

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

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1978 CONSULTATION UNDER ARTICLE XVIII:12^(b) WITH INDIA

Basic Document for the Consultation¹

I. Legal and administrative basis of the import restrictions

The Imports and Exports (Control) Act, 1947 empowers the Central Government to prohibit, restrict or otherwise control imports. In exercise of the powers conferred by this Act, the Imports (Control) Order, 1955 has been issued. Schedule I to the said Order contains the list of articles of which import is controlled. The import of such items is prohibited except (i) under and in accordance with a licence or a Customs Clearance Permit issued under the said Order, or (ii) if it is covered by an Open General Licence (subject to such conditions as may be stipulated), or (iii) they are covered by the Savings Clause 11 of the Imports (Control) Order. Import of gold, silver, currency and currency notes, bank notes and coins is controlled by the Reserve Bank of India, under the Foreign Exchange Regulations Act.

The annual import policy in respect of various items is brought into effect by publication in the Gazette of India at the beginning of each licensing year (April to March). Any amendment to this policy which becomes necessary in the course of the year is notified by means of public notices issued by the Chief Controller of Imports and Exports, from time to time.

The Imports (Control) Order, 1955 contains provisions for collection of fees by the licensing authorities on applications for import licences. It also specifies the conditions governing the grant of licences, the transfer of licences and amendment, suspension or cancellation of licences.

The Hand Book of Import-Export Procedures, 1978-79 is a supplement to the import policy and contains relevant procedures and other details.

Import control is administered by the Import Export Control Organisation of the Ministry of Commerce headed by the Chief Controller of Imports and Exports. Besides the main office at New Delhi, the organization has regional offices in different parts of the country.

¹Information communicated by the Indian authorities.

II. Methods used in restricting imports

Restrictions on imports are administered through import licensing. Items, the import of which is allowed, are said to be on Open General Licence (OGL) and no prior permission is required for importing these items. Once a licence has been obtained, foreign exchange allocation is made automatically as in the case of Open General Licence items. In the case of certain Open General Licence items such as industrial raw materials and capital goods, imports are allowed only by the actual users concerned.

III. Treatment of imports from different sources including information on the use of bilateral agreements

Licences for imports including Open General Licences are valid for import from any country having trade relations with India. The restrictions applied on balance-of-payments grounds are on non-discriminatory basis.

The Government of India has also signed trade agreements with a number of foreign countries. These agreements do not involve specific commitments on import of any goods, but merely indicate the commodities the import or export of which the partner countries intend to facilitate and do not limit the imports either in terms of items or value. These agreements also generally provide that exchange of goods under the agreements are subject to the goods being competitive in relation to world market prices in respect of quality and other terms and condition of delivery.

In addition to trade agreements, special payments and trade arrangements have been concluded between India and certain countries which provide for payments for all commercial and non-commercial transactions in non-convertible Indian rupees through a central clearing account.

All these agreements and special payments and trade arrangements are based on most-favoured-nation treatment providing non-discriminatory treatment in all matters relating to trade.

IV. Commodities, or group of commodities, affected by the various forms of import restrictions

In the current year's licensing policy separate import régime has been envisaged regarding industrial raw materials, capital goods and consumer goods. In respect of raw materials and components, items of which imports are not allowed, are listed in Appendix 3 of the Import Policy Book for 1978-79 and items of which restricted imports are allowed in Appendix 5 of the Import Policy Book for 1978-79. Imports of restricted items are

subject to automatic licensing on the basis of past consumption (plus 10 per cent) by the actual users concerned. The capital goods, the import of which are allowed on the basis of Open General Licence for actual users are listed at Appendix 2 of the Import Policy Book for 1978-79 and the capital goods which are not allowed are listed in Appendix 1 of the Import Policy Book. In respect of the capital goods required for fourteen categories of industries as listed in paragraph 13 of the Import Policy Book for 1978-79 global tenders are allowed to be made. Consumer goods apart from certain articles of mass consumption as enumerated in Appendix 10 of the Import Policy Book are not allowed for imports.

V. State-trading or government monopoly

Essential commodities like food grains, edible oils, fertilizers, cement, ores and certain industrial raw materials are imported directly by government or public sector agencies such as State Trading Corporation of India, Minerals and Metal Trading Corporation of India, etc. The concerned agencies import these commodities under Open General Licence without obtaining any prior permission from the Government. The policy for imports of canalized items through the public sector agencies is quite liberal as canalization has been done with a view to effecting economical imports for industrial units and other users, particularly small units and users. The items canalized for import through designated public sector agencies are listed in Appendices 8 and 9 of the Import Policy Book for 1978-79. The policy is constantly under review and as and when the situation demands items which are fully canalized are taken out of the list and fresh items added where desirable.

