1975 CONSULTATIONS UNDER ARTICLE XVIII:12(b) WITH INDIA

Statement Submitted by India Under the Simplified Procedures for Consultations

I. (a) Legal and administrative basis of the import restrictions

The statutory authority on which the current import controls are based is the Imports and Exports (Control) Act, 1947. Under this Act, the Central Government has notified the Imports (Control) Order No. 17/55 dated 7 December 1955, prohibiting, restricting or otherwise controlling imports.

Schedule I to the Imports (Control) Order, 1955, describes the articles which may be imported under, and in accordance with, the terms and conditions of an import licence or a customs clearance permit granted under the Imports (Control) Order, 1955, by the Central Government. The order exempts from the requirement of obtaining licences or permits for imports:

1. by the Central Government for defence purposes;
2. by the Central and State Governments and government purchase organizations;
3. by persons as passengers' baggage and personal effects, to the extent admissible under the baggage rules for the time being in force,
4. for trans-shipment, or imported and bonded on arrival for export as ships stores or for release for the use of diplomatic personnel, consular offices, officials of the United Nations organizations; and
5. by any person through parcel post, for his personal use, or by any institution or hospital for its own use, up to the value limits specified under the relevant rules.
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, transfer and amendment, suspension or cancellation of licences.

Import control is administered by the Import and 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.

Purpose of import control

1. Conservation of scarce foreign exchange, which is the main purpose of import control, has become all the more imperative in the context of the recent international economic events. From a comfortable balance-of-payments position in 1973-74, India's external transactions showed a substantial and precipitous adverse turn in 1974-75. To protect its balance of payments, India had, therefore, to draw a sum of Rs 2,942 million from the International Monetary Fund in April and May 1974 against her gold and first credit tranche. Towards the end of October 1974, India had to make a further withdrawal of Rs 1,939 million under the IMF 1974 Oil Facility. The total borrowings from the Fund in 1974-75 thus, amounted to Rs 4,881 million. Adjusting for the withdrawals on the IMF, it thus emerges that the external transactions of India in 1974-75 were in a deficit to an extent of Rs 4,619 million.

2. The pressure on India's balance of payments in 1974-75 essentially arose from a sharp rise in the value of her imports. Exports too recorded an encouraging improvement but it was not sufficient to offset the much larger increase in import payments. As a result, the trade deficit soared to a figure of Rs 11,230 million from that of Rs 4,377 million in 1973-74. India's imports went up nearly 50 per cent from Rs 29,209 million in 1973-74 to Rs 43,480 million in 1974-75. The increase occurred mainly on account of a steep rise in the import prices especially of items such as food, fertilizers, POL and non-ferrous metals. Exports increased from Rs 24,832 million in 1973-74 to Rs 32,250 million in 1974-75. The increase of 30 per cent while encouraging by itself, was lower than that of 49 per cent recorded in imports. Food was the only major item which has shown an increase in import volume so that the swelling of the import bill was attributable mainly to price rise. Some of the major items of India's exports, such as tea and jute, did not participate in the commodity boom. There was, thus, a substantial deterioration in the country's terms of trade implying a further erosion of her ability to secure the needed imports from her export earnings.
3. The short-term outlook for India's balance of payments continues to be difficult. India's export growth has already slackened, chiefly as a result of the recession in the developed countries and the prospects are uncertain. At the same time, the likelihood of any substantial fall in our import bill is remote since the prices of the major items of imports such as POL and capital goods may not fall. On current indications, it would also be necessary to continue to import foodgrains for some time. India would, thus, continue to face a sizable trade deficit coupled with adverse terms of trade.

4. Gross aid disbursements rose from Rs 8.493 million in 1973-74 to Rs 10.810 million\(^1\) in 1974-75, but the increase is too meagre relative to that in the import bill. At the same time, debt servicing payments, comprising of re-payments of loans and interest payments, rose from Rs 5,958 million in 1973-74 to Rs 6,018 million in 1974-75 and are expected to show a further increase in the coming year. It is highly unlikely that India's huge trade deficit would be bridged in any significant manner by net aid availability in the coming years.

