Export Incentives – Their Significance in Indian Textiles

By:

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INDIAN TEXTILE INDUSTRY:

India's role in the global textile economy is increasing gradually because of consumer need, new researches, raw material availability and the other factors like 1. Production of wide range of natural fibres such as cotton, jute, silk, wool to manmade fibres like polyester, viscose, acrylic and multiple blends is scattering day by day. 2. Textile industry is playing key role in economy of the country that contributed 4 percent of GDP in 2008-2009 by providing the direct employment to 35 million people (estimated).

NEED OF EXPORT INCENTIVES IN INDIA:

India has certain advantages than other countries regarding:

Abundant and low-cost availability of raw materials

- A variety of raw materials —cotton, silk, jute and wool —are available in the country.
- This inherent strength in availability of raw materials prevents any supply-side shocks.
- In terms of cost, India has an advantage over comparative countries.

Labour advantage

1. India has abundant availability of manpower with skill sets across all activities of the textiles value chain
2. India's cost advantage over comparative countries

Growing domestic demand

- Disposable incomes have been rising steadily in India.
- The consuming class is expected to constitute 80 per cent of the population by 2010.
- Change in consumer mindset has led to an increasing spend on consumption, including textiles.

Government support

1. Giving TUFF schemes domestically within the country
2. Encouraging public-private partnerships in textiles.

India has to develop and scatter the scope of textiles and make its export performance more effective to have a grip on the present international trade market. Since the Indian textile industry is dominated by small scale players across the value chain, they should be motivated to make the exports larger. The motivation can be by having state-wise attractive schemes and offering the subsidies in the demographical factors like power, area, etc. To form a more effective and export globalization, all countries put some schemes that will give the incentives on export of the products. Of course India will not be exempted and textile products are. So these export incentives basically follows the rules given by WTO agreement and on the other hand there may be the some changes by the country. Export incentives will varies country to country on following factors:

- Depending on the country's economic structure,
- Its overall resource availability,
- Its export potential,
- The effectiveness of export.

But there are some global factors for making the changes in the incentives given by every country like

- Exchange rate
- Domestic infrastructure and investment climate
- Global economic conditions

The exporter is eligible for the incentives only after the shipment of his product. The process of shipment of goods involves essentially their clearance by the

- Central Excise Clearance and
- Customs Clearance of the Shipments.

Then the exporter can apply for the incentives depend on his goods to GOI under the different schemes and conditions, which are authorized by WTO and GOI.

SCM AGREEMENT

The study of export incentive schemes can be understood about the SCM (Subsidies and countervailing measures) agreement. Each WTO member should follow the rules given by WTO while giving the export incentives. All export incentives are not under the WTO agreement, but this agreement includes the Subsidies and countervailing measures as the name indicates. This agreement specifies about export incentives constitute subsidies and so these should follow the disciplines of this agreement. The Agreement on Subsidies and Countervailing Measures (SCM Agreement) addresses two distinct but related issues

- Multilateral disciplines on subsidies,
- Countervailing measures to have neutralization on subsidized imports.

The agreement clearly mentions about different types of subsidies and countervailing measures.

"The exemption of an exported product from duties or taxes borne by the like product when destined for domestic consumption, or the remission of such duties or taxes in amounts not in excess of those which have accrued, shall not be deemed to be a subsidy."

By this we can have a clear view on what a subsidy is and the agreement also provides about the prohibited subsidies, actionable subsidies, Non-actionable subsidies, and Special & Differential Treatment (S&DT) with respect to Subsidies Discipline.

Export incentives given by GOI:

GOI has been giving export incentives from 1960, but the number of incentives and the scope is being scattered to a larger extent nowadays. The schemes provides both direct, indirect subsidies and included Cash Compensatory Support, Replenishment import license, tax exemption of export income, subsidized export credit and export credit insurance, bonded warehouses, support for export marketing etc.

The incentives will be given by the Ministry of Commerce, Ministry of Finance and the Reserve Bank of India (RBI) with the view to understanding the status of each export incentive within the SCM Agreement.

Different types of schemes for export incentives are:

Here there are some schemes of export incentives which are more popular

- Duty Drawback Scheme
- Advance license
- Duty Entitlement Pass Book Scheme

Advance License:

Advance license is issued through DGFT considering this as duty exemption scheme or duty remission scheme. Advance License can be issued for physical exports, intermediate supplies or deemed exports under duty exemption scheme. Advance License is issued for duty free import of inputs and is subject to actual user condition. There will be provision of SIONs (Standard Input – Output Norms) by the government to decide the quantity of raw materials. These norms have specifications of raw materials to be used in the making of final product. Advance license may be either on the value basis or quantity basis. Under a value based advance license any of the inputs mentioned in it may be imported within the limits of CIF value, expect if they are sensitive items. Sensitive materials are those decided by DGFT. They are milk products, fruits and vegetables, alcohol beverages, food grains, and cotton & silk. If the exporter is not up to the mark then the value in the value based advance license can be adjusted within the overall value fixed in the advance license.

