



CHAPTER 7

DUTY EXEMPTION/REMISSION SCHEMES

- 7.1 The Duty Exemption Scheme enables import of inputs required for export production. The Duty Remission Scheme enables post export replenishment/ remission of duty on inputs used in the export product.
- 7.2 An Advance Licence is issued under Duty Exemption Scheme to allow import of inputs which are physically incorporated in the export product (making normal allowance for wastage). In addition, fuel, oil, energy, catalysts etc. which are consumed in the course of their use to obtain the export product, may also be allowed under the scheme. Advance Licence can be issued for:-
- a. Physical exports
 - b. Intermediate supplies
 - c. Deemed exports.

For physical exports, Advance Licence can also be issued on the basis of annual requirement in respect of export products for which SIONS have been notified.

Duty Remission Scheme consists of (a) Duty Free Replenishment Certificate and (b) Duty Entitlement Passbook Scheme. The scheme allows drawback of import charges on inputs used in the export product (making normal allowance for the wastage).

- Advance Licence** 7.3 (a) Advance Licence is issued for duty free import of inputs, as defined in paragraph 7.2, subject to actual user condition. Such licences (other than Advance Licence for deemed exports) are exempted from payment of Basic Customs Duty, Surcharge, Additional Customs Duty, Anti Dumping Duty and Safeguard Duty, if any. However, Advance Licence for deemed export shall be exempted from Basic Customs Duty, surcharge and Additional Customs Duty only. Such licences are issued to:
- (i) Manufacturer exporter or Main contractor in case of deemed exports.
 - (ii) Merchant exporter where the merchant exporter agrees to the endorsement of the name(s) of the supporting manufacturer(s) on the relevant DEEC Book and in the case of deemed exports, sub contractor(s) whose names appear in the main contract.

Such licences and/or materials imported thereunder shall not be transferable even after completion of export obligation. However, in exceptional cases, the material may be allowed to be transferred on merits by ALC.

Such licences shall be issued with a positive value addition. However, for exports for which payments are not received in freely convertible currency, the same shall be subject to value addition as specified in Appendix- 39 of Handbook (Vol.1) , 1997-2002

Advance Licence shall be issued in accordance with the Policy and procedure in force on the date of issue of licence and shall be subject to the fulfillment of a time bound export obligation as may be specified.

- Advance Licence for Intermediate Supply (b) Advance Licence may be issued for intermediate supply to a manufacturer-exporter for the import of inputs required in the manufacture of goods to be supplied to the ultimate exporter/deemed exporter holding another Advance Licence.

Advance Licence for Deemed Export	(c)	Advance Licence can be issued for deemed export to the main contractor for import of inputs required in the manufacture of goods to be supplied to the categories mentioned in paragraph 10.2(b), (c), (d), (e), (f) and (g) of the Policy.
		In addition, in respect of supply of goods to specified projects mentioned in paragraph 10.2 (d), (e), (f) & (g) of the Policy, an Advance Licence for deemed export can also be availed by the sub-contractor of the main contractor to such project. Such licence for deemed export can also be issued for supplies made to United Nations Organisations or under the Aid Programme of the United Nations or other multilateral agencies and paid for in foreign exchange.
Duty Free Replenishment Certificate (DFRC)	7.4	Duty Free Replenishment Certificate is issued to a merchant-exporter or manufacturer-exporter for the import of inputs used in the manufacture of goods without payment of Basic Customs Duty, Surcharge and Special Additional Duty. However, such inputs shall be subject to the payment of Additional Customs Duty equal to the Excise Duty at the time of import.
		<ul style="list-style-type: none"> i. Duty Free Replenishment Certificate shall be issued only in respect of export products covered under the SIONs as notified by DGFT. ii. Duty Free Replenishment Certificate shall be issued for import of inputs, as per SION, having same quality, technical characteristics and specifications as those used in the end product and as indicated in the shipping bills. The validity of such licences shall be 12 months. DFRC and or the material imported against it shall be freely transferable. iii. The Duty Free Replenishment Certificate shall be subject to a minimum value addition of 33%. iv. The export products, which are eligible for modified VAT, shall be eligible for CENVAT credit. However, non excisable, non dutiable or non centrally vatable products, shall be eligible for drawback at the time of exports in lieu of additional customs duty to be paid at the time of imports under the scheme. v. The exporter shall be entitled for drawback benefits in respect of any of the duty paid materials, whether imported or indigenous, used in the export product as per the drawback rate fixed by Directorate of Drawback (Ministry of Finance). The drawback shall however be restricted to the duty paid materials not covered under SION.
Jobbing, Repairing etc. For Re-Export	7.5	Import of goods, including those mentioned as restricted in ITC(HS) but excluding prohibited items, in terms of paragraph 7.2 supplied free of cost, may be permitted for the purpose of jobbing without a licence as per the terms of notification issued by Department of Revenue from time to time.
Export Obligation	7.6	The period for fulfillment of the export obligation under Advance Licence shall be as prescribed in the Handbook (Vol.1).
Advance Release Orders	7.7	An Advance Licence holder except Advance Licence for intermediate supply, holder of DFRC intending to source the inputs from indigenous sources/ canalising agencies/ EOU/ EPZ/SEZ/EHTP/STP units in lieu of direct import has the option to source them against Advance Release Orders denominated in foreign exchange/ Indian rupees. In such a case the licence shall be invalidated for direct import and a permission in the form of ARO shall be issued which will entitle the supplier to the benefits of deemed export. The transferee of a Duty Free Replenishment Certificate shall also be eligible for ARO facility.
Back-to-Back Inland Letter of Credit	7.8	An Advance Licence holder, except Advance Licence for intermediate supply, and holder of DFRC may, instead of applying for an Advance Release Order, avail of the facility of Back-to-Back Inland Letter of Credit in accordance with the procedure specified in Handbook (Vol.1).
Prohibited Items	7.9	Prohibited items of imports mentioned in ITC(HS) shall not be imported under the licences issued under the scheme.

