

CHAPTER-4

DUTY EXEMPTION & REMISSION SCHEMES

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| <i>Duty Exemption and Remission Schemes</i> | 4.1 | Duty exemption schemes enable duty free import of inputs required for export production. Duty Exemption Schemes consist of (a) Advance Authorisation scheme and (b) Duty Free Import Authorisation (DFIA) scheme. A Duty Remission Scheme enables post export replenishment / remission of duty on inputs used in export product. Duty Remission Schemes consist of (a) Duty Entitlement Passbook (DEPB) Scheme and (b) Duty Drawback (DBK) Scheme. |
| <i>Re-import of exported goods under Duty Exemption / Remission Scheme</i> | 4.1.1 | Goods exported under Advance Authorisation / DFIA / DEPB may be re-imported in same or substantially same form subject to DoR specified conditions. |
| <i>Value Addition</i> | 4.1.2 | Value addition (VA) for the purpose of this Chapter (Except for Gems and Jewellery Sector) shall be:- $VA = \frac{A - B}{B} \times 100, \text{ where}$ <p>A = FOB value of export realised / FOR value of supply received. B = CIF value of inputs covered by authorisation, plus any other imported materials used on which benefit of DBK is claimed.</p> |

ADVANCE AUTHORISATION SCHEME

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| <i>Advance Authorisation</i> | 4.1.3 | <p>An Advance Authorisation is issued to allow duty free import of inputs, which are physically incorporated in export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts which are consumed/ utilised to obtain export product, may also be allowed. DGFT, by means of Public Notice, may exclude any product(s) from purview of Advance Authorisation.</p> <p>Duty free import of mandatory spares upto 10% of CIF value of Authorisation which are required to be exported/ supplied with resultant product are allowed under Advance Authorisation. Advance Authorisations are</p> |
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issued for inputs and export items given under SION. These can also be issued on the basis of Adhoc norms or self declared norms as per para 4.7 of HBP v1.

Advance Authorisation can be issued either to a manufacturer exporter or merchant exporter tied to supporting manufacturer(s) for:

- i) Physical exports (including exports to SEZ); and/ or
- ii) Intermediate supplies; and /or
- iii) Supply of goods to the categories mentioned in paragraph 8.2 (b), (c), (d), (e), (f), (g), (i) and (j) of FTP ;
- iv) supply of 'stores' on board of foreign going vessel/ aircraft subject to condition that there is specific SION in respect of item(s) supplied.

In addition, in respect of supply of goods to specified projects mentioned in paragraph 8.2 (d), (e), (f), (g) and (j) of FTP, an Advance Authorisation can also be availed by sub-contractor to such project provided name of sub-contractor(s) appears in main contract.

Such Authorisation can also be issued for supplies made to United Nations Organisations or under Aid Programme of the United Nations or other multilateral agencies and which are paid for in free foreign exchange.

However, Advance Authorization for import of raw sugar, can be issued either to a manufacturer exporter or merchant exporter tied to supporting manufacturer(s). Exports can also be made by procurement of white sugar from any other factory(ies). This provision shall be applicable for exports from 17.2.2009.

4.1.4 Advance Authorisations are exempted from payment of basic customs duty, additional customs duty, education cess, anti- dumping duty and safeguard duty, if any. However, imports for supplies covered under paragraph 8.2 (h) & (i) will not be exempted from payment of applicable anti-dumping and safeguard duty, if any.

4.1.5 Advance Authorisation and / or materials imported thereunder will be with actual user condition. It will not be transferable even after completion of export obligation. However, Authorisation holder will have option to dispose

off product manufactured out of duty free inputs once export obligation is completed. In case where CENVAT credit facility on inputs have been availed for the exported goods, even after completion of export obligation, the goods imported against Advance Authorisation shall be utilized only in the manufacture of dutiable goods whether within the same factory or outside (by a supporting manufacturer), for which the authorisation holder shall produce a certificate from either the jurisdictional Central Excise Supdt. or Chartered Accountant, at the option of the exporter, at the time of filing application for EODC to RA concerned. However, the actual user condition shall not be applicable in case of raw sugar to be imported from 17.2.2009, till 30.09.2009 under Advance Authorization Scheme.

Further the manufacturing wastes/scrap, as allowed, can be disposed off with the payment of applicable duty before fulfilment of export obligation.

- 4.1.6 Advance Authorisations necessitate exports with a minimum value addition of 15%, except for items in Gems & Jewellery sector, for which value addition would be as per paragraph 4A.2.1 of HBP v.1. Exports to SEZ Units/ supplies to Developers / Co-Developers, irrespective of currency of realization, would also be covered.