These licenses are issued to manufacturer exporter or merchant exporter with the endorsement of the supporting manufacturers. Under advance license, neither the license nor the materials imported with the license is transferable even after completion of export obligation.

There are some amendments in this scheme causes the wide popularity for this in1995.

- ✓ Cenvat credit can be taken on inputs, which go in the making of export products.
- ✓ This scheme is expanded from quantity based to value based.
- ✓ It can be transferred after the export obligation has fulfilled, and bank guarantee and LUT redeemed.
- ✓ Drawbacks are permitted in respect to duty paid materials.
- ✓ Import of mandatory spares up to 5% is allowed.
- ✓ List of sensitive items has been reduced and the value unutilized CIF value of sensitive items for importing non sensitive items.

Duty Drawback Scheme:

Duty Drawback scheme is categorized under the incentives given by Ministry Of Finance. Including this we have different schemes like Income Tax Exemption, Loan Guarantee under this category. Now we will go for analyzing this Duty Drawback scheme:

The Duty Drawback Scheme provides exporters to have a refund of excise duty & Customs duty paid on imported goods where those goods will be treated, processed, or incorporated into other goods for export. Simply the scheme of obtaining refund on the imported materials used to manufacture a finished product.

Claiming to this scheme is very important that we can claim for this by using claim for drawback (B807), which is available in the customs website or from customs religious offices. Claimants are not required to submit documents with their application but if requested, should be able to provide evidence that goods subject to the claim have been duty paid originally, not used in Australia, and exported. An Export Declaration Number (EDN) is required as evidence of export for each line claimed. All consignments sent by post/sea/air that are intended for drawback are regarded as prescribed goods and exporter need to enter the details of that the worth of goods is less than $2000 or not. Customs payment of a duty drawback claim is made by Electronic Funds Transfer (EFT). Therefore claimants will need to provide their bank details when completing the drawback claim form.

One of the important conditions that considerable in this scheme is identification of goods. The authority should have satisfaction and the authority to be satisfied is assistant commissioner customs at the port of export. He will decide by having some strategies and observations.

Physical examination of goods

In the course of physical examination of goods the emphasis will be on

- Description of goods
- Quantity and weight
- Identifying the markings, and
- Original packing of goods

If the examination is through documents the relevant documents mentioned below may be needed. They are import documents including indent, acceptance, contract, invoice, packing specification, payment documents, triplicate copy of bill of entry, insurance and other survey reports.

Duty drawbacks are processed on the basis of self-assessment. The amount of duty to be drawn back must be calculated, at the determination of the claimant, using one of three (3) calculation methods available for duty drawback. In all methods the amount of a claim for drawback of import duty must not exceed the amount of import duty paid on the goods.

The three calculation methods are:

A) Shipment by shipment basis – for use where imports directly relate to exports.

B) Representative or averaging shipment basis – is generally used for high volume low value goods. A representative shipment for a period is picked as a typically representative sample of the values of identical items. The averaging of shipments is costs over time and must not result in an over claim.

C) Imputation method – When import documents are generally unavailable and allow the basis on which to calculate duty drawback to be 30 per cent of the purchase price of the goods. This option can only be used where goods are fully imported and have been purchased in Australia by the exporter.

But the drawback rates will be different for different types of sectors like for all industries it's different, for all brands it is different and for all special brands it is different.

All industry rates are fixed for broad categories of products and these rates represent average incidence of duty. These rates are revised annually after taking into account the changes made in the budget and the data furnished by export promotion councils. Brand rate of drawback is determined on the actual input utilization basis depending on the data furnished by an exporter and its verification. These rates are decided on a case by case basis and are therefore exporter-and-shipment specific. The brand rates are fixed for products for which there are no industry rates or for which the All Industry Rates provides substantially lower benefits than actual incidence of duty.

Time for claiming this scheme is within 3 months from the date of export order. There will be reduction of rebate having regarded the duration of use. The following percentage has been fixed as the amount of drawback payable in respect of goods which were used after their importation.

Period between the date of clearance under consumption and the dates when the goods are placed under customs control	Percentage of duty paid as drawback (%)
Not more than 6 months	85
More than 6 months and less than 12 months	70
More than 12 months and less than 18 months	60
More than 18 months but less than 24 months	50
More than 24 months but less than 30 months	40
More than 30 months but less than 36 months	30
More than 36 months	NIL

DEPB (Duty Entitlement Passbook):

DEPB is an optional facility given to exporters who are not interested in having incentives through licensing route. The DEPB is to neutralize the incidence of customs duty on the import content of the export product. The neutralization can be for grant of duty credit, which can be utilized for payment of customs duty on the imported goods. This scheme is available for manufacturing exporters and merchant exporters.

