used in manufacture and supply under the deemed exports category can be claimed on '**All Industry Rate**' of Duty Drawback Schedule provided no CENVAT credit has been availed by supplier of goods on excisable inputs or on '**Brand rate basis**' upon submission of documents evidencing actual payment of basic custom duties.

c. Refund of terminal excise duty for specified excisable goods

Supply of goods will be eligible for refund of terminal excise duty provided recipient of goods does not avail CENVAT credit/rebate on such goods and supply is eligible under that category of deemed exports.

4. In both DFIA and Advance Authorization schemes, import of inputs, oil and catalyst which are consumed/ utilised in the process of production of export product are permitted without payment of customs duty. Validity period for both the schemes is 12 months from the date of issue.

Key differences between DFIA and Advance Authorisation schemes are as follows -

- (i) 'Advance Authorisation' is not transferable. DFIA is transferable after export obligation is fulfilled.
- (ii) Advance Authorisation scheme requires 15% value addition, while in case of DFIA, minimum 20% value addition is required.
- (iii) Advance Authorisation and / or material imported under Advance Authorisation is subject to 'Actual User' condition. No DFIA shall be issued for an input which is subject to pre-import condition or where SION prescribes 'Actual User' condition or certain other specified inputs with pre import condition.

- (iv) DFIA cannot be issued where SION (Standard Input Output Norms) prescribes actual user condition [as the material is transferable after fulfilment of export obligation]. Advance Authorisation can be issued even if SION for that product is not fixed. DFIA can be issued only if SION has been fixed for that product to be exported.
- (v) Duty Free Import Authorisation shall be exempted only from payment of Basic Customs Duty (BCD). Drawback as per rate determined and fixed by Customs authority shall be available for duty paid inputs, whether imported or indigenous, used in the export product. Imports under Advance Authorisation are exempted from payment of Basic Customs duty, Additional Customs duty, Education cess, Anti- dumping duty, Countervailing duty, Safeguard duty and Transition Product Specific Safeguard duty, wherever applicable.

However, specified deemed exports are not exempted from payment of applicable anti-dumping duty, countervailing duty, safeguard duty and transition product specific safeguard duty, if any. Imports under Advance Authorisation for physical as well as deemed exports are also exempt from whole of the Integrated Tax and Compensation Cess.

5. Status holders are eligible for privileges as under:

- (a) Authorisation and custom clearances for both imports and exports on self-declaration basis.
- (b) Fixation of Input Output Norms on priority i.e. within 60 days by Norms Committee.
- (c) Exemption from compulsory negotiation of documents through banks. Exception are remittance/ receipts.
- (d) Exemption from furnishing of Bank Guarantee in Schemes under FTP unless otherwise specified.
- (e) Two Star Export Houses and above are permitted to establish export warehouses.

- (f) Manufacturers who are also status holders (Three Star/Four Star/Five Star) will be enabled to self-certify their manufactured goods (as per their Industrial Entrepreneurs Memorandum (IEM) / Industrial License (IL) /Letter of Intent (LOI)) as originating from India with a view to qualify for preferential treatment under specified agreements.
 - (g) Status holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to a specified annual limit.
 - (h) The status holders would be entitled to preferential treatment and priority in handling of their consignments by the concerned agencies.
6. (i) **False.** If any question or doubt arises in respect of interpretation of any provision of the FTP, said question or doubt ought to be referred to DGFT whose decision thereon would be final and binding.
- (ii) **False.** IEC is a unique 10-digit alphanumeric number allotted to a person for undertaking export/ import activities.
7. Status Holders are exporter firms recognised as business leaders who have excelled in international trade and have successfully contributed to country's foreign trade. All exporters of goods, services and technology having an import-export code (IEC) number shall be eligible for recognition as a status holder. Status recognition depends upon export performance

In order to be categorized as One Star Export House, an exporter needs to achieve the export performance of 3 million US \$ [FOB/ FOR (as converted)] during current and all the three preceding financial years.

Thus, export performance of Red Sky Pvt. Ltd. and Black Night Pvt. Ltd. would have been at least 3 million US \$ [FOB/ FOR (as converted)] during current and all the three preceding FYs.

Further, Two Star Export Houses and above are permitted to establish export warehouses. Therefore, Red Sky Pvt. Ltd. and Black Night Pvt. Ltd. can establish export warehouses in India only if they achieve the status of Two Star Export House and above. In order to achieve said status, export performance of the exporters during current and previous three financial years should be as indicated below:

| Status category | Export Performance Threshold In USD Million |
|-------------------------|--|
| One Star Export House | 3 |
| Two Star Export House | 15 |
| Three Star Export House | 50 |
| Four Star Export House | 200 |
| Five Star Export House | 800 |

8. Supply to goods to UN or international organisations for their official use or supplied to projects financed by them are 'deemed exports'. Advance Authorization can be issued for supplies made to such 'deemed exports'. Therefore, Flintex Manufacturers can seek an Advance Authorization for the supplies made by it.

9. Advance Authorization necessitates exports with a minimum of 15% value addition (VA).

$$VA = [(A - B)/B \times 100]$$

A = FOB value of export realized, B = CIF value of inputs covered by authorization.

Therefore, the minimum FOB value of the exports made by XYZ Ltd. should be ₹ 11,50,000 to attain 15% VA.

10. Yes, 'A' can do so. In case of part duty free and part duty paid imports, both Advance Authorization and drawback will be available. Drawback can be obtained for any duty paid material, whether imported or indigenous, used in goods exported, as per drawback rate fixed by DoR, Ministry of Finance (Directorate of Drawback). Advance Authorization can be used for importing duty free material. Details about duty paid material must be mentioned in the application for Advance Authorization.