Importing and Exporting in India

P.04 The Import and Export Landscape in India

P.08 Import and Export Procedures in India

P.10 Calculating Customs Duties in India

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Introduction

India has historically played an important role in global trade flows. Located between mainland Asia, Southeast Asia and the Middle East, India has long served as a gateway to global markets. Today, importers and exporters continue to benefit from India's geostrategic position; however, low operating costs and business friendly measures from the government have helped importers and exporters expand their interests in recent years.

In this issue of India Briefing Magazine, we examine India's import and export landscape, basic import and export procedures as well as the customs duties. In the first article, entitled "The Import and Export Landscape in India", we note that India's import-export landscape has remained stable despite significant economic changes. This bodes well for businesses that trade with India.

In the second article, entitled "Import and Export Procedures in India", we summarize procedures that importers and exporters must follow in India. This summary can help businesses that want to begin imports and exports to start to prepare for trading in India. In the third article, entitled "Calculating Customs Duties in India", we describe the most basic custom duties and provide an illustration that financial administration teams may examine to gain a rough estimate of potential duties calculations.

Importers and exporters will find a stable trading environment in India. The country's geostrategic position, low operating costs and massive unified market are complemented by well-established trade flows and steady government policies. Importers and exporters that master current trade conditions are well-positioned to reap lucrative rewards as India's investment climate continues to improve.

Kind regards,

Adam Livermore
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Asia Briefing Ltd.,
Unit 1618, 16/F., Miramar Tower
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Kowloon, Hong Kong SAR
India’s import-export landscape has remained stable in recent years despite major changes in the domestic and international economies. In recent years, India’s main import and export commodities have mostly not changed, while its largest trading partners have also remained the same. This stable import-export structure bodes well for businesses that trade with India, as well as those that would like to expand their operations to the country.

India’s Imports in 2015

During the current Financial Year (FY), China exported products worth US$60.4 billion to India, making China its biggest exporter. India is an important market for China; the East Asian country’s manufacturing capacity complements India’s under-performing manufacturing sector. India’s importance to China is reflected in the over US$22 billion in investments from China that Prime Minister Narendra Modi helped secure during his trip there in May, which was partly designed to help redress India’s trade imbalance with China. Indonesia and South Korea are the only other East Asian economies in India’s top ten import sources in the current FY.

The second largest exporter to India was Saudi Arabia, which exported goods worth US$28.2 billion. The United Arab Emirates (UAE), Qatar, Iraq and Nigeria are also major exporters to India, reflecting India’s high demand for petroleum.

Petroleum: Crude

India’s largest import is crude petroleum, with around US$116.4 billion worth being imported in FY 2015. In the current FY, India became the third largest importer of crude oil, after the U.S. and China. Oil imports for India have been steadily rising in tandem with its growing economy over the past few years. India’s demand for crude petroleum is expected to keep rising in 2015, and may surpass the Chinese demand for oil. Iran’s oil production in April 2015 jumped to its highest level in three years as India imports grew, highlighting how Indian oil demand shapes oil production for major exporters.

Major exporters such as Saudi Arabia, who are trying to consolidate their share of the India market, recognize India’s importance as an oil importer. Industry experts note that Saudi Arabia, for example, is exploring ways to become more price competitive, such as by providing their own tankers in order to make Saudi crude a more attractive option for Indian refiners.

Gold, Pearls, Precious and Semi-precious stones

India’s second largest import is gold, while its third is precious and semi-precious stones. Together, they account for nearly US$57 billion worth of imported goods in FY 2015.

Domestic consumer demand for gold is driven by cultural and economic factors. Many Indians purchase gold for major occasions, such as festivals or marriage ceremonies, because it’s considered auspicious. Meanwhile, many Indians consider gold as one of the safest investment options. Gold is
India Imports and Exports 2015
(USD Billion)

**Top Import Items FY 2015**
- Petroleum: Crude
  - $116.4
- Gold
  - $34.4
- Pearls, precious and semi-precious stones
  - $22.5
- Petroleum products
  - $21.9
- Coal, coke and briquettes
  - $17.7
- Telecom instruments
  - $14.7
- Iron and steel
  - $12.3

