INDIA'S DUTY FREE TARIFF PREFERENCE SCHEME

A Great Business Opportunity for Zambia and other Least Developed Countries

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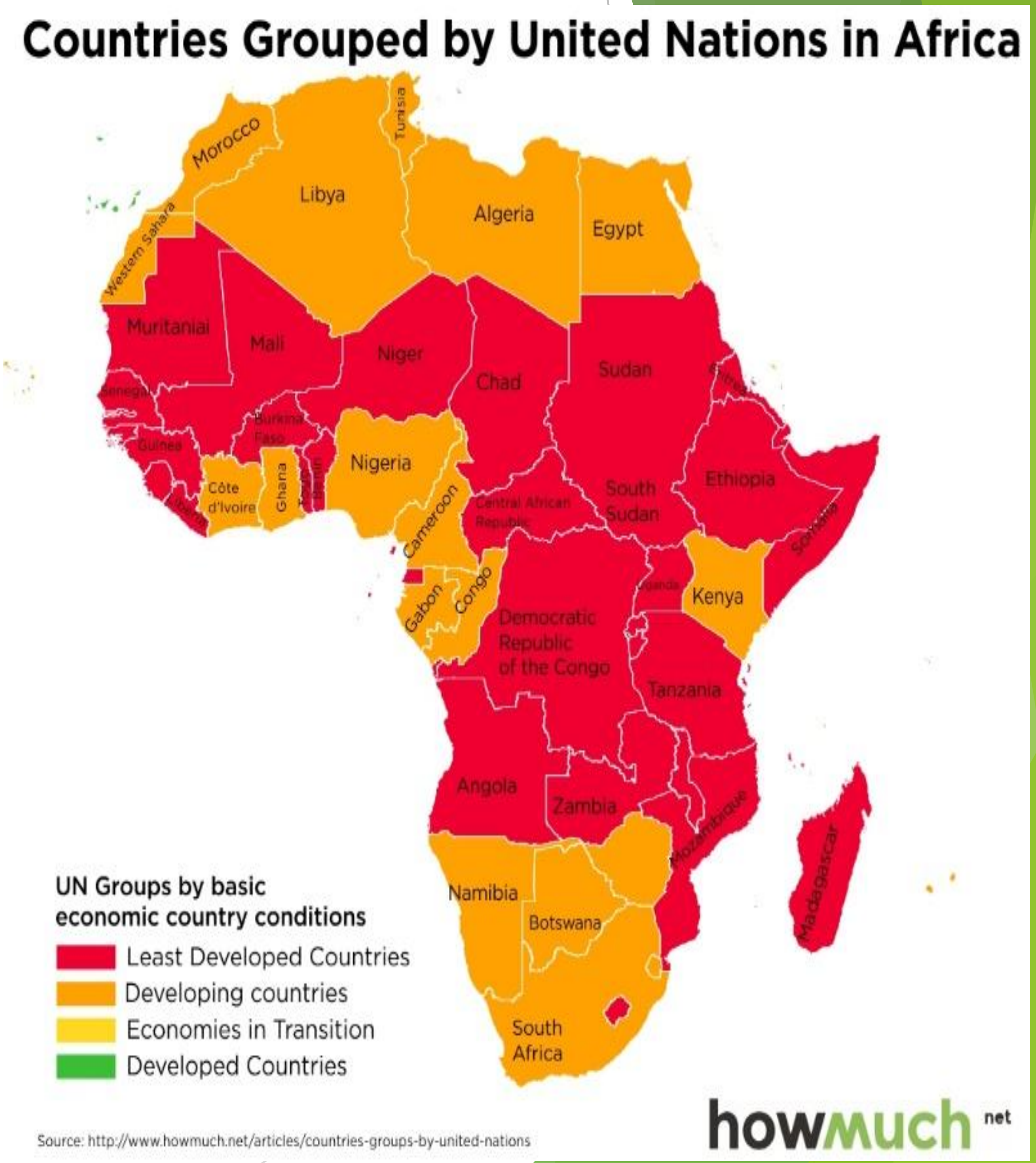
What is the DFTP scheme about?

How can exporters in Zambia and other LDCs take the benefit of the DFTP scheme?

What are the origin and value addition related requirements under the scheme?