5. India's foreign exchange reserves at the end of 1974-75 at Rs 9,732 million, though Rs 262 million higher than at the end of 1973-74, were equivalent to about two and a half months' imports only at the rate of imports in 1974-75. In contrast, India's foreign exchange reserves at the end of 1971 and 1972 were adequate to finance over six months' imports while at the end of 1973, they were worth four and a half months' imports. While India shares the decline in import-financing capacity of reserves with most of the oil importing countries, it needs to be stressed that our reserve requirements are larger than those of other developing countries. The weather conditions from year to year have a direct impact on major sector of her economy, namely, agriculture. Since decline in agricultural output requires expenditure of substantial amounts of foreign exchange on food imports required to make good the shortage in domestic supplies currently due to the heavy running down of foodgrain stocks, and the high prices of foodgrains abroad, our present holdings of foreign exchange may, in fact, be considered as precariously low. India would thus have to continue a policy of conserving her foreign exchange reserves.

6. Further, India is one of the countries recognized by the United Nations as the most seriously affected developing countries (MSACs). The international community has recognized that there should be a considerable increase in the flow of concessionary assistance to the MSACs so as to enable them to maintain unimpaired their essential imports and for assisting them to rejoin the mainstream of economic development. However, the actual assistance under the schemes specifically designed to assist the MSACs has not been up to the needs so that most of these countries had to make substantial borrowings from the International Monetary Fund. These amounts would have to be repaid within a period of

\(^1\) Provisional
seven years. With a substantial price rise of POL, the ability of the MSACs to finance their other items of essential imports has considerably been eroded. As is now widely recognized, the import financing capacity of MSACs like India would thus essentially depend on the volume of concessionary assistance which is made available to them both bilaterally and multilaterally. The import control policy of the MSACs would thus be conditioned by the magnitude of such concessionary assistance.

7. From the above it will be clear that India's manoeuvrability on the balance-of-payments front has become considerably constrained. Import control has thus to be adapted suitably for safeguarding the balance-of-payment position and at the same time giving priority to (i) imports required for the development of the economy and (ii) meeting the essential maintenance requirements.

8. The import control policy is formulated by the Ministry of Commerce in consultations with other ministries and technical advisers. The views of industry and trade are also taken into account in formulating the export policy.

Categories of importers

9. For the purposes of licensing, importers are classified into the following broad categories:

   (i) Established importers.

   (ii) Actual users:
         (a) Industrial
         (b) Services (i.e., non-industrial)
         (c) Hospitals and institutions.

   (iii) Registered exporters to whom licences are granted under the import policy for registered exporters.

   (iv) Others.

   The applications for licences are considered in terms of the current policy.

10. Licences granted to established importers are for imports of commodities for stock and sale purposes. Actual users are those who require raw materials, components, accessories, machinery or spare parts for their own use in any industrial manufacturing process. Other importers include (i) wholesale and central stores of the government, (ii) government departments, and (iii) educational and research institutions.
11. The import control procedures are set out in the handbook of rules and procedures and in the annual import control policy book published by the Ministry of Commerce. Through public notices, the trading and business community is informed, from time to time, about the changes, if any, in the licensing policy relating to the particular commodities and in the rules and procedures.

II. Methods of application of import restrictions

12. Imports are regulated through annual import policies. The import policy for the financial year 1975-76 has been framed keeping in view the main objectives, namely, to step up industrial production both for domestic and export markets and to eliminate delays in providing import licences.

Liberalized imports

13. Imports of a number of commodities do not need import licences. In this regard there are open general licences in force permitting imports of free gifts of books up to a specified value, bonafide samples, blue prints and drawings relating to machines and plant sites and goods supplied free of charge in replacement of those earlier imported but found defective or unsuitable for use. Imports of certain tanning materials and raw pickle hides and skins are also allowed under Open General Licence.

14. In other cases imports are governed by individual licences. Licences are given to (i) established importers on the basis of quotas expressed as a percentage of their imports in the past in a base year selected by them, (ii) actual users for their industrial requirements, (iii) registered exporters in order to replenish the import content in the product exported and (iv) other importers such as actual users (non-industrial), public sector undertakings etc., requiring imports for their use.

Select industries

15. In order to help production in important sectors of economy, certain industries have been selected for a more liberalized treatment in the matter of imports of raw materials and components. A list of select industries is given in Annexure II.

Automatic licensing

16. A major simplification has been introduced for the import of raw materials and components by industrial units. A system of automatic licensing has been evolved. It enables all industrial units to apply for import of raw materials and components based on their actual consumption in the previous year and the value of licences issued in that year. Applications for such automatic licences can be made direct to licensing authorities without routing them through the sponsoring authorities.
17. Apart from the automatic licences, the industrial units in the select list will also be granted supplementary licences for import of raw materials and components for fuller utilization of installed capacity.