**Top Export Items FY 2015**
- Petroleum products
  - $56.7
- Pearls, precious and semi-precious stones
  - $24.6
- Gold, other precious metals and jewellery
  - $13.2
- Drug formulations biologicals
  - $11.2
- RMG cotton including accessories
  - $9.3
- Iron and steel
  - $8.7
- Products of Iron and steel
  - $7.6

**Top Import Source FY 2015**
- CHINA
  - $60.4
- USA
  - $42.4
- SAUDI ARABIA
  - $28.2
- UAE
  - $33
- UAE
  - $26.2
- SWITZERLAND
  - $22.1
- USA
  - $12
- SAUDI ARABIA
  - $11.2
- INDONESIA
  - $14.9
- SINGAPORE
  - $10
- QATAR
  - $9.3
- IRAQ
  - $7.5
- GERMANY
  - $6.7
- NIGERIA
  - $13.7
- SRI LANKA
  - $6.7
- SOUTH KOREA
  - $13.5
- NETHERLANDS
  - $6.3

**Top Export Destination FY 2015**
- CHINA
  - $60.4
- USA
  - $42.4
- UAE
  - $33
- HONG KONG
  - $13.5
- CHINA
  - $12
- SAUDI ARABIA
  - $11.2
- SINGAPORE
  - $10
- UK
  - $9.3
- GERMANY
  - $7.5
- SRI LANKA
  - $6.7
- NETHERLANDS
  - $6.3
also required to sustain jewelry production; jewelry remains one of India’s top exports.

These factors make India the largest consumer and importer of gold in the world. India needs to import gold from China, Australia, South Africa, Russia and the U.S. in order to fulfil its demand. Meanwhile, importing gold has become easier as the Reserve Bank of India (RBI) has liberalized gold import norms.

India imports a high level of pearls, precious and semi-precious stones for the same reasons that make it a major gold importer. Indian consumers see pearls, precious and semi-precious stones as culturally auspicious and a safe investment option. Meanwhile, pearls, precious and semi-precious stones are an important resource for Indian jewelry production.

In 2014, India was the largest importer of rough diamonds in the world. India is considered as one of the global centers of diamond cutting and the Indian government is now planning to establish tax-free economic zones for diamond import and trading in Mumbai.

Telecom Instruments
India is the world’s second largest mobile services market; however, domestic telecom instrument manufacturing is not well established. More than 50 percent of mobile phones sold in India are imported, contributing to imports of telecom instruments reaching US$14.7 billion in 2015. Most domestic Indian telecom companies import from China, including Micromax and Karbonn, who import almost all of their mobiles from China.

The Indian government is trying to incentivize domestic manufacturing of telecom instruments through tax breaks and research and design (R&D) incentives. These developments are starting to make an impact: Micromax and Karbonn are now setting up manufacturing plants in India to avail of these schemes. Meanwhile, the government is also imposing soft trade barriers such as an excise duty of one percent on mobile phones.

India’s Exports in 2015

In the current FY, the U.S. has imported US$42.4 billion worth of Indian products, making the U.S. India’s biggest export market. The second largest export market for Indian goods is the United Arab Emirates, a historical trade route, with India exporting products worth US$33 billion. Saudi Arabia is another major Middle Eastern market for India. EU countries also feature prominently—the UK, Germany and the Netherlands are major markets for Indian products, which may in part be explained by the fact that these countries are among India’s top sources of foreign investment.

Petroleum

In the current FY, India’s largest export has been petroleum products - with the total value of exports reaching US$6.7 billion. India’s oil refining capacity as of April 2014 placed the country fifth worldwide after the U.S., China, Russia and Japan.

While public sector companies are the major players in the oil and gas sector, private companies such as RIL, RPR and Essar are also heavily investing. Investments by private players are driving up India’s oil refining capacity each year. A clear illustration of this is the Jamnagar Refinery, a private sector crude oil refinery owned by Reliance Industries in Gujarat state, India.

Pearls, Precious Stones, Gold and Other Metals

The gem and jewelry sector exports US$24.6 billion a year, according to the latest data. The gems and jewelry sector in India sources, manufactures and processes precious gemstones and metals such as diamonds, other precious stones, gold, silver and platinum. The primary role India performs in this sector is value addition to precious stones and metals.