For physical exports for which payments are not received in freely convertible currency, same shall be subject to value addition as specified in Appendix-11 of HBP v1.

In case of Authorisation for import of Tea, minimum value addition under Advance Authorisation shall be 50%.

Similarly, in case of spices {covered by Chapter 9 of ITC(HS)}, duty free import of spices shall be permitted only for value addition purposes like crushing / grinding / sterilization or for manufacture of oils and oleoresins and not for simple cleaning, grading, re-packing etc.

- 4.1.7 Advance Authorisation shall be issued in accordance with Policy and procedure in force on Authorisation issue date.

Validity period of Advance Authorisation for import shall be as prescribed in HBP v1.

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| <i>Free of Cost Supply by Foreign Buyer</i> | 4.1.8 | <p>Facility of Advance Authorisation shall also be available where some or all inputs are supplied free of cost to exporter by foreign buyer.</p> <p>In such cases, for calculation of value addition, notional value of free of cost inputs along with value of other duty-free inputs shall be taken into consideration. However, if all inputs are supplied free of cost, exporter shall also have option to follow provision prescribed by DoR.</p> |
| <i>Export Obligation</i> | 4.1.9 | <p>Period for fulfillment of export obligation under Advance Authorisation shall be as prescribed in HBP v1.</p> |
| <i>Provision for BIFR units</i> | 4.1.9 A | <p>Any firm / company registered with BIFR or any firm/ company acquiring a unit, which is under BIFR shall be allowed Export Obligation Period (EOP) extension as per rehabilitation package prepared, subject to approval of BIFR or 5 years if not specified, without payment of composition fee.</p> <p>Above provisions apply also to SSI units as per rehabilitation scheme of concerned State government.</p> |
| <i>Advance Authorisation for Annual Requirement</i> | 4.1.10 | <p>Advance Authorisation can also be issued for annual requirement.</p> <p>Status Certificate holder and all other categories of exporters having past export performance (in preceding two years) shall be entitled for Advance Authorisation for Annual Requirement.</p> <p>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 licensing year or Rs 1 crore, whichever is higher.</p> |
| <i>Advance Release Orders (ARO) and Invalidation Letter</i> | 4.1.11 | <p>Holder of Advance Authorisation, Advance Authorisation for Annual Requirement and Duty Free Import Authorisation intending to source inputs from indigenous sources / State Trading Enterprises, in lieu of direct import, has option to source them either against Advance Release Order (ARO) or Invalidation letter denominated in free foreign exchange / Indian rupees. However, supplies may be obtained against Authorisation from EOU / EHTP / BTP / STP / SEZ units, without conversion into ARO or Invalidation letter.</p> |

Transferee of DFIA shall also be eligible for ARO / invalidation letter facility.

Validity period of ARO shall be as prescribed in HBP v1.

Back-to-Back Inland Letter of Credit 4.1.12 Holder of Advance Authorisation, Advance Authorisation for Annual Requirement and DFIA may, instead of applying for an ARO or Invalidation letter, avail of the facility of Back-to-Back Inland Letter of Credit in accordance with procedure specified in HBP v1.

Prohibited Items 4.1.13 Prohibited items of imports mentioned in ITC(HS) shall not be imported under Advance Authorisation / DFIA. Further 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.

STEs are also allowed to sell goods on High Sea Sale basis to holders of Advance Authorisation / DFIA holder.

In addition, STEs are permitted to issue “No Objection Certificate (NOC)” for import by advance Authorisation/ DFIA holder. Authorisation Holder would be required to file Quarterly Returns of imports effected against such NOC to concerned STE and STE would submit half-yearly import figures of such imports to concerned administrative Department for monitoring with a copy endorsed to DGFT.

Similarly prohibited items of exports mentioned in ITC(HS) shall not be exported under Advance Authorisation / DFIA scheme. Export of restricted items shall be subject to all conditionalities or requirements of Export Authorisation or permission, as may be required, under Schedule II of ITC (HS).

Admissibility of Drawback 4.1.14 In case of an Advance Authorisation, drawback shall be available 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). Drawback allowed shall be mentioned in Authorisation.