18. Actual users in the select list of industries have also been allowed to import against their raw material licences, within specified value limits item required by the industry which are not figuring in the licences and are not normally permissible for imports without specific clearance. This facility has been given to enable the industry to improve the quality of its products.

Spare parts

19. The policy for import of spare parts required for maintenance of machines has been substantially liberalized. Licences issued for import of spare parts have been made valid for all the spare parts that a unit would need to import except that the parts produced indigenously will be allowed within a specified value limit.

20. A separate policy has been formulated for import of raw materials and components required to replenish the import content in export products.

21. Industrial units which export 20 per cent or more of their production have also been made eligible to claim imports of raw materials and components as if they belong to the list of select industries.

22. Import replenishment licences are normally issued after the exports have been made. There is, however, a scheme of issuing advance licences for import of raw materials and components to enable manufacturer-exporters to import goods required for execution of specified export orders. In 1975-76 a scheme of automatic imprest licensing has also been introduced. An imprest licence is like an advance licence but it is not confined to any specific export order. The intention is to enable manufacturer-exporters to make timely imports in advance in order to organize exports according to phased programmes.

Capital goods

23. Import of capital goods is allowed for setting up new industries or for expansion or modernization of existing industries and also for replacement and balancing purposes. Exporters have also been permitted to utilize a part of their import replenishment entitlement for the import of capital goods, jigs, tools, instruments and packing equipment.
Import for small scale sector

24. A special assistance is rendered to the units in the small scale sector. The import procedures in their case have been further simplified in order to avoid multiplicity of import applications. Also import licences are issued to such units largely against payment in free foreign exchange so that the units do not face difficulties in locating sources of supplies abroad.

25. The Government of India have signed trade agreements with a number of countries for bilateral trade interests. Also, special payments and trade arrangements have been concluded with certain countries.

State trading and government purchases

26. In order to derive advantage of bulk purchases, imports of certain commodities are canalized through public sector agencies. The imported materials are distributed to actual users according to their import requirements as determined on the basis of the import policy in force. In several cases where the individual's requirements are of a substantial quantity, the public sector agencies allow the facility of letter of authority being granted to the individual user to make direct imports even in respect of an item otherwise canalized for import. Purchases on government account and by the public sector agencies are guided by normal commercial considerations, such as price, quality and profitability. An entirely non-discriminatory policy is followed by these organizations, subject only to constraints imposed by foreign exchange availability and the conditions attached to external assistance. State trading or government monopoly is not used as a measure to restrict imports for balance-of-payments reasons.

Simplification of procedures

27. Procedures for the grant of import licences have been further rationalized and simplified. In particular:

(i) Certain stages which were involved in the processing of applications have been eliminated. For example, actual users and registered exporters have been allowed to obtain automatic licences and imprest licences directly from the licensing authorities concerned without the intervention of any other authority. All existing licences issued for import of raw materials and components against General Currency Area or Rupee Payment Area which were having an initial validity period of eighteen months have been extended by six months automatically without the licence-holders having to approach the licensing authorities for revalidation of such licences.
(ii) Powers have been delegated to the field organizations to deal with cases at their own level thereby avoiding centralization of authority.

(iii) Licensing forms have been simplified by eliminating therefrom columns which were irrelevant or cumbersome.

ANNEX

I. India's Foreign Exchange Reserves 1969-70 to 1974-75.

II. List of "Select Industries".


IV. Import Showing the Break-up With Major Headings During the Years 1970-71 to 1973-74 and April to September 1974.
## ANNEX I

### India's Foreign Exchange Reserves

(Rupees million)