India's Commitment to Development of Trade in Africa

- India's bilateral partnership with Africa can best be defined by the spirit of *developing together as equals*. Indian engagement with African countries lays emphasis on long term – enhancing productive capacity, diversifying skills and knowledge, and investing in SMEs.
- India was one of the first few countries, after the Hong Kong WTO Ministerial Meet in 2005, that announced duty free, quota free access to low income countries, in 2008.
- Even during recession from 2009-2012, trade between India and Africa continued to grow nearly by 32%.
- In terms of investments, India is the 5th largest investor in Africa with cumulative investments around US$ 60 bn.
- Upholding the spirit of the 2015 Delhi Declaration (during the Indo-African Summit III), 3 important takeaways are:
  - Out of the total US$ 10bn Lines of Credit promised by India under IAFS-III, more than US$ 7 bn. have been committed;
  - Out of the US$ 600mn target of grant assistance under IAFS-III, nearly US$ 800mn has already been committed or ongoing;
  - India has completed more than 40,000 slots for training and capacity building, out of the total commitment of 50,000 slots



India’s DFTP Scheme – An Introduction

- Following the WTO Hong Kong Ministerial Declaration of 2005, India granted duty free market access, called Duty Free Tariff Preference (DFTP), to all least developed countries (LDCs) in Aug 2008.

- Fully operational since October 2012, the DFTP scheme provides zero duty and preferential market access to LDCs on more than 98% of India’s tariff lines. Presently, over 35 LDCs are benefitting from this scheme.

- The objective of this scheme is to grant unilateral tariff preferences to products originating in LDCs and imported into India. The scheme is open to all LDCs (including 33 LDCs in Africa), designated as beneficiary countries

- The scheme provides duty free and preferential treatment to about 98% of India’s tariff lines, up from the initial 85% when the scheme commenced in 2008

Only 97 lines are under exclusion list and 114 lines are under MOP(Margin of Preference) list. On all other lines, zero duty access has been provided for exports from beneficiary LDCs.

Preliminary Requirements

- A LDC wishing to avail the benefits of the DFTP scheme is required to give a letter of intent to the Government of India stating that it wishes to be covered under the DFTP and that it will comply with the scheme's provisions. It has to also submit details of agencies authorized to issue certificates of origin.
- To be eligible for tariff preferences under the DFTP-LDC scheme, a product must originate in the LDC as prescribed under the rules of origin. The products are classified under two categories –
  - Category 1: Wholly originating/obtained goods (WO) - This applies to a good that does not contain any input from a country that is not a LDC.
  - Category 2: Goods produced from non-originating inputs This applies to a good that may incorporate some material from a non-LDC which would be sufficiently processed as part of the production process of that good to meet origin criteria.
- LDC exporters first need to identify the tariff classification of the product according to India's customs tariff classification.
- Ascertain that the product is not mentioned either in the exclusion list or in the positive list - If it falls under the positive list, exporter needs to check the correct applicable margin of preference on the applied MFN tariff rate.