DUTY FREE IMPORT AUTHORISATION (DFIA) SCHEME

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| <i>Scheme</i> | 4.2.1 | DFIA is issued to allow duty free import of inputs, fuel, oil, energy sources, catalyst which are required for production of export product. DGFT, by means of Public Notice, may exclude any product(s) from purview of DFIA. This scheme is in force from 1st May, 2006. |
| <i>Entitlement</i> | 4.2.2 | <p>Provisions of paragraph 4.1.3 shall be applicable in case of DFIA. However, these Authorisations shall be issued only for products for which Standard Input and Output Norms (SION) have been notified.</p> <p>In case of post export DFIA, a merchant exporter shall be required to mention only name(s) and address(s) of manufacturer(s) of the export product(s). Applicant is required to file application to concerned RA before effecting exports under DFIA.</p> <p>Pre-export Authorisation shall be issued with actual user condition and shall be exempted from payment of basic customs duty, additional customs duty / excise duty, education cess, anti-dumping duty and safeguard duty, if any.</p> <p>In case of actual user DFIA and where CENVAT credit facility on inputs have been availed for the exported goods, even after completion of export obligation, the goods imported against such DFIA shall be utilized in the manufacture of dutiable goods whether within the same factory or outside (by a supporting manufacturer).</p> |
| <i>Import items</i> | 4.2.3 | Provisions of paragraphs 4.1.11, 4.1.12, 4.1.13 and 4.1.14 of FTP shall be applicable for DFIA holder. |
| <i>Value Addition</i> | 4.2.4 | A minimum 20% value addition shall be required for issuance of such authorisation, except for items in gems and jewellery sector, for which value addition would be as per paragraph 4A.2.1 of HBP v1. Items for which higher value addition is prescribed under Advance Authorisation Scheme, shall be applicable. |
| <i>Export Obligation</i> | 4.2.5 | Procedure and time period related to fulfillment of Export Obligation have been laid down in Chapter 4 of HBP v1. |

Transferability 4.2.6 Once export obligation has been fulfilled, request for transferability of Authorisation or inputs imported against it may be made before concerned RA. Once, transferability is endorsed, Authorisation holder may transfer DFIA or duty free inputs, except fuel and any other item(s) notified by DGFT. However, for fuel, import entitlement may be transferred only to companies which have been granted authorisation to market fuel by Ministry of Petroleum and Natural Gas.

Once transferability is endorsed, imports / domestic procurement against authorisation or transfer of imported inputs / domestically procured inputs shall be subject to payment of applicable additional customs duty / excise duty. While endorsing transferability, authorisation would bear a note as to liability of such additional customs duty / excise duty. However, in case where CENVAT facility has not been availed, exemption from additional customs duty/ excise duty would be available even after endorsement of transferability on DFIA.

Wherever SIONs prescribe actual user condition and in case of Acetic Anhydride, Ephedrine and Pseudo-Ephedrine, DFIA shall be issued with actual user condition for these inputs and no transferability shall be allowed for these inputs even after fulfillment of export obligation.

However, for authorizations issued prior to 1.4.2007, exemption from Additional Customs Duty/ Excise Duty shall continue to be available even after endorsement of transferability as provided in FTP (RE-2006).

CENVAT Facility 4.2.7 CENVAT credit facility shall be available for inputs either imported or procured indigenously.

DUTY ENTITLEMENT PASSBOOK (DEPB) SCHEME

Duty Entitlement Passbook (DEPB) Scheme 4.3 Objective of DEPB is to neutralise incidence of customs duty on import content of export product. Component of customs duty on fuel (appearing as consumable in the SION) shall also be factored in the DEPB rate. Component of Special Additional Duty shall also be allowed under DEPB (as brand rate) in case of non-availment of CENVAT credit. Neutralisation shall be provided by way of grant of duty credit against export product.

4.3.1 An exporter may apply for credit, at specified percentage of FOB value of exports, made in freely convertible currency. In case of supply by a DTA unit to a SEZ unit/ SEZ Developer/Co-Developer, an exporter may apply for credit for exports made in freely convertible currency or payment made from foreign currency account of SEZ Unit/SEZ Developer/Co-Developer. In addition, the exporter shall also be entitled for DEPB benefit in case payment is made in Indian Rupees by SEZ Developer/ Co-Developer for supplies received w.e.f 10.2.2006.

Credit shall be available against such export products and at such rates as may be specified by DGFT by way of public notice. Credit may be utilized for payment of Customs Duty on freely importable items and/or restricted items. DEPB Scrips can also be utilized for payment of duty against imports under EPCG Scheme. Further, DEPB Scrips can also be used / debited towards payment of Customs Duty in case of EO defaults for Authorizations issued under Chapters 4 and 5 of this Policy. However, penalty / interest shall be required to be paid in cash.

Prohibited items of exports mentioned in ITC(HS) Book (as amended from time to time) shall not be entitled for DEPB credit except for the exports effected under transitional facility, wherever allowed, in terms of paragraph 1.5 of FTP.