<table>
<thead>
<tr>
<th>End of year</th>
<th>Gold and foreign exchange</th>
<th>SDRs</th>
<th>Total reserves</th>
<th>Variations in reserves</th>
<th>Accruals of fresh SDRs</th>
<th>Variations in reserves excluding fresh accruals of SDRs (5-6)</th>
<th>Net drawings from (+) repayments (-) of IMF</th>
<th>Variations in reserves gross of transactions with IMF (7-8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-70</td>
<td>7,289</td>
<td>920</td>
<td>8,209</td>
<td>2,442</td>
<td>945</td>
<td>1,497</td>
<td>-1,254</td>
<td>2,751</td>
</tr>
<tr>
<td>1970-71</td>
<td>6,206</td>
<td>1,117</td>
<td>7,323</td>
<td>-886</td>
<td>754</td>
<td>-1,640</td>
<td>-1,763</td>
<td>123</td>
</tr>
<tr>
<td>1971-72</td>
<td>6,629</td>
<td>1,858</td>
<td>8,487</td>
<td>1,164</td>
<td>747</td>
<td>417</td>
<td>--</td>
<td>417</td>
</tr>
<tr>
<td>1972-73</td>
<td>6,614</td>
<td>1,849</td>
<td>8,263</td>
<td>-24</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>1973-74</td>
<td>7,633</td>
<td>1,837</td>
<td>9,470</td>
<td>1,007</td>
<td>--</td>
<td>1,007</td>
<td>626</td>
<td>381</td>
</tr>
<tr>
<td>1974-75(P)</td>
<td>7,933</td>
<td>1,799</td>
<td>9,732</td>
<td>262</td>
<td>--</td>
<td>262</td>
<td>4,881</td>
<td>-4,619</td>
</tr>
</tbody>
</table>

*Between 20 December 1971 and June 1972 the rupee equivalent of foreign currencies, other than the Canadian dollar, was derived from central rates. Canadian dollars were valued at the monthly average of spot buying and selling rates in New York. From July 1972 onwards sterling has been valued at the average of spot buying and selling rates of the Reserve Bank of India; other foreign currency balances including holdings of Canadian dollars, have been converted into rupees on the basis of cross rates based on monthly averages of spot buying and selling rates in London up to April 1974 and on the basis of the average of spot buying and selling rates in London from May 1974. Gold and SDRs, however, have been valued throughout at their pre-December, 1971 rupee prices.

*Includes outlay for purchase of gold abroad for gold quota payments to the IMF.

(P) Provisional.
ANNEX II
List of "Select" Industries

1. Iron and steel industries engaged in the production of the following:

   (a) Sponge iron
   (b) Pig iron
   (c) Steel ingots
   (d) Rolled/rerolled steel
   (e) Steel wires
   (f) Tin plates
   (g) Hardened and tempered steel strips
   (h) Ferro alloys
   (i) Ferrous castings
   (j) Ferrous forgings
   (k) Structural steel fabrication
   (l) Steel pipes and tubes
   (m) Steel wire ropes

2. Non-ferrous metals and their alloys

3. Boilers and steam generating plants including spare parts and components thereof

4. Prime movers including spare parts and components thereof

5. Electrical equipment including spare parts and components thereof

   (a) Equipment for generation, transmission and distribution of electricity, including transformers
   (b) Electrical motors
   (c) Electrical lamps
   (d) Electrical furnaces
   (e) Electrical cables and wires
   (f) X-ray equipment
   (g) Electronic equipment
   (h) Storage batteries
   (i) Dry cells

6. Telecommunications including spare parts and components thereof

   (a) Telephones
   (b) Telegraph equipment
   (c) Wireless communication apparatus
   (d) Radio receivers up to Rs. 225 in value
   (e) Teleprinters
7. Transport equipment including spare parts and components thereof
   (a) Aircrafts
   (b) Ships and other vessels drawn by power
   (c) Railway locomotives
   (d) Railway rolling stock
   (e) Buses, trucks, motor cycles, scooters
   (f) Automobile ancillaries
   (g) Bicycles
   (h) Others, such as fork lift trucks and the like

8. Industrial machinery, including ball, roller and taper bearings, speed reduction units and grinding wheels and abrasives including spare parts and components thereof

9. Machine tools, including spare parts and components thereof

10. Agricultural machinery and implements, including spare parts and components thereof

11. Earth moving machinery including spare parts and components thereof

12. Other mechanical and engineering industries including spare parts and components thereof
   (a) Hand tools
   (b) Welding electrodes
   (c) OTS cans
   (d) Industrial fasteners

13. Commercial and other equipment including spare parts and components thereof
   (a) Computers
   (b) Typewriters
   (c) Sewing machines and needles
   (d) Hurricane lanterns

14. Medical and surgical equipment and appliances including spare parts and components thereof

15. Industrial instruments including spare parts and components thereof

16. Scientific equipment and instruments, nuclear equipment, including spare parts and components thereof
17. Fertilizers (nitrogenous, phosphatic and potassic)

