

## CHAPTER 5

### EXPORT PROMOTION CAPITAL GOODS (EPCG) SCHEME

- 5.1**
- Zero Duty EPCG Scheme**
- (a) Zero duty EPCG scheme allows import of capital goods for preproduction, 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.
  - (b) The scheme will be available for exporters of engineering & electronic products, basic chemicals & pharmaceuticals, apparels & textiles, plastics, handicrafts, chemicals & allied products, leather & leather products, paper & paperboard and articles thereof, ceramic products, refractories, glass & glassware, rubber & articles thereof, plywood and allied products, marine products, sports goods and toys.
  - (c) However, zero duty EPCG Scheme shall not be available for import of capital goods relating to export of products covered under following chapters / headings of ITC(HS) classification:
    - (i) Chapters 1, 2, 4 to 24, 25 to 27, 31, 43, 44 (except plywood and allied products), 45, 47, 68, 71, 81 (metals in primary and intermediate forms only), 89, 93, 97, 98.
    - (ii) ITC(HS) 4011 to 4013, ITC(HS) 7401 to 7406, 7501 to 7504, 7601 to 7603, 7801, 7802, 7901 to 7903, 8001, 8002 and 8401. However, zero duty EPCG Scheme will be available for handicraft exports under Chapters 5, 68, 97.
  - (d) Zero duty scheme shall also not be available for units who are currently availing any benefits under Technology Upgradation Fund Scheme (TUFS) administered by Ministry of Textiles, Government of India.

- (e) Zero Duty Scheme shall also be available to such exporters who may have obtained benefit under TUFS
  - (i) but the exact line of business in TUFS (say cotton yarn) is different from the line of business under EPCG (say machinery for blast furnace); or
  - (ii) if the exporter refunds such benefits availed under TUFS with applicable interest, before availing EPCG.
- (f) Zero duty EPCG scheme shall not be available to exporters, who avail in that year, the benefit of Status Holder Incentive Scheme under Paragraph 3.16 of FTP. In case they have already availed SHIS benefit they would be eligible for Zero Duty Scheme if they surrender or refund SHIS on similar lines as given at (e) (ii) above.
- (g) 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.
- (h) The zero duty EPCG scheme shall be in operation till 31.3.2014, unless decided otherwise.

## 5.2

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

- (a) Import of capital goods for pre-production, production and post production (including CKD/SKD thereof as well as computer software systems) are allowed under this Scheme subject to payment of 3% Basic Customs Duty (BCD). Export obligation (EO) shall be 8 times of duty saved amount (i.e. difference between duty payable and 3% BCD). The Export Obligation Period (EOP) shall be 8 years reckoned from Authorization issue-date.
- (b) EO of 6 times of duty saved and EOP of 12 years is applicable to:
  - (i) agro units, and
  - (ii) units in cottage or tiny sector.
- (c) EO of 6 times of duty saved and EOP of 8 years is applicable to those SSI units whose total investment in plant and machinery does not exceed SSI limit and landed CIF value is upto Rs. 50 lakhs.

- (d) In case of EPCG Authorization with a duty saved amount of Rs. 100 crores or more, EOP shall be 12 years.
- (e) In case countervailing duty (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.
- (f) Capital Goods shall include spares (including refurbished/reconditioned spares), tools, jigs, fixtures, dies and moulds.
- (g) Second hand capital goods, without any restriction on age, may also be imported under EPCG scheme.
- (h) 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 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.
  - (iv) Those vehicles that are eligible for imports under SFIS would not be allowed to be imported under EPCG for services so specified.
- (i) Import of Restricted items of imports mentioned under ITC

(HS) shall only be allowed under EPCG Scheme after approval from EFC at Headquarters.

## 5.2 A

(a) ~~Spares (including refurbished/reconditioned spares), moulds, dies, jigs, fixtures, tools, refractory for initial lining and catalyst for initial charge as well as catalyst for subsequent charge upto a maximum 2 times during Export Obligation Period (EOP); 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 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), 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.~~

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**“Spares (including refurbished/reconditioned spares), moulds, dies, jigs, fixtures, tools, and refractory for initial lining; 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 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), 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.”** (Amended vide Notification-8 dated 26.7.2012)

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- (b) Provision of this para will not be applicable for import of spares in respect of capital goods sourced indigenously.
- 5.2B**  
**EPCG for Projects**
- (a) 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 can also avail EPCG Authorization.
- (b) 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.
- 5.2C**  
**EPCG for Retail Sector**
- 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.
- 5.2 D**  
**EPCG Authorization for Annual Requirement**
- Status Holders, exporters having past export performance (in preceding two years) can also avail EPCG Authorization for Annual Requirement, both under zero duty and 3% duty schemes. The annual entitlement in terms of duty saved amount shall be upto 50% of FOB value of Physical Export and / or FOR value of Deemed Export, in preceding licensing year.
- 5.3**  
**Eligibility**
- (a) EPCG scheme covers manufacturer exporters with or without supporting manufacturer(s)/ vendor(s), merchant exporters tied to supporting manufacturer(s) and service providers.
- (b) 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) Exports by Users of the common service, to be

counted towards fulfillment of EO of the CSP shall (i) contain the EPCG Authorization details of the CSP in the respective Shipping bills and (ii) concerned RA must be informed about the details of the Users prior to such export;