India is seen as a global hub for the jewelry market due to the availability of relatively low cost and highly skilled labor. The Indian government has subsequently identified the jewelry sector as a focus area for export promotion. According to a report by Research and Markets, the Jewelry Market in India is expected to grow at a Compound Annual Growth Rate of 15.95 percent over the period 2014-2019. Such projections, combined with a healthy business environment supported by investor friendly government policies, have encouraged a number
of recent investments. The most recent high profile investment was the US$180 million stake U.S. private equity (PE) firm Warburg Pincus acquired in Kerala-state based Kalyan Jewelers. In addition, Gemfields, a UK-based multinational, is planning to acquire gemstone mines in Odisha and Jharkhand, while Creador, a multinational private equity firm, recently acquired a US$20.28 million minority stake in PC Jeweller Limited, an Indian company.

**Drug Formulations, Biologicals**

India is among the top six pharmaceutical producers in the world and exports vaccines to around 150 countries. Nearly 70 percent of patients in developing countries receive Indian medicines. There are around 10,500 manufacturing units and more than 3,000 pharmaceutical companies in India.

Several factors make India a successful manufacturer and exporter of pharmaceutical products; manufacturing costs are 35-40 percent lower in India relative to average global manufacturing costs, while the government is easing regulations for pharmaceutical companies. The latter has been outlined in the ‘Pharma Vision 2020’ plan established by the Indian government.

Despite this, the domestic industry has been subject to a number of import alerts from other countries in recent years. These alerts are primarily the result of quality control issues with Indian manufacturing units.

The industry will need to take some precautions to remain competitive, but the Indian government is also taking steps to improve regulations for the industry. To maintain its trade position, the public and private sectors will need to improve quality control mechanisms.

**Stable Trade Environment**

India has been one of the largest importers of crude petroleum in FY 2015. In the same year, India has also been one of the largest exporters of petroleum products. These statistics demonstrate a stable level of trade for the oil industry in India. India enjoys a similar trade dynamic with gold, precious and semi-precious stones – the jewelry sector continues to play a leading role in the global trade. Encouragingly, however, India’s import-export landscape is evolving.

The emergence of high levels of telecom instrument imports show that consumer spending on these electronics continue to grow. Foreign investors that would like to invest in this industry will find high levels of demand, an expanding market and government support. Meanwhile, the high levels of pharmaceutical exports show the emergence of an important industry for the Indian economy. This industry is still growing in the country, but it will only become more competitive as it adopts best in industry practices.

The stability of India’s import-export landscape is encouraging for foreign businesses considering investing in the country. However, investors should plan to monitor the evolving nature of imports and exports in India to understand the direction of India’s economic development.
The Indian government has made efforts to relax regulations for importers and exporters recently. Prime Minister Narendra Modi has pledged to streamline import and export procedures and further revamp laws that may obstruct foreign businesses engaged in importing and exporting. This is partly reflected in the new Foreign Trade Policy 2015-2020, which simplified export schemes in the Single Merchandise Exports from India Scheme (MEIS), Service Exports from India Scheme (SEIS) as well as the new freely transferable duty scrips system. Nevertheless, most basic procedures remain the same.

Imports and exports are governed by the Foreign Trade (Development & Regulation) Act 1992 and India’s Export Import (EXIM) policy. The country’s Directorate General of Foreign Trade (DGFT) is the main governing body responsible for the EXIM policy. First time importers and exporters must register with the DGFT and acquire an Importer Exporter Code Number (IEC), which is done by submitting the Aayaat Niryaat Form (ANF2A) to the nearest regional authority via the DGFT online portal, post or in person. Along with the ANF2A form, the following must also be submitted:

- Two passport-sized photographs of the legally responsible person;
- Permanent account number (PAN) – a ten digit number which can be obtained by submitting an application;
- Current bank account number;
- Banker’s Certificate.

**Import Procedures**

The Indian Trade Classification – Harmonized System (ITC-HS) allows for the free import of most goods without a special import license. However, certain goods that fall under the following categories require special permission or licensing:

- **Licensed (Restricted) Items:** Licensed items can only be imported after obtaining an import license from the DGFT. These include some consumer goods such as precious and semi-precious stones, safety and security products, some agricultural products such as seeds, insecticides, pharmaceuticals and chemicals, and some electronic items.

