

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

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Committee on Balance-of-Payments Restrictions

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1986 CONSULTATION UNDER ARTICLE XVIII:12(b) WITH INDIA

Statement Submitted by India under Simplified Procedures for Consultations¹

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 Import (Control) Order, 1955 has been issued. Schedule 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 Open General Licence (subject to such conditions as may be stipulated), or
- (iii) they are covered by the Savings Clause II of the Import (Control) Order.

Import of gold, silver, currency and currency notes, banknotes and coins is controlled by the Reserve Bank of India, under the Foreign Exchange Regulations Act. Imports from the Republic of South Africa and South West Africa are prohibited.

With the objective of providing a stable régime of economic policies which would minimize year-to-year uncertainties and thus help industry to plan their economic activities in a longer-term perspective, Government announced in April 1985, Import Export Policy for a period of three years 1985-88. Amendment to the policy where necessary is notified by means of Public Notices 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 licence. It also specifies the conditions governing the grant of licences, the transfer of licences and amendment, suspension or cancellation of licences.

The Handbook of Import-Export Procedures is issued as a supplement to the Import Policy and contains relevant procedures and other details.

¹These procedures are set out in BISD 20S, pages 47-49.

Import control is administered by the Import-Export Control Organization 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.

II. Methods used in restricting imports

Restrictions on import are administered through import licensing. Items, import of which is allowed under Open General Licence are notified separately and these are also included in the Import Policy Book. The categories of imports exempted from import control restrictions are indicated in the Import (Control) Order, 1955. In the case of residual categories, import licences or customs clearance permits are granted subject to the policy and procedure notified in the Import Policy and the Handbook of Import-Export Procedures.

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 are largely on account of balance-of-payments grounds and are on non-discriminatory basis. The Government of India has signed trade agreements with a number of foreign countries. These agreements do not involve specific commitments on import of any goods, nor do they limit the imports either in terms of items or value, these merely indicate the commodities, the import or export of which the partner countries intend to facilitate. These bilateral agreements are thus of indicative nature, and not a binding commitment. The Government of India does not direct the importers to buy from any particular source.

With certain countries, however, India has concluded special payments and trade arrangement which provide for payments for all commercial and non-commercial transactions in non-convertible Indian rupees through a central clearing account. The underlying principle in such bilateral arrangements is the balanced growth of trade with mutuality of benefits. These bilateral arrangements have not been at the expense of other countries with whom India conducts her trade on a multilateral basis.

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

1. Imports of raw materials, components, consumables and spare parts for industry are classified into three categories:

- (i) restricted items,
- (ii) "Limited" permissible items,
- (iii) canalized items.

Imports of fats/oils, etc., of animal origin are banned. All items not included in these lists are freely available under Open General Licence (OGL). In respect of items appearing in the Restricted List and limited permissible items, actual users are eligible to obtain supplementary licences in case of need. All licences to industry are issued against free foreign exchange.

2. Registered exporters are permitted to obtain import replenishment (REP) licences which are valid for importation of restricted and limited permissible items necessary for the production of the particular export products. In addition, REP licences may be utilized for direct imports of canalized items to the extent the licence permits, and also for imports of capital goods, subject to necessary clearances. The licences are issued to merchant-exporters, manufacturer-exporters, export houses and trading houses and are transferable.

3. Small-scale units are given especially liberal treatment in respect of import licences, and consortia of small-scale industries may form export houses.

4. Specified capital goods are restricted while other listed goods may be imported under Open General Licences, subject to certain conditions. For thirteen industries and projects, capital goods may be imported on the basis of global tenders irrespective of whether the goods are manufactured in India or not.

5. Non-industrial actual users, such as research and development laboratories, scientific or higher-educational institutions, and hospitals are eligible to import their requirements of technical and professional equipment, raw materials, components, spare parts, or other items (excluding consumer goods) on Open General Licence.

V. State trading

Essential commodities like food articles, edible oils, fertilizers, cement and certain raw materials are imported directly by public-sector agencies such as State Trading Corporation of India, Minerals and Metals Trading Corporation of India, etc. The concerned agencies import these commodities under Open General Licence, on the basis of the foreign exchange made available in their favour, for this purpose. The policy for canalization of certain items through the designated public-sector agencies has been evolved with a view to effecting economical imports for the actual users, particularly small users, securing most favourable terms of payments and improving the terms of trade.

Purchases by the public-sector agencies are guided by normal commercial considerations and are entirely non-discriminatory in nature.

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

The Government of India has been rationalizing its import licensing policy, in accordance with the growing needs of the development plans and policies. A major attempt was made to liberalize the import policy during 1976-77. Following this, the import policy and procedures have been progressively liberalized over the years. The import policy for 1985-88 not only maintained the liberalization achieved in earlier years but further consolidated the same in accordance with India's national objectives as enshrined in the development plans. The policy has also been announced for three years with the Government objective of bringing in continuity and stability in import policy.