4.3.2 DEPB holder shall have option to pay additional customs duty in cash as well.

Validity

4.3.3 Validity period of DEPB for import shall be as prescribed in HBP v1.

Transferability

4.3.4 DEPB and / or items imported against it are freely transferable. Transfer of DEPB shall however be for import at specified port, which shall be the port from where exports have been made. Imports from a port other than the port of export shall be allowed under TRA facility as per terms and conditions of DoR notification.

Applicability of Drawback

4.3.5 Additional customs duty / Excise Duty and Special Additional Duty paid in cash or through debit under DEPB may also be adjusted as CENVAT Credit or Duty Drawback as per DoR rules.

GEMS AND JEWELLERY

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| <i>Scheme for Gems and Jewellery</i> | 4A | Exporters of gems and Jewellery can import / procure duty free inputs for manufacturing. |
| <i>Replenishment Authorisation</i> | 4A.1 | Exporters may obtain Replenishment (REP) Authorisations from RA in accordance with procedure specified in HBP v1. |
| | 4A.1.1 | Replenishment authorisation may also be issued for consumables & tools as per paragraph 4A.28 of HBP v1. |
| <i>Import of Diamonds for Certification/ Grading & re-export</i> | 4A.2 | The authorized offices/agencies in India of Gemological Institute of America (GIA) or any other agency approved in this regard, shall be permitted to import diamonds to their laboratories for the purpose of certification/grading reports by them with a condition that the same should be re-exported with the certification/grading reports issued by them without any import duty, as per the procedure laid down in HBP v1. |
| <i>Schemes for Gold/ Silver/ Platinum Jewellery</i> | 4A.3 | Exporters of gold / silver / platinum jewellery and articles thereof may import their essential inputs such as gold, silver, platinum, mountings, findings, rough gems, precious and semi-precious stones, synthetic stones and unprocessed pearls etc. in accordance with the procedure specified in this behalf. |
| <i>Nominated Agencies</i> | 4A.4 | Nominated agencies are MMTC Ltd, Handicraft and Handloom Export Corporation (HHEC), State Trading Corporation (STC), the Project and Equipment Corporation (PEC) of India Ltd, STCL Ltd, MSTC Ltd, Diamond India Limited (DIL), Gems & Jewellery Export Promotion Council (G&J EPC)), Star Trading House (only for Gems & Jewellery sector) and Premier Trading House under Paragraph 3.10.2 of FTP and any other agency authorised by RBI. Exporters (except EOUs and units in SEZ) may obtain gold / silver / platinum from nominated agency(s). Procedure for import of precious metal by these agencies (other than those authorized by RBI and the Gems & Jewellery units operating under EOU and SEZ schemes) and the monitoring mechanism thereof shall be as per the provisions laid down in HBP v1 in this regard. |

A bank authorised by RBI is allowed export of gold scrap for refining and import standard gold bars as per RBI guidelines.

Items of Export 4A.5 Following items, if exported, would be eligible for facilities:

- (a) Gold jewellery, including partly processed jewellery and articles including medallions and coins (excluding legal tender coins), whether plain or studded, containing gold of 8 carats and above;
- (b) Silver jewellery including partly processed jewellery, silverware, silver strips and articles including medallions and coins (excluding legal tender coins and any engineering goods) containing more than 50% silver by weight;
- (c) Platinum jewellery including partly processed jewellery and articles including medallions and coins (excluding legal tender coins and any engineering goods) containing more than 50% platinum by weight.

Value Addition 4A.6 Value Addition (VA) for gems and jewellery sector shall be as per paragraph 4A.2.1 of HBP v1. It would be calculated as under:

$$VA = \frac{A - B}{B} \times 100, \text{ where}$$

A = FOB value of the export realised / FOR value of supply received.

B = Value of inputs (including domestically procured) such as gold / silver / platinum content in export product plus admissible wastage along with value of other items such as gemstone etc. Wherever gold has been obtained on loan basis, value shall also include interest paid in free foreign exchange to foreign supplier.

Wastage Norms 4A.7 Wastage or manufacturing loss for gold / silver / platinum jewellery shall be admissible as per paragraph 4A.2 of HBP v1.

Export against Supply by Foreign Buyer 4A.8 Where export orders are placed on nominated agencies/ status holder / exporters of three years standing having

an annual average turnover of Rs. Five Crores during preceding three licensing years, foreign buyer may supply in advance and free of charge, gold / silver / platinum, alloys, findings and mountings of gold / silver / platinum for manufacture and export.

Such supplies can also be in advance and may involve semi-finished jewellery including findings / mountings / components for repairs / re-make and export subject to minimum value addition of 10%. However, if so imported semi finished gold / silver /platinum jewellery is exported as studded jewellery, value addition of 15% shall be achieved. In such cases of export, wastage of 2% may be permitted.