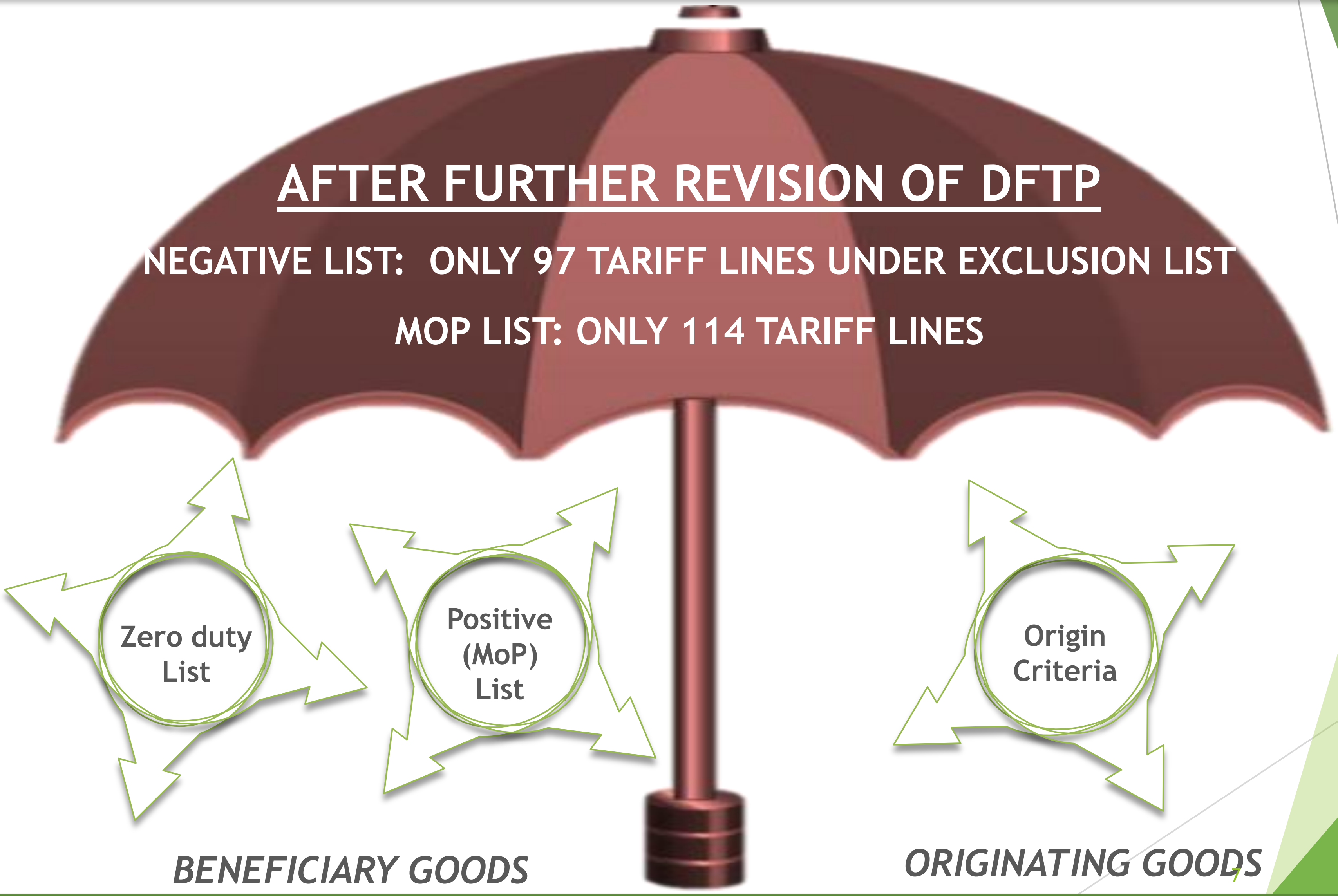
Given the nature of goods produced by African LDCs, these rules may not hinder their exports to India as most of their products would qualify under the wholly produced / originating category

