

CHAPTER 4

DUTY EXEMPTION & REMISSION SCHEMES

- 4.1** (a) Duty exemption schemes enable duty free import of inputs required for export production. Duty Exemption Schemes consist of:
- Duty Exemption and Remission Schemes**
- (i) Advance Authorisation; and
- (ii) Duty Free Import Authorisation (DFIA).
- (b) Duty Remission Scheme enables post export replenishment / remission of duty on inputs used in export product. Duty remission schemes consist of:
- (i) Duty Entitlement Passbook (DEPB) Scheme (discontinued for exports made on or after 1.10.2011); and
- (ii) Duty Drawback (DBK) Scheme.

4.1.1 Goods exported under Advance Authorisation / DFIA / DEPB may be re-imported in same or substantially same form subject to conditions as may be specified by DoR. The RA which has issued AA / DFIA /DEPB, should also be kept informed of such re-importation within one month of the re-importation.

Re-import of exported goods under Duty Exemption / Remission Scheme

4.1.2 Value addition (VA) for the purpose of this Chapter (Except for Gems and Jewellery Sector) shall be:-

Value Addition

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

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

B = CIF value of inputs covered by authorisation, plus value of any other input used on which benefit of DBK is claimed or intended to be claimed.

ADVANCE AUTHORISATION SCHEME

- 4.1.3.1** 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 the purview of Advance Authorisation.
- Advance Authorisation**
- 4.1.3.2** Mandatory spares which are required to be exported / supplied with the resultant product can be allowed duty free but upto 10% of CIF value of Authorisation.
- 4.1.3.3** Advance Authorisations are 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.
- 4.1.3.4** (a) Advance Authorisation can be issued either to a manufacturer exporter or a merchant exporter tied to supporting manufacturer(s). However, advance authorisation under paragraph 4.7A of HBP. v1 [for pharmaceutical products manufactured through Non-Infringing (NI) process] shall be issued to Manufacturer exporter only.
- (b) Advance Authorisation shall be issued for:
- (i) Physical exports (including exports to SEZ); and/or
 - (ii) Intermediate supplies; and/or
 - (iii) Such supply of goods that are allowed in Chapter 8 of the 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.
- 4.1.3.5** In addition, in respect of supply of goods to specified projects mentioned in paragraph 8.2 (d), (f) 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.

- 4.1.3.6** 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; such supplies need to be paid for in free foreign exchange.
- 4.1.3.7** 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 17.02.2009.
- 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**
- (a) 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 Superintendent or Chartered Accountant, at the option of the exporter, at the time of filing application for EODC to RA concerned.
 - (b) Further the manufacturing wastes / scrap, as allowed, can be disposed off with the payment of applicable duty even before fulfilment of export obligation.

- 4.1.6** (a) Advance Authorisation necessitates exports with a minimum value addition of 15%, except for items specified in Appendix 11B of HBP v1 and for items in Gems & Jewellery Sector, for which value addition would be as per paragraph 4A.2.1 of HBP v1. Exports to SEZ Units / supplies to Developers / Co-developers, irrespective of currency of realization, would also be covered.
- Minimum Value Addition**
- (b) 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.
- (c) In case of Authorisation for import of Tea, minimum value addition under Advance Authorisation shall be 50%.
- (d) 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** (a) Advance Authorisation shall be issued in accordance with Policy and procedure in force on Authorisation issue date.
- Validity**
- (b) Validity period of Advance Authorisation for import shall be as prescribed in HBP v1.
- 4.1.8** Facility of Advance Authorisation shall also be available where some or all inputs are supplied free of cost to exporter by foreign buyer. 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.
- Free of Cost Supply by Foreign Buyer**
- 4.1.9** Period for fulfillment of export obligation under Advance Authorisation shall be as prescribed in HBP v1.
- Export Obligation**