This scheme is of two types

1. On the basis of pre-export,
2. On the basis of post-export.

The pre-export DEPB is abolished on 1/4/2000 due to the very less takers of that, but the scheme on the basis of post-export is continued. Under the post-export DEPB, which is issued after exports, the exporter is given this scheme at a pre-determined credit on the FOB value. There are some products, in which the product is manufactured by using the imported raw materials. The value addition achieved by export of such product shall also be taken into account while determining the rate of duty credit. The DEPB rate allows import of any items except the items which are otherwise restricted for imports. Items such as gold nibs, Gold Pen, Gold watches etc with inclusion of other few. Under this DEPB Scheme, an exporter may apply for credit, depending on the value of exports. The credit is available against such export products and at such rates as specified by the DGFT for import of raw materials, intermediates, components, parts, packaging material etc. The entitlement rate is a certain percentage of FOB value of exports. The DEPB is valid for a period of 12 months from the date of issue, and the DEPB or the items imported against it are freely transferable. We have to note that the exports made under the DEPB Scheme are not entitled for drawback.

The benefit of DEPB schemes is available on the export products having extraneous material up to 5% by weight. In such cases, extraneous material up to 5% shall be ignored and the rate as notified for that export product is allowed.

Some additional facilities as listed below have been provided for better implementation of the DEPB Rates:

- ✓ DEPB rates rationalized to account for the changes in customs duty.
- ✓ Caps fixed on certain items but there would be no verification of Present Market Value on such items.
- ✓ A number of ports have been added for availing facilities under the duty exemption scheme, including DEPB.
- ✓ The threshold limit of Rs. 200 million for fixing new DEPB rates removed.
- ✓ The exports/imports made from the specified ports given shall be entitled for DEPB.

Seaports: Mumbai, Kolkata, Cochin, Dahej, Kakinada, Kandla, Mangalore, Marmagoa, Mundra, Chennai, Nhavasheva, Paradeep, Pipavav, Sikka, Tuticorin Vishakhapatnam, Surat (Magdalla), Nagapattinam, Okha , Dharamtar and Jamnagar.

Airports: Ahmedabad, Bangalore, Bhubaneshwar Mumbai, Kolkata Coimbatore Air Cargo Complex, Cochin, Delhi, Hyderabad, Jaipur, Srinagar, Trivandrum, Varanasi, Nagpur and Chennai.

ICDs : Agra, Ahmedabad, Bangalore, Bhiwadi, Coimbatore, Daulatabad, (Wanjarwadi and Maliwada), Delhi, Dighi (Pune), Faridabad, Guntur, Hyderabad, Jaipur, Jallandhar, Jodhpur, Kanpur, Kota, Ludhiana, Madurai and the land Customs station at Ranaghat Mallanpur, Moradabad, Meerut Nagpur, Nasik, Gauhati (Amingaon), Pimpri (Pune), Pitampur (Indore), Rudrapur (Nainital), Salem Singanalur, Surat, Tirupur, Udaipur, Vadodara, Varanasi, Waluj, Bhilwara, Pondicherry ,Garhi-Harsaru, Bhatinda, Dappar, Chheharata (Amritsar), Karur, Miraj and Rewari.

LCS: Ranaghat, Singhabad , Raxaul , Jogbani, Nautanva (Sonauli), Petrapole and Mahadipur.

The exports made to the following Special Economic Zones (SEZ) are also entitled to DEPB.

SEZ: Santacruz, Kandla, Kochi, Vishakhapatnam, Chennai, FALTA, Surat, NOIDA

In respect of products where rate of credit entitlement under DEPB Scheme comes to 10% or more, amount of credit against each such **e**xport product shall not exceed 50% of Present Market Value (PMV) of export product. During export, exporter shall declare on shipping bill that benefit under DEPB Scheme would not exceed 50% of PMV of export product.

However present market value declaration shall not be applicable for products for which value cap exists irrespective of DEPB rate of product. In case of return of any exported goods, which has been found defective or unfit for use may be again exported according to the EXIM guidelines as mentioned by the Department of Revenue. In such cases 98% of the credit amount debited against DEPB for the export of such goods is generated by the concerned commissioner of customs in the form of a Certificate, containing the amount generated and the details of the original DEPB. On the basis of certificate, a fresh DEPB is issued by the concerned DGFT authority. It is important to note that the issued DEPB have the same port of registration and shall be valid for a period equivalent to the balance period available on the date of import of such defective/unfit goods.

The rates for different types of textile products will be different and the rates can be decided and modified by DGFT and they are decided by several factors like its consuming level, productivity etc. There are various types of textile products having different rates of DEPB. So the DEPB rates for some products mentioned and the rates are according to announcement of DEPB rates on November 5, 2008.

S. No	Description	DEPB(rate)	Value (per piece)
1A	Blouses made of cotton textile items	6.7	125
6B	Children's sweat shirts made of blended textile items	9.4	60
11	Cotton socks/ stockings (knitted)	5.4	60
19A	Jeans made of cotton textile items	6.7	150
19B	Jeans made of blended textile items	9.4	150
20EA	Ladies skirts made of cotton textile items	6.7	125
28A	Blanketing Cloth made of cotton textile items	5.3	150

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