



-COPY OF-
**ANNUAL SUPPLEMENT 2007
TO THE FOREIGN TRADE POLICY 2004-09
Announced on 19th April, 2007**

FOREWORD

When I announced the Foreign Trade Policy for 2004-09 three years ago, I had set a goal of doubling India's share in world trade by 2009. I am pleased to announce that not only have we almost doubled our exports within a short span of three years, but also, in December 2006, India's share of world trade moved from a fraction to an integer, crossing the 1% mark. This has been possible because our export growth has been higher than the world's average consistently for the past three years.

This does not mean that all hurdles have been crossed, and that the way ahead is level and smooth. Global trade has become more complex and Indian exports face a variety of tariff and non-tariff barriers in many markets in the world. For trade and industry to face this challenge, we would have to tackle it in multifarious ways. We would have to both diversify our exports as well as identify and develop new markets to, not just to survive, but to flourish.

Since the announcement of the Foreign Trade Policy in 2004, the focus of my Ministry has been on reducing the transaction costs and providing incentives to boost exports. The Focus Products and the Focus Markets Schemes as well as the Vishesh Krishi Upaj Yojana are some of the major initiatives taken in this regard. We are deepening these incentives to boost exports and create more employment.

In this Annual Supplement, a number of measures are being taken to further reduce transaction costs. In the past there have been problems in the issuance of the requisite notifications by the Department of Revenue to the various announcements made. I am happy to announce that this year it has been agreed that all the Department of Revenue notifications would be issued within 30 days of the announcement of the Annual Supplement.

Exporters will be happy that the DEPB scheme has been extended till 31st March 2008. This removes a major uncertainty. We are working on an alternative scheme. When it is finalized, we shall run the two schemes in parallel till 31st March 2008 so as to ensure a smooth transition.

The whole objective of expanding trade is to make it an instrument of greater employment and greater prosperity. With increased trade – exports, of course, but also imports – economic activity increases. This leads to a number of spin-offs and ancillary activities in manufacturing, transport, marketing, accounting – at each stage thousands of new jobs are created, increasing production and productivity, and bringing the benefits of trade to the common man, directly and indirectly.

Three years of the working of this Policy has proved that we are headed in the right direction.

**Sd/-
(Kamal Nath)
Minister of Commerce & Industry**

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ANNUAL SUPPLEMENT TO THE FOREIGN TRADE POLICY 2004 - 09

1. SECTOR SPECIFIC INITIATIVES

1.1 Handloom and Handicraft Sector

Absence of environmentally sustainable production process often works as a non-tariff barrier. To overcome this, exemption from duty on machinery and equipment for effluent treatment plants for handlooms and handicrafts has been allowed. As these sectors comprise of many small units and are located in geographically contiguous regions, these essential supports would strengthen their marketability.

A special focus initiative will provide for tools, machinery and equipments for handicrafts within present duty free entitlement ceiling.

1.2 Gems and Jewelry Sector

An initiative will provide for tools, machinery and equipments for gems and jewelry sector within present duty free entitlement limit.

In light of increase in global prices of precious metal, duty free entitlement for consumables for export of rhodium plated silver jewelry has been increased to 3%.

1.3 Samples for all exporters

Duty free import of samples up to Rs. 75,000/- (Presently Rs. 60,000/) would be allowed for all exporters.

2. SERVICE TAX ON EXPORTS

2.1 Exemption from Service Tax on services (related to exports) rendered abroad

Government has enunciated the principle that we should only export goods and not the taxes and duties thereon. In line with this, services rendered abroad and charged on exports from India would be exempted from Service Tax.

2.2 Exemption/Remission of Service Tax on export of goods

Service tax on services rendered in India and utilized by exporters would be exempted/remitted. Remission mechanism would be institutionalized after working out modalities with Department of Revenue (DoR).

3. STATUS HOLDERS

Categorization of exporters as One to Five Star Export Houses has been changed to Export Houses & Trading Houses, with rationalization and change in export performance parameters.

4. VISHESH KRISHI AND GRAM UDYOG YOJANA (VKGUY): EXPANSION AND CHANGES

4.1 Forest based products

Forest based products are added to existing list, which presently include Minor Forest Produce. This would benefit artisans, employed in manufacture of value added products like artistic wooden furniture, particularly in small scale, cottage and tiny sectors.

4.2 Scope of VKGUY Scheme

Scope of agricultural sector is enhanced to include many more products. Value added products have been included to ensure employment generation.

