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Analysing developments impacting business

FOREIGN TRADE POLICY 2023

1 April 2023

Background

The Foreign Trade Policy 2015-20 had multiple extensions till 31 March 2023, owing to the COVID-19 pandemic and the unstable geo-political situation. The new Foreign Trade Policy 2023 (FTP 2023) which was released on 31 March 2023 aims to ensure policy continuity and subsequent revisions will be made, as necessary, without linkage to any specific date.

Whereas the present FTP schemes have essentially been continued as they are, FTP 2023 focuses on shifting from incentives to tax remission, improving trade facilitation through technology, automation and process re-engineering, greater emphasis on export promotion through collaboration between exporters, states, and districts, and focus on emerging areas such as e-commerce exports, developing districts as export hubs, and streamlining the Special Chemicals, Organisms, Materials, Equipment and Technologies (SCOMET) policy. The Directorate General of Foreign Trade (DGFT) will be continuously seeking feedback from trade and industry to streamline processes and update policies and procedures.

Key Highlights / Changes

Ease of doing business, reduction in transaction cost and e-initiatives

FTP 2023 will introduce online approvals, automatic permissions and streamlined processes to reduce processing time for eligible exporters. The processing time for authorization under different schemes is 1 day under the automatic route, instead of the current 7 days to 1 month. Also, Micro, Small & Medium Enterprises (MSMEs) will incur reduced charges under Advance Authorisation (AA) and Export Promotion Capital Goods (EPCG) schemes. The 'E-Certificate of Origin' platform is being revamped to allow for self-certification and automatic approval, and paperless export obligation discharge applications will be implemented.

The Indian Government ratified the World Trade Organization's Trade Facilitation Agreement (TFA) in 2016, leading to the formation of an inter-ministerial body called the National Committee on Trade Facilitation (NCTF) to implement its provisions. The TFA aims to improve trade facilitation by focusing on transparency, technology, simplification of procedures and infrastructure augmentation. The National Trade Facilitation Action Plan aims to reduce transaction cost and time, improve the ease of doing business, reduce cargo release time, create a paperless regulatory environment, establish a transparent legal regime, and improve infrastructure to enhance the

investment climate. Further to this, all authorisation redemption applications will be paperless, as has already been done for authorisation applications.

Export promotion initiatives

FTP 2023 has made it easier for exporters to be recognized as “Status Holders” by lowering the threshold of export performance they need to fulfil.

With the intent to develop India into a hub for merchanting trade, FTP 2023 enables Indian businesses to act as intermediaries for trade between two foreign countries without the goods passing through India, subject to adherence with Reserve Bank of India’s guidelines, and the restrictions of the SCOMET and Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES) lists.

The internationalization of the Indian Rupee has been initiated through the acceptance of Rupee realizations through special Vostro accounts for export promotion schemes under the FTP.

Four new Towns of Export Excellence, i.e., Faridabad, Mirzapur, Moradabad and Varanasi, have been recognized, promoting cluster-based economic development, offering financial aid to recognized associations for export promotion projects, attending trade exhibitions, and increasing cluster competitiveness without requiring individual infrastructure ownership. This takes the total of TEEs to 43.

As expected, export incentives to service exporters as under the earlier Services Exports from India Scheme (SEIS) have been discontinued.

Districts as Export Hubs initiative

The Districts as Export Hubs initiative aims to boost India's foreign trade by promoting exports at the district level. This involves identifying products/services, creating institutional mechanisms, and preparing District Export Action Plans. The goal is to make States and Districts meaningful stakeholders and active participants.

E-commerce exports

All FTP benefits will be extended to e-commerce exports. The FTP 2023 has also raised the consignment wise cap on e-commerce exports through courier from INR 5 lakh to INR 10 lakh. Depending on exporter feedback, this cap may be further revised or eventually eliminated.

Dak Ghar Niryat Kendras will operate in a hub-and-spoke model with Foreign Post Offices to facilitate cross-border e-commerce and enable artisans, weavers, craftsmen, and MSMEs to reach international markets in the hinterland and land-locked regions.

E-Commerce Export Hubs with warehousing facilities will be designated to assist e-commerce aggregators with stocking, customs clearance, returns processing, and last-mile activities such as labelling, testing and repackaging.

Steps to boost manufacturing

A new Prime Minister Mega Integrated Textile Region and Apparel Parks (PM MITRA) scheme has been added to Common Service Provider (CSP) scheme of EPCG.

The dairy sector exempted from Average Export Obligation. Products classified as Green Technology, such as Battery Electric Vehicles (BEV), various types of vertical farming equipment, recycling and wastewater treatment systems, rainwater harvesting

systems and filters, and green hydrogen, will now qualify for a reduction in their Export Obligation requirement.

A Special Advance Authorisation Scheme has been extended to the Apparel and Clothing sector.

Special one-time amnesty scheme for default in export obligations

An Amnesty Scheme offering relief to exporters who have been unable to meet their export obligations under EPCG and Advance Authorizations has been introduced. Pending cases of EO default can be regularized by paying all customs duties proportionate to unfulfilled Export Obligation; interest has been capped at 100% of the exempted duties, and no interest is payable on the portion of Additional Customs Duty and Special Additional Customs Duty. This one-time settlement shall be available for a limited period up to 30 September 2023. cases under investigation for fraud and diversion are not eligible for the relief.

Emphasis on streamlining SCOMET licensing procedure

SCOMET is one of the focus areas of FTP 2023 and the policy for the export of dual-use items under SCOMET has been consolidated for ease of compliance.

Recent policy changes have introduced general authorizations for certain SCOMET items to streamline licensing. The FTP 2023 emphasizes India's export control commitments to control trade in sensitive items, and there is a focus on simplifying policies for exporting high-end goods and technologies such as UAV / Drones and Cryogenic Tanks.

Comments

The Hon'ble Commerce Minister Mr Piyush Goyal has clarified in the 'Foreword' of FTP 2023 that *"The approach of this FTP is to gradually move away from the incentive based regime and create an enabling eco-system...."*

In line with that approach, FTP 2023 largely retains the previous FTP schemes and structure with only incremental modifications, even though, major changes were excepted in certain respects. The new approach of long-term policy stability and need based revisions is welcomed.

The Development of Enterprises and Services Hub Bill, 2022 (DESH Bill) replacing the Special Economic Zone Act, 2005 has been excluded from being integrated under the FTP 2023.

The efficacy of FTP 2023 in meeting industry expectations along with being a WTO compliant policy can only be evaluated in the coming days.

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