

**Prepared by: Prof. Bimal Jaiswal, Dept. of Applied Economics**

**For the students of B.Com. IV Semester  
Paper: Export Import Procedure & Documentation**

## **Export Oriented Units and Export Processing Zones**

### **Export Oriented Units (EOUs)**

The need for a higher level of technological and industrial progress has made the Government devise a series of export promotion schemes. The Export Oriented Unit Scheme is one of the oldest export promotion schemes of Government of India. This Scheme was introduced on 31st December 1980. The EOU Scheme is often referred to as '100% EOU Scheme' and the Units operating under this Scheme are called '100% EOUs'. During the initial years of the introduction of this Scheme the Units operating under EOU Scheme were required to export 100% of their production. But, nowadays EOUs are permitted to do Domestic Tariff Area sales up to 50% of FOB value of previous year's export after fulfilling certain conditions. During the past 36 years the Government has made many changes in the EOU Scheme to meet the requirements of the ever-changing international scenario.

As per this Scheme the EOUs are provided with certain concessions to equip them to meet the requirements of international market. The EOU Scheme is complementary to the Special Economic Zone Scheme, except that it is widely dispersed in location, unlike Special Economic Zones, which are set up at specific geographic locations. The aim of this Scheme is to encourage exports by creating additional production capacity. Under the EOU Scheme India offers bonded manufacturing facilities for Units doing export-oriented activities. An Export Oriented Unit can get a location of its choice for undertaking export-oriented activity. An EOU can be set up in the manufacturing or service sector. In past few years, Export Oriented Units have evolved as a major player in the country's export effort.

As given in Foreign Trade Policy Document (2015-20), "Units undertaking to export their entire production of goods and services (except permissible sales in DTA) are allowed to be set up under the Export Oriented Units (EOUs) Scheme, Hardware Technology Parks (HTPs) Scheme, Software Technology Parks (STPs) Scheme and Bio-Technology Parks (BTPs) Scheme for manufacturing products, including repair, remaking, reconditioning, re-engineering, rendering of services, development of software, agricultural including agro-processing, aquaculture, animal husbandry, pisciculture, viticulture, poultry and sericulture. Trading units are not covered under this Scheme".

### **Objectives of EOU Scheme**

As per the provisions of FTP 2015-20 the main objectives of the EOU Scheme are as follows:

- To enhance exports

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- To earn foreign exchange to the nation
- To attract investment for export-oriented production
- To facilitate additional employment generation

**Policy for Application, Approval and Renewal of Approval regarding EOUs**

- Firstly, the applications for setting up units under EOU scheme shall be approved or rejected by Units Approval Committee within 15 days, as per criteria indicated and sector specific conditions relating to approval provided in the Foreign Trade Policy Document. In other cases, approval may be granted by DC (Development Commissioner) after clearance by BOA (Board of Approval).
- On approval, a Letter of Permission (LoP)/Letter of Intent (LoI) shall be issued by DC/designated officer to EOU/EHTP/STP/BTP unit. Letter of Permission or Letter of Intent shall have an initial validity of 2 years to help the Unit to construct the plant & install the machinery and by this time the unit should have commenced production. In case the unit is unable to start production in initial validity of 2 years, an extension of one year may be given by the DC for valid reasons to be recorded in writing. Thereafter, the extension of one more year may be given by the Unit Approval Committee subsequently subject to condition that two thirds of activities including construction, relating to the setting up of the Unit are complete and Chartered Engineers' certificate to this effect is submitted by the Unit. Further extension will be granted by the Board of Approval, if deems fit in the light of valid cause. Once unit starts production, the Letter of Permission or Letter of Intent issued shall be valid for a period of 5 years for its activities which can be extended further by DC for 5 years at one time.
- The proposals for establishing EOU with the requirement of industrial licence may be granted approval by DC after clearance of proposal by BOA and Department of Industrial Policy and Promotion within 45 days on merits.
- The Software Technology Parks (STPs) or Electronic Hardware Technology Parks (EHTPs) can be established by Central Government, State Government, Public or Private Sector Undertakings or any combination thereof, duly approved by Inter-Ministerial Standing Committee (IMSC) in Ministry of Communication and Information Technology (Department of Electronics & Information Technology - DeitY). To serve the purpose, the application for setting up EHTP/STP unit shall be given in the format as prescribed by DeitY and shall be submitted to officer as designated by DeitY.
- The Bio-Technology Parks (BTPs) can be set up by Central Government, State Government, Public or Private Sector Undertakings or any combination thereof. To serve the purpose, the applicants need to file an application to the Department of Bio-Technology (DoBT) and such applications which meet guidelines prescribed by DoBT will be approved and recommended to DGFT for notification.
- Letter of Permission or Letter of Intent shall specify item(s) of manufacture or service activity, annual capacity, projected annual export for first five years in dollar terms, Net

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Foreign Exchange (NFE) earnings, limitations, if any, with regard to sale of finished goods and/or by-products and rejects in DTA and such other matter as may be necessary along with imposing such conditions as may be required.

