

EXPORT ORIENTED UNITS



INTRODUCTION

EOU (export oriented unit) scheme is one of the export promotion schemes of Govt of India and is in existence since 1980.

- ▶ Under this scheme, manufacturing or service sector units are allowed to be set up with the objective of exporting entire production of goods manufactured or services except permissible sales in DTA.
- ▶ Sector specific EOU schemes are STP scheme for export of software, EHTP for export of electronic hardware, BTP for export of bio technology products.
- ▶ As compared to SEZs, it offers a **wide options in locations** with reference to factors like source of raw material, ports of exports, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project.

- EOU unit can export all goods and services except items that are prohibited in ITC(HS). Export of special chemicals, organism, material, equipments, technologies shall be subject to fulfillment of conditions indicated in ITC(HS).

Trading units are not permitted to be set up under EOU scheme.

MAJOR SECTORS IN EOUs

EOU can engage in manufacturing, services, development of software, repair, remaking, reconditioning, re-engineering which includes:

- Granite
- Textiles/ garments
- Food processing
- Chemicals
- Computer software
- Pharmaceuticals
- Gem and jewellery
- Engineering goods
- Electrical goods
- Agriculture, agro processing, aquaculture, animal husbandry, floriculture, horticulture, bio-technology, pisciculture, viticulture, poultry, sericulture.



OBJECTIVES OF EOUs

- ❑ Boosting exports
- ❑ Earning foreign exchange
- ❑ Attracting foreign investment
- ❑ Generating employment
- ❑ Backward and forward linkage by way of sourcing of raw material from and supply of finished goods to DTA.
- ❑ Attracting latest technology to the country
- ❑ Upgrading the skills and creating source of skilled man- power
- ❑ Development of backward area.

FACILITIES/INCENTIVES AVAILABLE TO EOU

- An EOU unit may import, without payment of duty, all types of goods including capital goods **required by it for its activities**, provided they are not prohibited items of imports in the ITC(HS).
- It can procure from DTA, without payment of central excise duty, **specified goods for creating central facility for use by software development units**.
- EOUs are eligible for **reimbursement of GST**.
- EOUs are eligible for reimbursement of duty paid on fuels procured from domestic oil companies.
- EOUs are eligible for **claiming Input tax credit** on the goods or services and refund thereof;
- **Exemption from industrial licensing** for the manufacture of items reserved for SSI sector .
- Supplies by DTA manufacturer are eligible for **deemed export benefits** which include refund of excise duty and duty free imports to the DTA supplier.
- Full reimbursement of central sales tax on goods purchased from DTA for **manufacture of goods for exports**.

- Import and export of goods including precious goods permitted through personal carriage and foreign post office.
- **FDI upto 100% permitted** as per the guidelines of Dept. of Industrial Policy and Promotion.
- Software units are allowed to use computer systems for training purposes (including commercial training).
- EOUs are allowed to install one fax machine and two computers outside the bonded area of unit.

Besides incentives, some limitations are:

- ❖ No income tax exemption available to EOUs.
- ❖ EOUs are not exempted from payment of service tax, however CENVAT credit is allowed for service tax paid.

Arms and
ammunition,
defense aircrafts
and warships

Explosives and
allied items of
defense equipment
and atomic
substances

Need for special license for EOU

Alcoholic drinks

Cigarettes and
manufactured
tobacco substitutes

Hazardous
chemical
substances

- ▶ EOU basically function under the administrative control of the **Development Commissioner of SEZ**.
- ▶ **MINIMUM INVESTMENT CRITERION:** The project must have a minimum investment of **Rs.1 crore in plant and machinery**. This condition doesn't apply to STP, EHTP, BTP. Further, EOU involved in handicrafts, agriculture, animal husbandry, handmade jewellery, etc. does not have any minimum investment criterion.
- ▶ **EOUs Obligations:** The EOUs are required to achieve the minimum NFEP and minimum EP as per the provisions of EXIM policy which vary from time to time and sector to sector.
- ▶ **Location:** EOUs can be set anywhere in the country, but where the population is more than one million such as Bangalore, it should be set at least 25 km away from the Standard Urban Area limits of that city, unless it is to be located in an area designated as an "Industrial Area".

- ▶ **Bonding period of EOU:** As per the EXIM Policy, the period of bonding is initially for five years which is extendable to the another five years by the DC or on request by EOU unit by Commissioner/Chief Commissioner of Customs.
- ▶ **Obtaining EOU status:** A Letter of Permission(LOP) is given by DC to set up EOU or for conversion of existing DTA unit into an EOU which have an initial validity of 2 years and could also get an extension for a period of upto one year.
- ▶ **Exit from EOU scheme:** An EOU may opt out of scheme with the approval of DC. In case the unit has not achieved obligations, it shall be taxable to a penalty of Excise and Custom Duties and industrial policy in force at the time of exit.