Customs Tariff Exemption Notifications

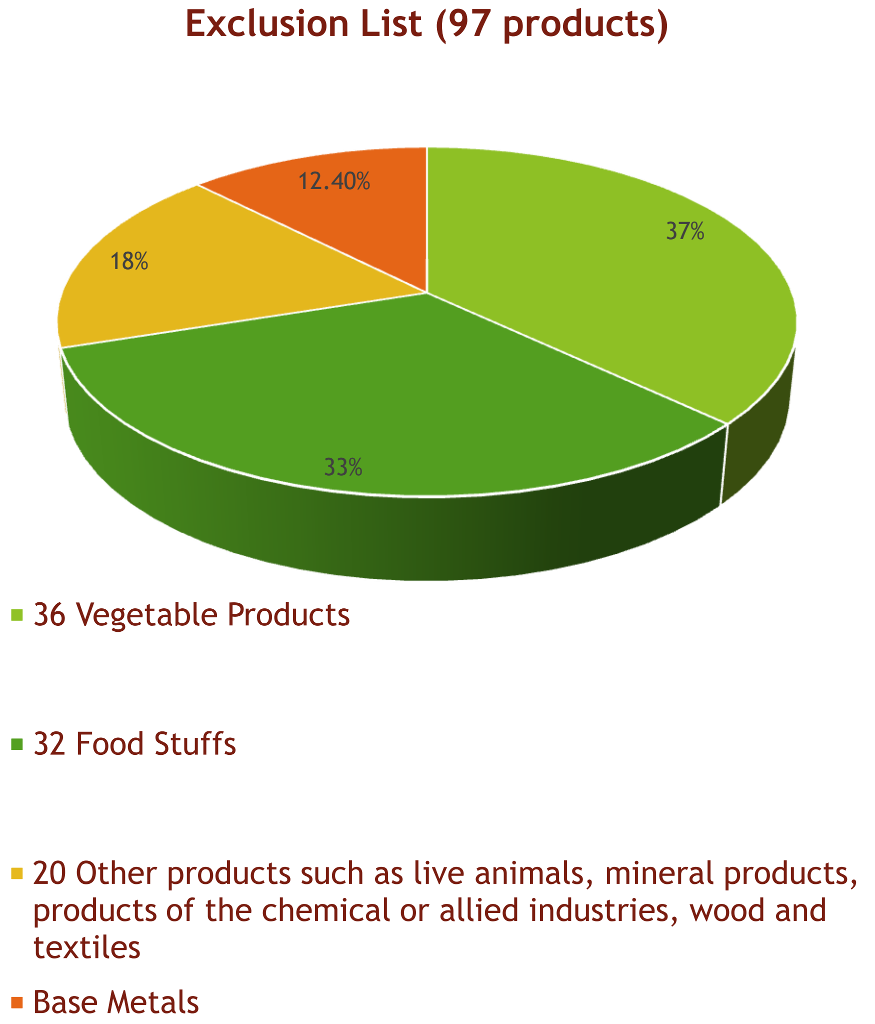
- Through Customs tariff Notification No. 97/2008, the Government of India introduced the DFTP scheme for LDCs by granting a nominal 20 percent reduction from the applied rate of customs duty to goods covering almost 75% of tariff lines and preferential rate of duty to goods spread over 20% tariff lines
- Zambia was added to the list of LDCs by virtue of Notification No. 67/2010
- Under Customs Tariff Notification No. 56/2012 dt. 1st October, 2012, the zero duty regime was introduced for over 75% tariff lines and preferential rates too were further reduced substantially.
- By virtue of Customs Tariff Notification No. 8/2014 dated 1st April, 2014, the DFTP scheme provided duty free/preferential market access on about 98.2% of India's tariff lines (at HS 6 digit level of classification).
- Only 1.8% of the tariff lines were retained in the Exclusion List, with no duty concessions.

The Rules of Origin for claiming the desired customs duty exemption were published in the Customs Non-Tariff Notification No. 29/2015-Customs (N.T.), dated 10th March, 2015

India’s DFTP Scheme: A Snapshot



What products are specifically excluded?



- The major items on the exclusion list are vegetable products (including edible vegetables), certain roots and tubers, coffee, tea, spices, cereals and malt.
- The next important category includes prepared foodstuffs such as beverages, vinegar, spirits and prepared animal fodder.
- Other items on the list include base metals, live animals, mineral products, products of the chemical or allied industries, wood and textiles.
- The scheme excludes a number of products of key export interest to LDCs, especially those in Africa such as - milk and cream (with sugar), whole milk powder, some fruits and vegetables (e.g. apples and onions), processed cashew nuts, coffee, tea, some spices and oilseeds (e.g. linseed, sesame), wheat flour, beer, wine and spirits, tobacco and cigarettes, and copper and related products (e.g. bars, rods, cathodes, waste and scrap).

What is wholly produced or obtained in?

- The following shall be considered as wholly produced or obtained in the exporting beneficiary country:–
- **(a)** Raw or mineral products extracted from its territory;
- (b) Plant and plant products, including agricultural, vegetable and forestry products grown or harvested there;
- (c) Live animals born and raised there;
- **(d)** Products obtained from animals;
- **(e)** Products obtained by hunting, trapping, fishing or aquaculture conducted there;
- **(f)** Fishery and other marine products taken from outside the country's territorial waters & EEZ **by vessels registered and flying the flag of the beneficiary country** **and** products processed and/or made on board the ship exclusively from such products;
- **(g)** Scrap and waste derived from manufacturing or processing operations conducted there and fit only for disposal;
- **(h)** Used articles that can no longer perform their original purpose or cannot be repaired, and are fit only for disposal;
- **(i)** Products taken from the seabed, subsoil or ocean floor beyond its territory, provided that the beneficiary country has the rights to exploit that sea bed

What operations cannot confer originating status

Preservation of goods
- Drying, freezing, keeping in brine, ventilation, spreading out, chilling, placing in salt, sulphur dioxide or other aqueous solutions,
- Removal of damaged parts