- On completion of approval period, it shall be open to unit to continue under scheme or opt out of scheme. In case the units choose to continue operations, DC will extend approval period. If no intimation in this regard is received from unit within a period of six months of expiry of approval period, DC will take action, suo motu, in order to cancel the approval under EOU scheme and take further action regarding this. In case the units choose to continue after expiry of six months as stipulated above, DC will grant approval to extension after obtaining approval of BOA.

### **Administrative set up of EOU Scheme**

The administration of EOU Scheme is jointly done by the Ministry of Commerce & Industry and the Ministry of Finance. The Ministry of Commerce comprises of Board of Approval, Unit Approval Committee and Jurisdictional Development Commissioner. On the other hand, the Ministry of Finance comprises of Central Board of Excise and Custom Duty for EOUs.

### **Export Processing Zones**

After independence in India as per the first Industrial Policy Resolution, IPR 1948 import-substituting industrialization policy was adopted for all sectors. Under the purview of an ISI policy framework, export promotion had also been a considerable concern of the government. Hence, initiatives have been taken to promote the EPZ as an export platform on the basis of economic incentives, like, the provision of well-developed infrastructure and tax holidays became a feature of Indian development. The first export processing zone in the country was set up in 1965 and it has had four phases in the evolution of the EPZ policy since then.

Following is a brief overview of the evolution of the EPZ policy in India through these phases:

#### **1. Initial Phase: 1965-1984**

The first phase of EPZ development starts from 1965 with a setting up of Kandla Free Trade Zone in a highly backward region of Kutchh in Gujrat as early as in 1965 by the central government. It was followed by the Santacruz export processing zone in Mumbai by central government, which came into operation in 1973. There was however no clarity of objectives that the government wanted to achieve behind setting up of these EPZ, Kandla aimed at only regional development of backward region and Santacruz EPZ was set up with an objective of sector specific development (Electronics). Moreover, an overall inward looking trade policy with higher controls and regulations adversely influenced the EPZ policy. Further, in 1980 the government introduced the Export Oriented Units Scheme (EOU) for setting up of EOUs beyond the boundaries of EPZs.

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### **2. Expansionary Phase: 1984-1991**

To boost-up to exports, the government decided to establish four more zones in 1984. These were at Noida (Uttar Pradesh), Falta (West Bengal) Cochin (Kerala) and Chennai/ Madras (Tamil Nadu). Thereafter, Visakhapatnam EPZ in Andhra Pradesh was established in 1989, however, it could not commence its operations before 1994. All these zones with the exception of Chennai/ Madras were set up in industrially backward regions. The primary objectives of the zones were still not specified and there were no significant changes in other laws and procedures pertaining to the EPZs.

### **3. Liberalization Phase: 1991-2000**

In this phase, wide-ranging measures were taken by the government for revamping and restructuring EPZs also. This phase was thus characterized by the progressive liberalization of policy provisions and relaxation in the severity of controls. The policies in this phase are meant for the simplification of procedures and decentralization. The scope and coverage of the EPZ/EOU scheme was widened in 1992 by permitting the agriculture, horticulture and aquaculture sector units as well. Thereafter, trading, re-engineering and re-conditioning units were also allowed to be set up with effect from the year 1994.

### **4. Transition Phase: 2000 afterwards**

This phase is termed here as a phase of transition because this period has witnessed a major shift in direction, thrust and approach. The SEZ policy was first introduced in 1st April 2000, as a part of the Export-Import (EXIM) policy of India. SEZ is an almost self contained area with high class infrastructure for commercial as well as residential inhabitation so the objective was to provide an internationally competitive environment for exports that would in turn earn precious foreign exchange for India and to provide a stable economic environment for the promotion of export-import of goods in a quick, efficient and hassle-free manner. In this phase the Central govt. established Export Processing Zones at Kandla, Santa Cruz, Cochin, Noida, Falta, Chennai, Vishakhapatnam and Surat (Private Sector Established Zone) were converted into SEZs.

### **Objectives of EPZ Scheme**

- Attracting foreign investment
- Earning foreign exchange
- Generating employment
- Facilitating the transfer of technology
- Upgrading skills