The highlights of the 1985-88 policy are as under

1. The general liberal structure of the Import and Export Policy has been maintained in the interests of continuity and stability.
2. Licensing has been reduced by abolishing the category of automatic licences and most of the items of the automatic permissible list have been shifted to Open General Licence.
3. A new scheme known as the Import-Export Pass Book Scheme has been introduced for manufacturer exporters to provide duty-free access to imported inputs for export production. The scheme, which is wider in its scope than the previous Advance Licensing Scheme, came into effect from 1 January 1986 and would avoid the need for obtaining advance licences repeatedly.
4. For speedy implementation of programmes and to accelerate production, 201 items of industrial machinery have been included for import under Open General Licence. The industries for which these items of machinery are meant to include electronics, automobiles, oilfield services, leather, jute manufacturers, pen manufacturers, canning, garments, hosiery and made-ups.
5. The policy for canalization has been reviewed and procedure for supply of material by the canalizing agencies has been further streamlined. As many as fifty-three items have been decanalized.
6. Registered exporters whose exports of select products in any of the two previous years are less than the minimum prescribed 10 per cent of their production but are more than Rs. 1 crore in value have been allowed the facility of import of capital goods against REP licences up to a value of Rs. 0.5 million in the case of SSI Units and Rs. 2 million in the case of non-SSI Units. In the case of registered exporters irrespective of their level of export performance the value limit for import of capital goods against REP licences has been enhanced from Rs. 0.1 million to Rs. 0.2 million. Manufacturer-exporters of moulded wooden products have also been allowed the facility of import of machinery on the lines of the facility hitherto allowed to manufacturer-exporters of wooden furniture.

7. The general structure of the Open General Licence list for import of raw materials, components and consumables has been retained and new items have been allowed for import under Open General Licence to Actual Users (Industrial).
8. The per unit value limit for import of equipment having impact on quality and/or quantity of output, technical know-how, foreign consultancy etc., under the Technical Development Fund has been enhanced from US\$0.5 million to the US\$ equivalent of Rs. 10 million. Trading houses and export houses with minimum export of Rs. 10 million in the previous year have been allowed to import technical designs, drawings and other documentation required for their supporting manufacturers to the extent of Rs. 2.5 million and Rs. 1 million respectively against their own REP/additional licences.
9. A special provision has been made for meeting import requirements for technology development in some priority areas, viz., export production, environment, agriculture (including dryland farming), optimum use of water resources, increased production of pulses and oilseeds, provision for drinking water in rural areas, improvement of nutrition, rapid reduction in the incidence of blindness, eradication of major communicable diseases, population stabilization, low cost housing, and development and use of renewable non-conventional sources of energy.
10. The import policy for computer systems has been liberalized. Import of computer systems costing less than Rs. 1.0 million (c.i.f.) has been allowed under Open General Licence by all persons for their own use. The actual users and the Computer Maintenance Corporation can now import permissible computer spares, tools, and test equipment up to a value of 5 per cent (as against 3 per cent allowed earlier) per annum of the c.i.f. value of the imported computer systems under Open General Licence.
11. The value of licences to the Indian agents of the foreign machinery/instrument manufacturers will be determined at 3 per cent (as against 2 per cent earlier) of the c.i.f. value of related machinery/instruments imported by the agents themselves or imported through them during the previous ten years. Against such licences, import of each item of restricted spares can be made up to Rs. 150,000 and import of other items of spares will be permitted up to Rs. 1 million per item.
12. The policy for import of capital goods against licences granted to registered exporters has been further liberalized. Now, manufacturer-exporters would be able to import capital equipment up to a maximum value of Rs. 7.5 million.
13. Trading houses and export houses with minimum export of Rs. 50 million for select products and Rs. 100 million for non-select products have been allowed the facility of import of electronic telephone exchanges for their own use.

VII. Effect of import restriction/liberalization on trade

The trends in India's overall imports, exports and balance of trade for the last few years are given below:

<u>India's Balance of Trade</u> (in million Rupees)					
<u>Years</u>	<u>Imports</u>	<u>% Variation</u>	<u>Export</u>	<u>% Variation</u>	<u>Balance of Trade Deficit</u>
1979-80	91,426	+ 34.2	64,184	+ 12.1	- 27,242
1980-81	125,491	+ 37.3	67,107	+ 4.6	- 58,384
1981-82	136,076	+ 8.4	78,059	+ 16.3	- 58,016
1982-83	143,070	+ 5.1	88,033	+ 12.8	- 55,037
1983-84*	157,630	+ 10.2	98,721	+ 12.1	- 58,909
1984-85	171,733	+ 8.9	118,552	+ 20.1	- 53,181
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1985-86 ^P	183,713	+ 11.4	104,204	- 7.8	- 79,509
1984-85 ^P	164,849		112,974		- 51,875

* Updated figure

^P Provisional

Source: DGCI&S, Calcutta.

VIII. General policy in the use of restrictions for BOP reasons

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 import of capital goods, industrial raw material and articles of mass consumption. Generally, import of luxury consumption goods are discouraged.

The import policy has been guided by the need to provide a growing volume of imports to support increased private and public investment, rapid growth and improved economic efficiency. It is noteworthy that the liberal import policy for 1985-88 came to be adopted in spite of huge trade deficits in successive years amounting to more than Rs. 53 billion each year between 1980-81 and 1984-85. It is also significant that the policy has been maintained in 1986-87 even though the balance of trade position further deteriorated and the deficit is estimated to be about Rs. 80 billion in 1985-86.