

## CHAPTER-5

### EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME

#### *Zero duty EPCG Scheme* 5.1

Zero duty EPCG scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at zero Customs duty, subject to an export obligation 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.

The scheme will be available for exporters of engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products and leather & leather products; subject to exclusions as provided in HBPv1.

Validity period for import of capital goods and provision for extension in export obligation period will be as separately provided in the HBPv1. All other provisions pertaining to concessional 3% duty EPCG scheme under this Chapter, to the extent they are not inconsistent with the above provisions of zero duty EPCG scheme, shall be applicable to the zero duty EPCG scheme also. The zero duty EPCG scheme will be in operation till 31.3.2011.

#### *Concessional 3% Duty EPCG Scheme* 5.2

Concessional 3% duty EPCG scheme allows import of capital goods for pre production, production and post production (including CKD/SKD thereof as well as computer software systems) at 3% Customs duty, subject to an export obligation equivalent to 8 times of duty saved on capital goods imported under EPCG scheme, to be fulfilled in 8 years reckoned from Authorization issue-date.

In case of agro units, and units in cottage or tiny sector, import of capital goods at 3% Customs duty shall be allowed subject to fulfillment of export obligation equivalent to 6 times of duty saved on capital goods imported, in 12 years from Authorization issue-date.

For SSI units, import of capital goods at 3% Customs duty shall be allowed, subject to fulfillment of export obligation

equivalent to 6 times of duty saved on capital goods, in 8 years from Authorization issue-date, provided the landed cif value of such imported capital goods under the scheme does not exceed Rs. 50 lakhs and total investment in plant and machinery after such imports does not exceed SSI limit.

However, in respect of EPCG Authorization with a duty saved amount of Rs. 100 crores or more, export obligation shall be fulfilled in 12 years.

In case CVD is paid in cash on imports under EPCG, incidence of CVD would not be taken for computation of net duty saved, provided the same is not CENVATED.

Capital goods shall include spares (including refurbished/reconditioned spares), tools, jigs, fixtures, dies and moulds.

Second hand capital goods, without any restriction on age, may also be imported under EPCG scheme.

However, import of motor cars, sports utility vehicles/all purpose vehicles shall be allowed only to hotels, travel agents, tour operators or tour transport operators and companies owning/operating golf resorts, subject to the condition that:

- (i) total foreign exchange earning from hotel, travel & tourism and golf tourism sectors in current and preceding three licensing years is Rs. 1.5 crores or more.
- (ii) 'duty saved' amount on all EPCG Authorizations issued in a licensing year for import of motor cars, sports utility vehicles/ all purpose vehicles shall not exceed 50% of average foreign exchange earnings from hotel, travel & tourism and golf tourism sectors in preceding three licensing years.
- (iii) vehicles imported shall be so registered that the vehicle is used for tourist purpose only. A copy of the Registration certificate should be submitted to concerned RA as a confirmation of import of vehicle. However, parts of motor cars, sports utility vehicles/ all purpose vehicles such as chassis etc. cannot be

imported under the EPCG Scheme.

Import of Restricted items of imports mentioned under ITC(HS) shall only be allowed under EPCG Scheme after approval from EFC at Headquarters.

- 5.2A Spares (including refurbished/reconditioned spares), moulds, dies, jigs, fixtures, tools, refractory for initial lining and catalyst for initial charge; for existing plant and machinery (imported earlier, under EPCG or otherwise), shall be allowed to be imported under the EPCG scheme subject to an export obligation equivalent to 50% of the normal export obligation prescribed in para 5.1 and 5.2 above (for import of capital goods), to be fulfilled in 8 years (6 years for zero duty EPCG scheme), reckoned from Authorization issue date. This would however be subject to the condition that the c.i.f. value of import of the above spares etc. will be limited to 10% of the value of plant and machinery imported under the EPCG scheme. In case of plant and machinery not imported under the EPCG scheme, c.i.f. value of import of the spares etc. will be limited to 10% of the book value of the plant and machinery.
- EPCG for Projects*** 5.2B An EPCG Authorization can also be issued for import of capital goods under Scheme for project Imports notified by the Central Board of Excise and Customs under S.No. 441 of Customs Exemption Notification No. 21/2002 dated 01.03.2002
- Export obligation for such EPCG Authorizations would be eight times (6 times for zero duty EPCG scheme) of duty saved. Duty saved would be difference between the effective duty under aforesaid Customs Notification and concessional duty under the EPCG Scheme.
- EPCG for Retail Sector*** 5.2C To create modern infrastructure in retail sector, concessional duty benefits under EPCG scheme shall be extended for import of capital goods required by retailers having minimum area of 1000 sq. meters. Such retailer shall fulfill export obligation i.e. 8 times of duty saved, in 8 years.
- Eligibility*** 5.3 EPCG scheme covers manufacturer exporters with or without supporting manufacturer(s)/ vendor(s), merchant exporters tied to supporting manufacturer(s) and service

providers.