Simple Operations such as -
- Mixing of products, blending, etc.
- Removal of dust, sifting or screening, sorting, classifying, matching (including the making-up of sets of articles), washing, painting and cutting

Repackaging from bulk to smaller packs
- Breaking up and assembly of consignments
  - Simple cutting, slicing & repacking;
  - Placing in bottles, flasks, bags, boxes, fixing on cards or boards

Affixing of Marks or Labels
- Affixing of marks, labels or other like distinguishing signs on products or their packaging;
- All other simple packaging operations

Formula used to calculate local valued added content

- In order to qualify for preferential treatment, manufactured products should have gone through a change in tariff heading (CTH) at the eight digit HS level between the imported raw materials and the finished products.
- In addition, the process should have generated a value addition of 30% in the exporting country. This includes the cost of local profits for manufacturers and traders as well as the cost of local transportation.
- For calculating local value added content, one of the following shall be applied:–
- (a) Local Value Added Content (X%) =

$$\frac{\text{FOB* Price - value of non-originating materials}}{\text{FOB* Price}} \times 100$$

- (b) Local Value Added Content (X%) =

$$\frac{\text{Ex-works Value* - value of non-originating materials}}{\text{FOB* Price}} \times 100$$

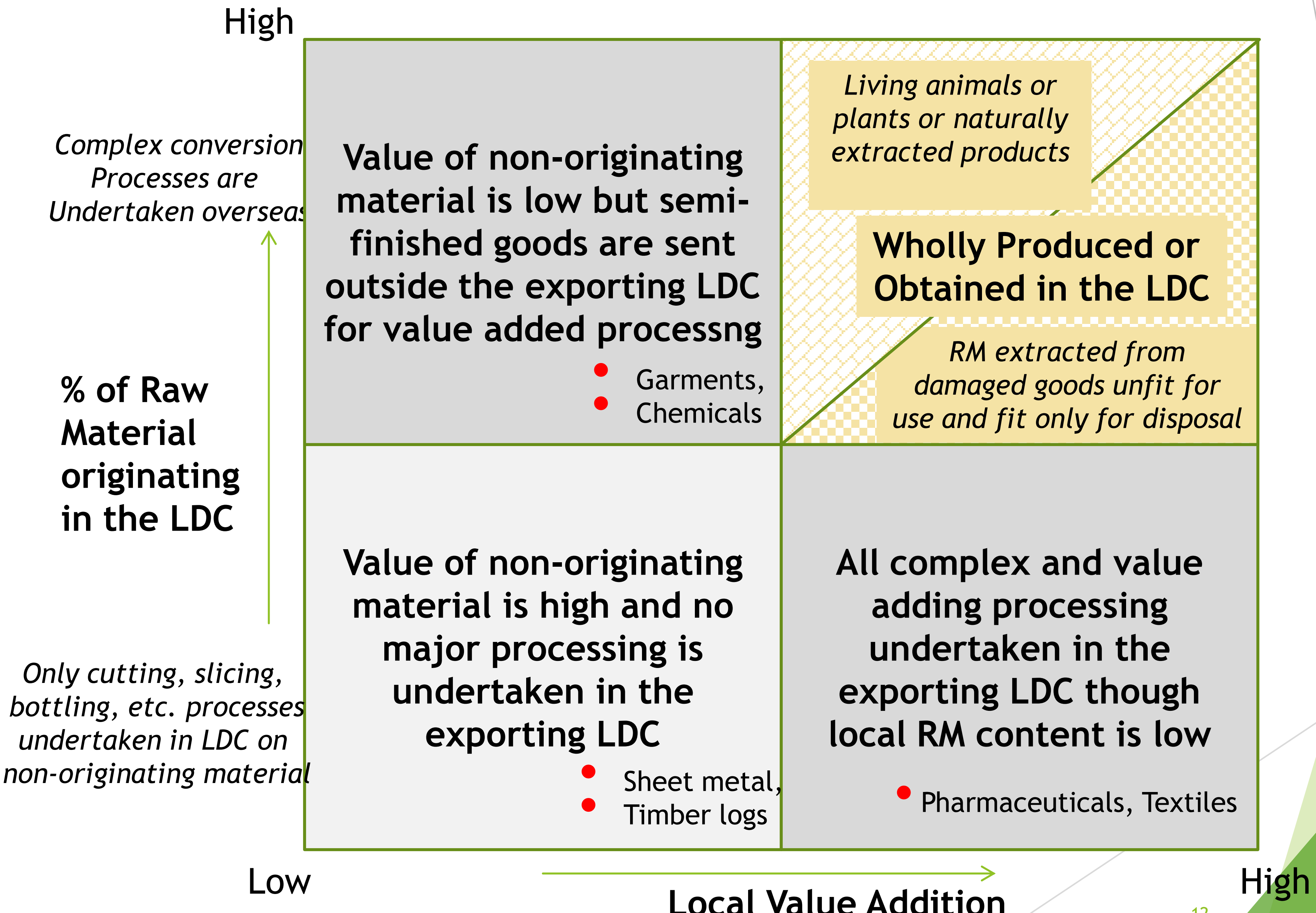
(In order for a product to qualify as originating in the exporting LDC, X ≥ 30%)