(ii) Such exports will not count towards fulfillment of other specific export obligations; and

(iii) ~~Bank Guarantee (BG) shall not exceed the duty saved. BG can be given by CSP or by any one of the users or a combination thereof, at the option of the CSP.~~ **Bank Guarantee (BG) shall be equivalent to the duty saved. BG can be given by CSP or by any one of the users or a combination thereof, at the option of the CSP. (Amended vide Notification No-8 dated 26.7.2012)**

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#### 5.4 Conditions for import of Capital Goods

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

#### 5.5

Following conditions shall apply to the fulfillment of the EO:-

#### Export Obligation (EO)

- (a) EO shall be fulfilled by export of goods manufactured / services rendered by the applicant.
- (b) EO 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 EO period including extended period, if any; except for categories mentioned in paragraph 5.7.6 of HBP Vol. I. 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.
- (c) Upto 50% EO 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 authorizations issued prior to 01.04.2008 will be governed

by earlier policy provisions.

- (d) 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.
- (e) Shipments under Advance Authorization, DFRC, DFIA, or Drawback scheme, or incentive schemes under Chapter 3 of FTP; would also count for fulfillment of EPCG EO.
- (f) EO can also be fulfilled by the supply of ITA-I items to DTA, provided realization is in free foreign exchange.
- (g) 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.
- (h) 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 EO discharge.

#### 5.5.1

##### **Provision for BIFR units**

- (a) 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.
- (b) Above provisions apply also to SSI units as per rehabilitation scheme of concerned State government.

#### 5.5.2

##### **EPCG for Agro units**

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.

#### 5.6

##### **Indigenous Sourcing of**

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

- Capital Goods and benefits to Domestic Supplier** 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.
- 5.7** In case of direct imports, EO shall be reckoned with reference to actual duty saved amount. In case of domestic sourcing, EO shall be reckoned with reference to notional Customs duties saved on FOR value.
- Fixation of Export Obligation (EO)**
- 5.8** EPCG Authorization holders can opt for 'Technological Upgradation' of existing capital good imported under EPCG Authorization(s). Conditions governing are as under:
- Technological Upgradation of existing EPCG machinery**
- (a) Minimum time period for applying for 'Technological Upgradation' is 5 years from earlier EPCG Authorization issue-date.
  - (b) Minimum exports made must be 40% of total export obligation imposed on earlier EPCG Authorization(s).
  - (c) EO would be re-fixed such that
    - (i) total EO shall be sum total of 6 times of duty saved of earlier EPCG and the new one, and
    - (ii) EOP is 8 years from EPCG authorization issue-date under this Para.
  - (d) 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.
  - (e) Capital Goods to be imported must be new and technologically superior to earlier CG (to be certified by Chartered Engineer).
- 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.
- Incentive for Fast Track Companies**



- 5.10** For exporters of Green Technology Products, Specific EO shall be 75% of EO as stipulated in Para 5.1 or Para 5.2, as applicable.
- EPCG for Green Technology Products -reduced EO** There shall be no change in average EO as stipulated in Para 5.5, if any. The list of Green Technology Products is given in Para 5.24 of HBP v1.
- 5.11** (a) ~~EPCG Duty Remission Scheme shall be available to exporters who intend to import / procure capital goods on full payment of applicable duties and choose to opt for this scheme.~~ **Post Export EPCG Duty Credit Scrip (s) shall be available to exporters who intend to import capital goods on full payment of applicable duties in cash and choose to opt for this scheme (Amended vide Notification No-8 dated 26.7.2012)**
- Post Export EPCG Duty Credit Scrip(s)**
- (b) Duty paid on Capital Goods (excluding portion CENVATed / Rebated) shall be remitted in the form of freely transferable duty credit scrip(s).
- (c) Specific EO under this Scheme shall be 85% of the applicable specific EO, if the imports of such Capital Goods had taken benefit of duty exemption. Average EO continues to remain unchanged.
- (d) Duty remission shall be in proportion to the EO fulfilled.
- (e) These Duty Credit Scrip(s) can be used for payment of applicable custom duties for imports and applicable excise duties for domestic procurement.
- (f) All provisions of the existing EPCG Scheme shall apply insofar as they are not inconsistent with this scheme.
- 5.12** For units located in Arunachal Pradesh, Assam, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim and Tripura, Specific EO shall be 25% of the EO, as stipulated in Para 5.1 or Para 5.2, as applicable. There shall be no change in average EO as stipulated in Para 5.5, if any.
- Reduced EO for North East Region**

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