Purchases on government account by the public sector agencies are guided by normal commercial considerations and an entirely non-discriminatory policy is followed. State-trading and government monopoly are not used as a measure to restrict imports.

VI. Measures taken since the last consultations in relaxing or otherwise modifying import restrictions

Since the last consultations held in 1975 the Government of India has been progressively liberalizing its import licensing policy at the time of annual reviews according to the needs of its development plans and policies. For the first time a major attempt was made in liberalizing import policy during 1976-77. Following this the import policy was further liberalized in 1977-78. The important liberalization measures taken during these two years are indicated below:

- (1) Special facilities were given to small-scale units as well as to units set up in backward regions and by certain categories of entrepreneurs by issuing licences more liberally.

- (2) The policy for import of spare parts was liberalized by allowing larger quantities of non-permissible and restricted spares.
- (3) Research and development units were allowed to import their requirements without a licence.
- (4) A large number of items such as leather machinery, garment-making machinery, drugs and medicines, chemical items, electronic items, anti-cancer and life-saving drugs, iron and steel items, technical and scientific books were placed under Open General Licence.
- (5) Established importers were allowed to import larger volume of a number of items.

1978-79

A major review of the import régime was carried out before formulating the import licensing policy for April 1978 to March 1979. This review resulted in far-reaching changes in the import policy in the direction of liberalization. The salient features of the new import policy are given below:

- (1) All items of raw materials, components and spare parts not specifically banned or restricted are allowed for import under Open General Licence. For the first time, even actual users (non-industrial) have been given the facility for import of spare parts under Open General Licence.
- (2) There will be no value limit for import of emergency spares.
- (3) The import policy for capital goods has been greatly liberalized. A large number of capital goods have been placed under Open General Licence. The investors are also permitted to call global tenders in respect of plants required for setting up fourteen categories of industries. The selection of suppliers will be subject to scrutiny by a committee set up by the government for this purpose.
- (4) All actual users have been permitted to import under the Open General Licence, permissible spares, other than the items appearing in the banned or restricted lists.
- (5) Several consumer goods including articles of mass consumption such as pulses, spices, dry fruits, some edible oils, dates etc. have been placed on the Open General Licence.

- (6) Certain categories of importers such as registered hospitals/ medical practitioners, have been exempted from the Import Trade Control restrictions, and can import drugs and medicines and medical apparatus and appliances up to specified values.

In addition to the above, many procedural simplifications given below have been made in the import policy for 1978-79:

- (1) All licensing work has been decentralized except for certain capital goods exceeding Rs 1 million and few other matters.
- (2) There will be no need to get the port of registration endorsed on import licences.
- (3) Replacement of goods damaged, lost in transit or otherwise can be done without an import licence or customs clearance permit.
- (4) Application forms have been simplified and rationalized and a number of forms have been eliminated.

VII. Effects of the import restrictions on trade

While it is too early to see the impact of the current year's liberalization on imports, import liberalization effected in 1976-77 and 1977-78 has already resulted in a substantial increase of imports.

The imports were Rs 50,740 million in 1976-77 and Rs 60,000 million in 1977-78 showing an increase of 20 per cent. The increase in the volume of non-food and non-fuel imports is about 50 per cent. As against a trade surplus of Rs 720 million in 1976-77, there was a trade deficit of Rs 6,000 million in 1977-78. There has been a further step up in imports during the first five months of 1978-79 (April-August). During this period the value of imports stood at Rs 25,444.5 million as against the export value of Rs 20,451.8 million, resulting in a deficit of Rs 4,992.7 million. This large trade deficit could be attributed mainly to the increase in imports by 30.50 per cent as against the decline in exports by 3.4 per cent during April-August 1978, as compared with the corresponding period of 1977.

The value of imports licences issued has also gone up from Rs 33,160 million in 1975-76 to Rs 59,210 million in 1976-77 and to Rs 74,060 million in 1977-78.

VIII. General policy in the use of restrictions for balance-of-payments reasons

The General Policy in the use of restrictions for balance-of-payments reasons is to give priority to imports required for the development of the economy and for meeting essential consumer needs. Preference is therefore given to imports of capital goods, industrial raw materials, and articles of mass consumption. Low priority is given to luxury consumer goods.