Export Promotion Capital Goods (EPCG) Scheme also covers a service provider who is designated / certified as a Common Service Provider (CSP) by the DGFT, Department of Commerce or State Industrial Infrastructural Corporation in a Town of Export Excellence subject to provisions of Foreign Trade Policy/Handbook of Procedures with the following conditions:-

- (i) EPCG licence to be given to the CSP should have a clear endorsement giving the details of the users and the quantum of Export Obligation (EO) which each user would fulfill;
- (ii) Such exports will not count towards fulfillment of other specific export obligations ; and
- (iii) Each one of the users of the CSP apart from the CSP should furnish 100% bank Guarantee (BG) equivalent to their portion of duty foregone apportioned in terms of quantum of EO to be discharged by them and the B.G. will be enforced in the event of the obligation not being fulfilled.

***Conditions for import of Capital Goods*** 5.4

Import of capital goods shall be subject to Actual User condition till export obligation is completed.

***Export obligation*** 5.5

Following conditions shall apply to the fulfillment of the export obligation:-

- (i) Export Obligation shall be fulfilled by export of goods manufactured/services rendered by the applicant.

Export obligation under the scheme shall be, over and above, the average level of exports achieved by him in the preceding three licensing years for the same and similar products within the overall export obligation period including extended period, if any; except for categories mentioned in paragraph 5.7.6 of HBP v1. Such average would be the arithmetic mean of export performance in the last three years for the same and similar products provided that Premier Trading House (PTH) shall have option of fixing average level of exports based on arithmetic mean of export performance in the last five years

instead of three years.

Upto 50% Export Obligation may also be fulfilled by exports of other good(s) manufactured or service(s) provided by the same firm / company, or group company / managed hotel, which has the EPCG authorization. However, EPCG authorization issued prior to 1.4.2008 will be governed by earlier policy provisions.

However, in such cases, additional export obligation imposed shall be over and above average exports achieved by the unit / company / group company / managed hotel in preceding three years for both the original and the substitute product(s) / service(s), despite exemptions in Para 5.7.6 of HBP v1.

- (ii) Shipments under Advance Authorization, DFRC, DFIA, DEPB or Drawback scheme, or incentive schemes under Chapter 3 of FTP; would also count for fulfillment of EPCG export obligation.
- (iii) Export obligation can also be fulfilled by the supply ITA-I items to DTA, provided realization is in free foreign exchange.
- (iv) Exports shall be physical exports. However, deemed exports as specified in paragraph 8.2 (a), (b), (d) (f), (g) & (j) of FTP shall also be counted towards fulfillment of export obligation, alongwith usual benefits available under paragraph 8.3 of FTP.

Royalty payments received in freely convertible currency and foreign exchange received for R&D services shall also be counted for discharge under EPCG. Payment received in rupee terms for port handling services, in terms of Chapter 9 of FTP shall also be counted for export obligation discharge.

***Provision for BIFR units*** 5.5.1

Any firm/ company registered with BIFR or any firm/ company acquiring a unit, which is under BIFR, may be allowed EO extension, as per rehabilitation package prepared by operating agency and approved by BIFR/ Rehabilitation Department of State Government, upto 12 years if not specified.

Above provisions apply also to SSI units as per rehabilitation scheme of concerned State government.

***EPCG for agro units*** 5.5.2 LUT/Bond or 15% BG ( as applicable) may be given for EPCG Authorization granted to units in Agri Export Zones provided EPCG Authorization is taken for export of primary agricultural product(s) notified in Appendix 8 or their value added variants.

***Indigenous Sourcing of Capital Goods and benefits to Domestic Supplier*** 5.6 A person holding an EPCG Authorization may source capital goods from a domestic manufacturer. Such domestic manufacturer shall be eligible for deemed export benefit under paragraph 8.3 of FTP. Such domestic sourcing shall also be permitted from EOUs and these supplies shall be counted for purpose of fulfillment of positive NFE by said EOU as provided in Para 6.9 (a) of FTP.

***Fixation of Export Obligation*** 5.7 In case of direct imports, export obligation shall be reckoned with reference to actual duty saved amount. In case of domestic sourcing, export obligation shall be reckoned with reference to notional Customs duties saved on FOR value.

***Technological Upgradation of existing EPCG machinery*** 5.8 EPCG Authorization holders can opt for Technological Upgradation of existing capital good imported under EPCG Authorization.

Conditions governing Technological Up-gradation of existing capital goods are as under:

- (i) Minimum time period for applying for Technological Up-gradation of existing capital goods imported under EPCG is 5 years from Authorization issue-date.
- (ii) Minimum exports made under old capital goods must be 40% of total export obligation imposed on first EPCG Authorization.
- (iii) Export obligation would be re-fixed such that total export obligation mandated for both capital goods would be sum total of 6 times of duty saved on both the capital goods, to be fulfilled in 8 years from new authorization issue-date.

- (iv) Facility for technological up-gradation shall be available only once and the minimum imports to be made shall be at least 10% of the existing investment in plant and machinery by applicant.
- (v) Capital Goods to be imported must be new and technologically superior to earlier CG.

***Incentives for Fast Track Companies***

5.9

To incentivize fast track companies with a view to accelerate exports, 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 by RA concerned.

However no benefits under Para 5.12 of HBP v1 shall be available in such cases.