- **Canalized Items:** Canalized items can only be imported via specified transportation channels and methods, or through government agencies such as the State Trading Corporation (STC). These include petroleum products, bulk agricultural products such as grains and vegetable oils, and some pharmaceutical products.

- **Prohibited Items:** These goods are strictly prohibited from import and include tallow fat, animal rennet, wild animals, and unprocessed ivory.

An importer also has to submit a Bill of Entry, which certifies the description and value of goods entering the country. A Bill of Entry should be submitted with the following:

- The original and duplicate for customs;
- A copy for the importer;
- A copy for the bank;
- A copy for making remittances.
Under the Electronic Data Interchange (EDI), no formal Bill of Entry is required (as it is recorded electronically), but the importer is required to file a cargo declaration after prescribing particulars required for processing of the entry for customs clearance. Bills of Entry can be one of three types:

- **Bill of Entry for Home Consumption** – This form is used when the imported goods clear on payment of full duty. Home consumption means use within India. It is informally known as the ‘white bill of entry’ due to its color.

- **Bill of Entry for Housing** – If the imported goods are not required immediately, importers may store the goods in a warehouse without the payment of duty under a bond and then clear them from the warehouse when required on payment of duty. This will enable the deferment of payment of the customs duty until goods are actually required. This Bill of Entry is printed on yellow paper and is thus often called the ‘yellow bill of entry’. It is also called the ‘into bond bill of entry’ as the bond is executed for the transfer of goods in a warehouse without paying duty.

- **Bill of Entry for Ex-Bond Clearance** – The third type is for ex-bond clearance. This is used for clearance from the warehouse on payment of duty and is printed on green paper.

Payments can be made to member countries of the Asian Clearing Union (excluding Nepal) and in any permitted currency. For all other countries payment can be made in any permitted currency, including Indian Rupees.

**Export Procedures**
The following is required to export from India:

- A PAN based Business Identification Number (BIN) from the DGFT. This must be acquired before filling out a shipping bill or a bill of export for exported goods.
- If exporting by air or sea, a shipping bill must be filled out, or if exporting by road, a bill of export must be completed. These bills contain information relevant to exporting from India, including the name of the exporter, invoice number, consignee, description and quantity of goods, free on board (FOB) value, etc.
- At the same time as submitting a shipping bill/bill of export, other relevant documents must also be provided, including invoices, export contracts, and packing lists.
- A certificate of origin must also be submitted. This is used to verify where goods have been produced.

Goods can be exported freely if they are not mentioned in the classification of ITC (HS). The ITC classification of goods for export is as follows: restricted, prohibited and State Trading Enterprise (STE).

**Restricted Goods**
Before exporting any restricted goods, the exporter must obtain a license explicitly permitting the exporter to do so. The restricted goods must be exported through a set of procedures detailed in the license.

**Prohibited Goods**
These are items which cannot be exported. The vast majority of these include wild animals, and animal articles that may carry risk of infection.

**State Trading Enterprise (STE)**
Certain items can be exported only through designated STEs. The export of such items is subject to the conditions specified in the EXIM policy.

In addition, certain restrictions apply to the import and export of goods from and to certain countries. While most goods can be imported or exported to countries, India has a Most Favored Nation (MFN) agreement, making trade with certain countries prohibited as per UN sanctions or international conventions.

**Mode of payment**
The value of the exported goods is received through a bank in the following ways:

- Bank draft, pay order, banker’s or personal cheques
- Foreign currency notes/foreign currency travellers’ cheques from the buyer during his visit to India.
- Payment out of funds held in the Foreign Currency Non Resident (FCNR) or Non Resident Rupee (NRE) account maintained by the buyer
- International Credit Cards of the buyer.

**Related Reading**
For more information on managing your accounting and bookkeeping in India, please see our related publication on the subject.
Calculating Customs Duties in India

By Tracie Frost
Editor: Adam Pitman

In the early 1990s, India began economic reforms that have made its trade regime increasingly transparent. The reforms have been accompanied by a decline in import tariff rates – from a peak of 350 percent in June 1991 to a current average of 10 percent.

However, India’s tariffs are still relatively high by international standards. High tariffs and import restrictions have constrained foreign firms from selling in India. They have also prevented investors from importing competitively in several industries.