Compliance with Export Policy	7.10	Goods mentioned as restricted for exports in ITC(HS) may be exported without specific export licence under Advance Licence issued with prior import condition. In such cases, the licence holder shall not be allowed to use indigenous inputs and the exported product shall be manufactured only out of imported inputs under Advance Licence.
Re-import of Exported Goods under Advance Licence.	7.11	Goods exported under Advance Licence/DFRC/DEPB may be re-imported in the same or substantially the same form subject to such conditions as may be specified by the Department of Revenue from time to time.
Admissibility of Drawback	7.12	In the case of an Advance Licence, the drawback shall be available in respect of any of the duty paid materials, whether imported or indigenous, used in the goods exported, as per the drawback rate fixed by Ministry of Finance (Directorate of Drawback). The Drawback shall however be restricted to the duty paid materials as indicated in the DEEC.
Value Addition	7.13	The value addition for the purposes of this chapter shall be:- $\text{VALUE ADDITION} = \frac{A - B}{B} \times 100, \text{ where}$ <p>VA is Value Addition</p> <p>A is the FOB value of the export realised /FOR value of supply received.</p> <p>B is the CIF value of the imported inputs covered by the licence, plus any other imported materials used on which the benefit of duty drawback is being claimed.</p>
Duty Entitlement Passbook Scheme (DEPB)	7.14	For exporters not desirous of going through the licensing route, an optional facility is given under DEPB. The objective of Duty Entitlement Passbook Scheme is to neutralise the incidence of Customs duty on the import content of the export product. The neutralisation shall be provided by way of grant of duty credit against the export product. Under the Duty Entitlement Passbook Scheme (DEPB), an exporter may apply for credit, as a specified percentage of FOB value of exports, made in freely convertible currency. The credit shall be available against such export products and at such rates as may be specified by the Director General of Foreign Trade by way of public notice issued in this behalf, for import of raw materials, intermediates, components, parts, packaging material etc. The holder of Duty Entitlement Passbook Scheme (DEPB) shall have the option to pay additional customs duty, if any, in cash as well.
Validity	7.15	The DEPB shall be valid for a period of 12 months from the date of issue.
Transferability	7.16	The DEPB and/or the items imported against it are freely transferable. The transfer of DEPB shall however be for import at the port specified in the DEPB which shall be the port from where exports have been made. However, imports from a port other than the port of export shall be allowed under TRA facility as per the terms and conditions of the notification issued by Department of Revenue
Applicability of Drawback	7.17	The exports made under the DEPB Scheme shall not be entitled for drawback. The additional customs duty paid in cash on inputs under DEPB shall be adjusted as CENVAT Credit or Duty Drawback as per Rules framed by the Deptt. of Revenue. However, where the Additional Customs Duty is adjusted from DEPB, no benefit of CENVAT/ Drawback shall be admissible.