*FOB implies Freight on Board or Free on Board. It means the cost of movement of goods by airline or ship is borne by the seller

*All charges from the moment the goods leave the seller's factory or premises, such as delivery, distribution & commission, to be borne by buyer.

*Value of the non-originating materials used in the production of a product shall be the CIF value or the earliest price ascertained to have been paid in the territory of the exporting beneficiary country where the working or processing takes place

Co-relation of non-originating material & processing



Other Important Points To Note Before Exporting

Pre-shipment Inspection

- Pre-shipment inspection certificates are issued by accredited certifying agencies outside India.
- Imports of certain types of second-hand and defective steel products, as well as textiles and clothing articles, are subject to pre-shipment inspection on the grounds of health and safety.

"BIS Standard" Certification

- A list of items that require mandatory certification can be found on the BIS website: http://www.bis.org.in/cert/ProdUnManCert.asp
- Some products have been placed under special certification schemes of lot or batch inspection carried out by BIS inspecting officers.
- For all other products, the manufacturer is permitted to self-certify products after ascertaining their conformity to the Standard for which they are licensed.

Conditions to be fulfilled if export consignment transits through one or more intermediate countries

Transport of export goods involves transit through one or more intermediate countries with or without transshipment or temporary storage in such countries

Consignments will be allowed to be imported into India, provided -

- Their transit entry is justified for geographical reasons or by considerations related exclusively to transport requirements;
- The products have not entered into trade or consumption there;
- The products have not undergone any operation other than unloading and reloading or any operation required to keep them in good condition; and
- The products have remained under customs control in the country of transit

Zambia is a land locked country and goods meant for ultimate export to India will first pass through internal and external transit points until ultimately being transshipped. Hence, it is important that transit/transshipment related declarations are accurate.

Other Key Points To Remember

- A standard format of certificate of origin is prescribed which a beneficiary country can use for submitting to the importer in India;
- Authority that issues certificates of origin has an indicative format for seeking a declaration from exporters in the exporting LDC;
- How long is the certificate of origin valid? Can it be accepted even after the lapse of the period of validity?
- The issuing authority in the beneficiary country will also assist the Govt. of India in post-importation verification if any such request is made;
- Can a certificate of origin be issued retroactively?
- The Customs Department of India is the agency authorized to verify all documents pertaining to the consignment

The details of the authority issuing the certificates of origin in the beneficiary LDC are required to be notified to:

The Director (International Customs) Central Board of Indirect Tax & Customs
Department of Revenue, Ministry of Finance, Government of India,
Room No. 49, North Block New Delhi 110001 INDIA
Telephone: +91 11 2309 3380 Fax +91 11 2309 3760 e-mail: diricd-cbic@nic.in

Trends in export turnover of Top 3 LDC Beneficiaries of India's DFTP scheme in Africa*

Total Imports by India from LDCs in FY 2019-20 was USD 13,000 Mn (approx.) &

Total Imports by India from LDCs in FY 2020-21 was USD 10,000 Mn. (approx.)

	FY 2019-20	FY 2020-21	% Growth/ (Decline)
Angola	3800	2022	(47)
Burkina Faso	683	340	(50)
Zambia	746	342	(54)

*All export figures are in USD Mn.

Source - www.trademap.org/Bilateral

Questions & Answers

DFTP* Negative List* MoP* Rules of Origin* Value Addition* Documents*

***key terms discussed in this presentation**