While India has progressively cut duties and taxes, domestic industry still enjoys relatively high levels of protection in several areas. Foreign companies encounter tariff and non-tariff barriers, including a complex tariff regime. Further, the Indian government is not shy about imposing both civil and criminal penalties for not following customs regulations.

Duties Explained

Customs or import duties are levied by the national government when goods are imported into India. There is no de-minimis amount. All goods imported into India are subject to duty. The value of imported goods is said to be the transaction value between parties.

While the basic customs duty rate is 10 percent, additional duties bring the aggregate customs duty up to 29.44 percent in 2015. Rates may vary depending on the classification of goods. As there are thousands of goods that are imported into India, it is not feasible to prescribe rates of duty for each type of merchandise here. However, the basic calculation of import duties is as follows:

**Basic Customs Duty (BCD)**
This duty is levied most commonly ad-valorem, based on the assessed value of the goods. The duty is calculated on the value of the goods plus shipping and insurance charges. In general the BCD rate is 10 percent. For capital goods, the rate is 7.5 percent. For agricultural goods the rate is between 30 percent and 85 percent. Textile rates vary between 10 and 30 percent.

**Countervailing duty (CVD)**
This duty is levied on the assessed value of goods plus basic customs duty. Goods that fall into this category are imported goods that are similar to goods manufactured in India. The tax is levied in lieu of the excise tax that is leviable on goods manufactured in India and is essentially equal to the central excise duty on the goods in question. In general this rate is 12.5 percent. All products imported by Special Economic Zones (SEZ) enjoy zero percent CVD.
Special Additional Countervailing Duty (known as Special CVD)
Special CVD tax is applicable on all items. It is levied at the rate of 4 percent of the basic and the excise duty on all imports in order to countervail the VAT or sales tax on local goods in India. This duty can be refunded to traders who sell imported goods in India after charging VAT/Sales tax.

Anti-dumping Duty
This is levied on specified goods imported from specified countries – including the U.S. – to protect Indian industries. India can impose duties up to, but not exceeding, the margin of dumping, or the difference between the normal value and the export price.

Safeguard Duty
The Indian government may by notification impose a safeguard duty on articles after concluding that increased imported quantities will cause or threaten to cause serious injury to domestic industry. The government has broad authority to set rates for safeguard duties not exceeding the amount which has been found adequate to prevent or remedy ‘market disruption’.

Customs Education Cess
Effective July 2004, India introduced an education cess (duty). The current rate for the Education Cess is two percent with the Higher Education Cess set at one percent of BCD and CVD.

Customs Handling Fee
The Indian government assesses a one percent customs handling fee on all imports in addition to the applied customs duty.

Total Duty
Therefore, for most goods, total duty payable = BCD + CVD + Special CVD + Education Cess + Customs Handling Fee.

As an example, we can examine figures for a company that imported goods worth US $1,000,000 into India. The US $1,000,000 assessed value includes shipping, insurance, and the 1 percent customs handling fee. In general, the customs duty would be calculated as above.

Observations
Customs duty rates are revised in each annual budget in February and are published in various sources; however, there is no single official publication that has all information on tariffs and tax rates on imports. Furthermore, each state has its own taxes on interstate commerce. As civil and criminal penalties for violation of customs regulations are severe, it is recommended that individuals and businesses importing goods into India consult with a professional.

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<td>Value of imported goods (including freight, insurance, and 1% customs handling fee)</td>
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<td>Basis for Calculating CVD</td>
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<td>Secondary Education Cess</td>
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<td>Special CVD</td>
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<td>Total Customs Duty</td>
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Our Global Presence

China
china@dezshira.com

Hong Kong
hongkong@dezshira.com

Indonesia
indonesia@dezshira.com

Malaysia
malaysia@dezshira.com

Singapore
singapore@dezshira.com

The Philippines
philippines@dezshira.com

Thailand
thailand@dezshira.com

Mumbai
mumbai@dezshira.com
+91 22 6700 4843
Regus Dev Corpora 15th Floor, Pokhran Road No. 1
Eastern Express Highway, Thane West
Mumbai, 400601, India

Vietnam
vietnam@dezshira.com

Liaison Office, Germany
germandesk@dezshira.com

Liaison Office, Italy
italiandesk@dezshira.com

Liaison Office, United States
usa@dezshira.com

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