Exports may be made by nominated agencies directly or through their associates or by status holder / exporter. Import and Export of findings shall be on net to net basis.

***Export Against Supply
by Nominated Agencies***

4A.9

Exporter may obtain gold / silver / platinum as an input for export products from nominated agencies in advance or as replenishment after exports in accordance with specified procedure.

***Export Against Advance
Authorisation***

4A.10

An Advance Authorisation may be granted for duty free import of:

- (a) Gold of fineness not less than 0.995 and mountings, sockets, frames and findings of 8 carats and above;
- (b) Silver of fineness not less than 0.995 and mountings, sockets, frames and findings containing more than 50% silver by weight;
- (c) Platinum of fineness not less than 0.900 and mountings, sockets, frames and findings containing more than 50% platinum by weight.

4A.11

Such authorisations shall carry an export obligation to be fulfilled as per procedure specified in paragraph 4A of HBP v1. Value addition shall be as per paragraph 4A.2.1 of HBP v.1.

Advance Authorisation holder may obtain gold / silver/ platinum from nominated agencies in lieu of direct import.

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| <i>Gem Replenishment Authorisation</i> | 4A.12 | <p>Gem Replenishment (Gem & Jewellery REP) Authorisation may be issued as given in paragraph 4A.8, 4A.9 and 4A.10 above.</p> <p>In case of plain or studded gold / silver / platinum jewellery and articles, value of such Authorisations shall be determined with reference to realisation in excess of prescribed minimum VA.</p> <p>Such Gem REP Authorisations shall be freely transferable.</p> |
| <i>Gem REP Rate and Item</i> | 4A.13 | Replenishment Rate and item of import will be as prescribed in Appendix 12B of HBP v1. |
| <i>Export Promotion Tours/Export of Branded Jewellery</i> | 4A.14 | <p>Nominated agencies and their associates, with the approval of Department of Commerce, and others, with the approval of Gem & Jewellery EPC (GJEPC), may export gold / silver / platinum jewellery and articles thereof for exhibitions abroad.</p> <p>Personal carriage of gold / silver / platinum jewellery, precious, semi-precious stones, beads and articles and export of branded jewellery is also permitted, subject to conditions as in HBP v1.</p> |
| <i>Personal Carriage of Export / Import Parcels</i> | 4A.15 | Personal carriage of gems and jewellery export parcels by foreign bound passengers and import parcels by an Indian importer/foreign national may be permitted as in HBP v1. |
| <i>Export by Post</i> | 4A.16 | In case of exports through Foreign Post Office (including via Speed Post), value of jewellery parcels shall not exceed US\$ 75000 and 20 kg. by weight. |
| <i>Diamond & Jewellery Dollar Accounts</i> | 4A.17 | Firms and companies dealing in purchase/ sale of rough or cut and polished diamonds/precious metal jewellery plain, minakari and / or studded with / without diamond and/or other stones, with a track record of at least two years in import or export of diamonds / coloured gemstones/ diamond and coloured gemstones studded jewellery / plain gold jewellery, and having an average annual turnover of Rs. 3 crores or above during preceding three licensing years, may also carry out their business through designated Diamond Dollar Accounts (DDA). |

Dollars in such accounts available from bank finance and / or export proceeds shall be used only for:

- (i) Import / purchase of rough diamonds from overseas/ local sources;
- (ii) Purchase of cut and polished diamonds, coloured gemstones and plain gold jewellery from local sources;
- (iii) Import / purchase of gold from overseas / nominated agencies and repayment of dollar loans from the bank; and
- (iv) Transfer to Rupee Account of exporter. Details of this DDA Scheme are given in HBP v1.

A non DDA holder is also permitted to supply cut and polished diamonds to DDA holder, receive payment in dollars and convert same into Rupees within 7 days. Cut and polished diamonds and coloured gemstones so supplied by non-DDA holder will also be counted towards discharge of his export obligation and / or entitle him to replenishment Authorisation.

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| | 4A.18 | Gems and Jewellery exporters shall be allowed to export cut and polished precious and semi-precious stones for the treatment and re-import as per Customs rules and regulations. In case of re-export, the exporter shall be entitled for duty drawback as per rules. |
| <i>Re-import of rejected jewellery</i> | 4A.19 | Gems & Jewellery exporters shall be allowed to re-import rejected precious metal jewellery as per para 4A.32 of HBP v1. |
| <i>Export on consignment basis</i> | 4A.20 | Gems & Jewellery exporters shall be allowed to export diamond, gemstones & jewellery on consignment basis as per HBP v1 and Customs rules and regulations. |