- 4.1.9 A**
Provision for BIFR units
- 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. This facility will also be made available to SSI units as per rehabilitation scheme of concerned State government.
- 4.1.10**
Advance Authorisation for Annual Requirement
- (a) Advance Authorisation can also be issued for annual requirement. Imports are exempted from payment of basic customs duty, additional customs duty, education cess, anti-dumping duty and safeguard duty, if any.
- (b) Exporters having past export performance (in atleast preceding two years) shall be entitled for Advance Authorisation for annual requirement.
- (c) 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.
- 4.1.11**
Advance Release Orders (ARO) and Invalidation Letter
- (a) 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.
- (b) Transferee of DFIA shall also be eligible for ARO / invalidation letter facility. Validity period of ARO shall be as prescribed in HBP v1.

- 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 shall however, be allowed only for such duty paid items which have been endorsed on Authorisation by RA.
- Admissibility of Drawback**

DUTY FREE IMPORT AUTHORISATION (DFIA) SCHEME

- 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.
- Scheme**

- 4.2.2** (a) 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.
- Entitlement**
- (b) DFIA shall be issued in accordance with Policy and procedure in force on date of issue of Authorisation.
- (c) 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.
- (d) 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.
- (e) 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).

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.

Import items

4.2.4 A minimum 20% value addition shall be required for issuance of DFIA. However, for items in gems and jewellery sector value addition as prescribed under paragraph 4A.2.1 of HBP v1. shall apply. Similarly, for items where a higher value addition has been prescribed under Advance Authorisation Scheme, the same value addition for DFIA shall be applied.

Value Addition

4.2.5 Procedure and time period related to fulfillment of Export Obligation have been laid down in Chapter 4 of HBP v1.

Export Obligation

4.2.6 (a) 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.

Transferability

(b) 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.

(c) After endorsement of transferability, 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.

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

CENVAT Facility

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 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. The DEPB Scheme stands discontinued in respect of exports made on or after 1.10.2011.

Duty Entitlement Passbook Scheme (DEPB)

- 4.3.1**
- (a) 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.
 - (b) 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 E.O. defaults for authorizations issued under Chapters 4 and 5 of this policy. However, penalty / interest shall be required to be paid in cash.

- (c) 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.

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

Validity

4.3.4 (a) 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.

Transferability

- (b) Imports from a port other than the port of export shall be allowed under TRA facility as per terms and conditions of DoR notification.

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.

Applicability of Drawback

GEMS AND JEWELLERY

4A Exporters of gems and Jewellery can import / procure duty free inputs for manufacturing.

Scheme for Gems and Jewellery

4A.1 (a) Exporters may obtain Replenishment (REP) Authorisations from RA in accordance with procedure specified in HBP v1.

Replenishment Authorisation

- (b) Replenishment authorisation may also be for consumables as per paragraph 4A.28 of HBP v1.

4A.2

Import of Diamonds for Certification / Grading & Re-export

The authorised 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.

4A.2.1

Export of Cut & Polished Diamonds for Certification/ Grading & Re-import

[Amended vide Notification No-11 dated 22.8.2012]

Following are authorized laboratories for certification/ grading of diamonds of 0.25 carat and above:

- (i) Indian Diamond Institute, Surat, Gujarat;
- (ii) American Gem Society Laboratories (AGS Laboratories), 8917 West Sahara Avenue, Las Vegas, Nevada 89117;
- (iii) Central Gem Laboratory, Miyagi Building, 5-15-14 Ueno Taito-Ku, Tokyo, Japan;
- (iv) Diamond Trading Company, Maidenhead, UK;
- (v) European Gemological Laboratory (EGL), USA;
- (vi) Gemological Institute of America (GIA), USA;
- (vii) Hoge Road Voor Diamond, Antwerp, (HRD);
- (viii) International Diamond Laboratories DMCC, Dubai.
- (ix) The Robert Mouawad Campus, International Gemological Institute (IGI) USA; and
- (x) World Diamond Centre of Diamonds High Council, Antwerp, Belgium.
- (xi) GIA Hong Kong Laboratory Ltd., Hong Kong;
- (xii) Gemological Research (Thailand) Co. Ltd., Bangkok;
- (xiii) GIA Education and Laboratory (Pvt) Ltd., Johannesburg;
- (xiv) GIA Education and Laboratory, Gaborone (Botswana);
- (xv) Forevermark NV, Antwerp, Belgium