4.3 Status Holders developing Agri-Infrastructure

4.3.1 Duty Credit benefits

Status Holders will be incentivised with duty credit scrip equal to 10% of FOB value of agricultural exports which can be used for duty free import/procurement of capital goods related to infrastructure meant for agro-processing to promote agricultural exports. This would be in addition to prevailing benefits in other schemes administered by Ministry of Agriculture.

4.3.2 Allocation basis

Allocation of funds will be on a first-cum-first-served basis. Assessment of applicants' proposal can be with respect to their past export performance. This would be within the additional allocation of Rs 200 Cr for 2007-08.

4.4 VKGUY extended to EOUs

VKGUY benefits are extended to EOUs not availing direct tax benefits.

5. FOCUS MARKET & PRODUCT SCHEMES

5.1 Expansion of Ceiling, Scope and Coverage

Under Focus Market Scheme (FMS) and Focus Product Scheme (FPS) coverage/scope of eligible markets/items would be enhanced. Revised allocation for benefits is now Rs. 1000 Cr, for exports during 2007-08.

5.2 New Markets and Products

16 countries (including 10 from CIS block) are added as new Markets and several value-added low volume export products have been identified and would be entitled to benefits under FPS.

5.3 FMS & FPS extended to EOUs

Moreover, EOUs not availing direct tax benefits would also get benefits under FMS and FPS.

6. PROMOTION OF HIGH TECH PRODUCTS

Promotion of High Tech Products is essential to increase quantum of such products' manufacturing base in India for export purposes. An Export Promotion Scheme is launched with following salient features:-

- (i) Duty credit of 10% on incremental export growth would be given as incentive for exporter.
- (ii) List of products would be notified in consultation with concerned Scientific Ministries.

7. DUTY ENTITLEMENT PASS BOOK (DEPB) SCHEME

7.1 Extension of DEPB Scheme

DEPB Scheme stands extended upto 31.3.2008. It is proposed to introduce a new scheme instead of DEPB, soon.

7.2 Modification in DEPB scheme

While extending the scheme for another year, government has agreed to reimburse the cost of duty on fuel and special additional duty, on all export related imported goods, to the extent it is not cenvatable. Benefit may be allowed by notifying Brand rate of DEPB for such products.

8. HIGHER EXPORT GROWTH THROUGH RATIONALIZATION OF EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME

8.1 Export Obligation (EO) for tiny and cottage sector

For tiny and cottage, sector export obligation period is raised to 12 years.

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8.2 Spares, tools and spare refractory for Imported CG

Issue of EPCG for import of spares, tools and spare refractory would be allowed for existing imported plant and machinery (though not imported under EPCG cover).

8.3 Waiver of EO due to Force Majeure

Waiver of outstanding export obligations can only be considered where, because of force majeure or other unforeseen circumstances/reasons, exporter is unable to fulfill export obligation.

8.4 Concurrent EPCG – Fixation of Average EO

Wherever more than one EPCG authorizations are issued concurrently, fresh EPCG authorization would build upon last required average export obligation only (incorporating the previous EPCG obligation), notwithstanding actual achievements. This removes anomaly whereby better performance is penalized presently.

8.5 Block wise EO abolished

Block-wise fulfillment of export obligation would be done away with. This will reduce unnecessary transaction cost and paper work. While doing so in case of existing export obligations fresh EPCG would be issued only to such applicant who has fulfilled proportionate export obligation by that time. Simultaneously, services sector will have to maintain the average to avail new EPCG. This would be a supportive measure for export promotion and growth.

9. 100% EOU AND SEZ UNITS

9.1 Interest on delayed payments

Interest on delayed payments (refund of terminal excise duty/duty drawback on deemed exports and CST) would be payable in lines of provisions in Customs and Income Tax Acts. This facility would also apply to delayed payments for deemed exports.

9.2 Counting for NFE of EOU

Supplies of accessories such as buttons and hangers by EOUs to DTA units will be counted for NFE calculations.

9.3 Defining manufacture under Income Tax

Definition of manufacturing shall be incorporated in Income Tax Act. This would remove uncertainty regarding taxation for EOU units.

9.4 EOU units extended benefits under VKGUY, FMS & FPS Schemes

EOUs not availing direct tax benefits would also get benefits under VKGUY, FMS and FPS schemes.

9.5 Co-Developer of SEZ

Developer and Co – developer of Special Economic Zone would be notified for benefits under all duty neutralization schemes like DEPB, DFIA and Advance Authorisation Schemes.

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