18. Chemicals

(a) Inorganic heavy chemicals
(b) Organic heavy chemicals
(c) Fine chemicals including photographic chemicals
(d) Synthetic resins and plastics
(e) Paints, varnishes and enamels
(f) Synthetic rubbers
(g) Coke-oven by-products
(h) Coal tar distillation products like naphthalene, anthracene and the like
(i) Explosives including gun powder and safety fuses
(j) Insecticides, fungicides, weedicides and the like
(k) Textile auxiliaries
(l) Sizing materials including starch

19. Oil exploration production and refining

20. Industrial gases

21. Dyestuffs

22. Drugs and pharmaceuticals

23. Pulp and paper, including paper products

24. Tyres, tubes and tyre cord

25. Leather and leather goods, including leather footwear

26. Glass

27. Ceramics:

(a) Firebricks
(b) Refractory
(c) Furnace lining bricks and insulators

28. Cement, including asbestos cement and its products

29. Graphite electrodes and anodes
**ANNEX III**

Imports, Exports (Including Re-exports) and Balance of Trade During the Years 1968-69 to 1973-74 April-January, 1974, and April-January, 1975

(Value in Rs Million)

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports (including re-exports)</th>
<th>Balance of Trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1968-69</td>
<td>19,090</td>
<td>13,580</td>
<td>- 5,510</td>
</tr>
<tr>
<td>1969-70</td>
<td>15,820</td>
<td>14,130</td>
<td>- 1,690</td>
</tr>
<tr>
<td>1970-71</td>
<td>16,340</td>
<td>15,350</td>
<td>- 990</td>
</tr>
<tr>
<td>1971-72</td>
<td>18,250</td>
<td>16,080</td>
<td>- 2,170</td>
</tr>
<tr>
<td>1972-73</td>
<td>18,670</td>
<td>19,710</td>
<td>+ 1,040</td>
</tr>
<tr>
<td>1973-74</td>
<td>29,250</td>
<td>25,335</td>
<td>- 4,016</td>
</tr>
<tr>
<td>1974-75†</td>
<td>43,486</td>
<td>32,530</td>
<td>-10,956</td>
</tr>
</tbody>
</table>

†Figures are provisional and subject to revision.

**Source:** Monthly Statistics of the Foreign Trade of India Vol. I and II published by the Director General of Commercial Intelligence and Statistics, Calcutta.
### ANNEX IV

Import Showing the Break-up into Major Heads during the Years 1970-71 to 1974-75 (up to September, 1974)  
(Value in Rs Million)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Complete machinery and equipment</td>
<td>1,951</td>
<td>1,994</td>
<td>1,764</td>
<td>2,639</td>
<td>1,361</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1,951</td>
<td>1,994</td>
<td>1,764</td>
<td>2,639</td>
<td>1,361</td>
</tr>
<tr>
<td>2.</td>
<td>Maintenance imports</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>(a) Raw materials, intermediate goods (including metals)</td>
<td>9,208</td>
<td>11,181</td>
<td>11,097</td>
<td>16,868</td>
<td>13,049</td>
</tr>
<tr>
<td></td>
<td>(b) Components and spares</td>
<td>2,128</td>
<td>2,833</td>
<td>3,323</td>
<td>3,818</td>
<td>1,905</td>
</tr>
<tr>
<td></td>
<td>Total (a) and (b)</td>
<td>11,336</td>
<td>14,014</td>
<td>14,420</td>
<td>20,686</td>
<td>14,954</td>
</tr>
<tr>
<td>3.</td>
<td>Food, cereals and edible products</td>
<td>2,427</td>
<td>1,693</td>
<td>1,283</td>
<td>5,288</td>
<td>2,715</td>
</tr>
<tr>
<td>4.</td>
<td>Essential finished goods</td>
<td>381</td>
<td>420</td>
<td>381</td>
<td>472</td>
<td>279</td>
</tr>
<tr>
<td>5.</td>
<td>Unclassified items (including postal articles and special transactions)</td>
<td>246</td>
<td>125</td>
<td>119</td>
<td>125</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>Grand total</td>
<td>16,342</td>
<td>18,245</td>
<td>18,671</td>
<td>29,209</td>
<td>19,330</td>
</tr>
</tbody>
</table>

1/ Figures are provisional.