- 4A.2.2** An exporter (with annual export turnover of Rs 5 crores for each of the last three years) may export cut & polished diamonds (each of 0.25 carat or more) abroad to any of the above agencies/ laboratories with re-import facility at zero duty within 3 months from the date of export. Such facility of export and subsequent re-import at zero duty will be subject to guidelines issued by CBEC, Department of Revenue.
- 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.
- Schemes for Gold/ Silver/ Platinum Jewellery**
- 4A.4** (a) Nominated agencies are MMTC Ltd, Handicraft and Handloom Export Corporation (HHEC), State Trading Corporation (STC), the Project and Equipment Corporation of India Ltd (PEC), 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(ies).
- Nominated Agencies**
- (b) 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.
- (c) A bank authorised by RBI is allowed export of gold scrap for refining and import standard gold bars as per RBI guidelines.
- 4A.5** Following items, if exported, would be eligible for facilities:
- Items of Export** (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.

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:

Value Addition

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

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.

4A.7

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

Wastage Norms

4A.8

Export against Supply by Foreign Buyer

- (a) 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.
- (b) 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 as prescribed under para 4A.2.1 of HBP v1. In such cases of export, wastage norms as per para 4A.2 shall apply.

- (c) 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.

4A.9**Export Against Supply by Nominated Agencies**

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.

4A.10**Export Against Advance Authorisation**

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

- (i) Gold of fineness not less than 0.995 and mountings, sockets, frames and findings of 8 carats and above;
- (ii) Silver of fineness not less than 0.995 and mountings, sockets, frames and findings containing more than 50% silver by weight;
- (iii) 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.2.1 of HBP v1. Value addition shall be as per paragraph 4A.2.1 of the HBPv1. Advance Authorisation holder may obtain gold / silver / platinum from nominated agencies in lieu of direct import.

- 4A.12** Gem Replenishment (Gem & Jewellery REP) Authorisation may be issued as given in paragraph 4A.8, 4A.9 and 4A.10 above. 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. Such Gem REP Authorisations shall be freely transferable.
- Gem Replenishment Authorisation**
- 4A.13** Replenishment Rate and item of import will be as prescribed in Appendix 12B of HBP v1.
- Gem REP Rate and Item**
- 4A.14** (a) Nominated agencies and their associates, with approval of Department of Commerce, and others, with approval of Gem & Jewellery EPC (GJEPC), may export gold / silver / platinum jewellery and articles thereof for exhibitions abroad.
- Export Promotion Tours/ Export of Branded Jewellery**
- (b) 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.
- 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.
- Personal Carriage of Export / Import Parcels**
- 4A.16** In case of exports through Foreign Post Office (including via Speed Post), the jewellery parcels shall not exceed 20 kg. by weight.
- Export by Post**
- 4A.17** (a) 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 crore or above during preceding
- Diamond & Jewellery Dollar Accounts**

three licensing years may also carry out their business through designated Diamond Dollar Accounts (DDA).

- (b) 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.
- (c) 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.

**4A.18
Export of cut &
polished precious
and semi-precious
stones for
treatment and re-
import**

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.

**4A.19
Re-import of
rejected jewellery**

Gems & Jewellery exporters shall be allowed to re-import rejected precious metal jewellery as per para 4A.32 of HBP v1.

**4A.20
Export and imports
on consignment
basis**

Gems & Jewellery exporters shall be allowed to export and import diamond, gemstones & jewellery on consignment basis as per HBP v1 and Customs rules and regulations.

