

Chapter 1: Introduction

'Project Imports' is a scheme of Government of India to facilitate setting up of or substantial expansion of industrial plants, by facilitating imports of capital goods and related items required for these industrial projects. The scheme seeks to achieve the objective of smooth and quick assessment of imports by providing for a simplified process of classification and valuation. Under this scheme all goods imported for a project are classified under one chapter heading 9801 of the Customs Tariff Act, 1975 and are assessed at a uniform customs duty rate even though other headings may cover these goods more specifically.

An industrial plant has been defined under the scheme as an industrial system designed to be employed directly in the performance of any process or series of processes necessary for manufacture, production or extraction of a commodity. However, it does not include establishments designed to offer services of any description such as hotels, hospitals, photographic studios, photographic film processing laboratories, photocopying studios, laundries, garages and workshops. The scheme is available to projects falling under following sectors:

1. Industrial plant
2. Irrigation project
3. Power project
4. Mining project
5. Oil/ Mineral exploration project
6. Any other projects notified by the Central government

1.1 Statutory Provisions

The scheme of project imports is governed by the following:

1. Customs Tariff Heading (CTH) 98.01 and Chapter Note to Chapter 98 of the Customs Tariff Act, 1975;
2. Project Import Regulations, 1986 (PIR, 86), notified in April 1986 in supersession of PIR 1965;
3. General Exemption Notification No. 12/2012-Customs, dated 17 March 2012 providing for concessional rate/exemption from basic customs duty (BCD) and additional duties of customs (CVD) on goods imported under CTH 98.01, subject to with or without conditions, as specified against each entry;
4. Notification No. 21/2012-Customs, dated 17 March 2012 for exemption from payment of Special Additional Duty of customs for certain specified Project Imports, as amended from time to time;

5. Projects notified by Government for benefits under the Scheme by issuing specific notifications;
6. Circulars issued from time to time by the Central Board of Excise and Customs (CBEC).

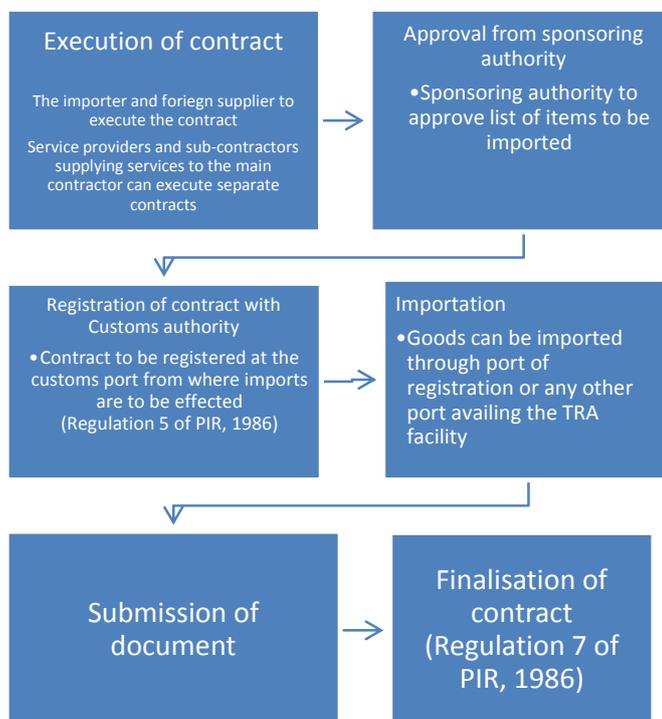
1.2 Process of registration, importation, assessment and clearance of goods under Project imports

The implementation of the scheme is governed by regulations 1 to 7 of PIR, 1986. Project Import Scheme applies only to projects sponsored by specified sponsoring authorities with a detailed itemized list of goods to be imported duly attested by the sponsoring authority and imported under contracts registered prior to the import of the goods. The Sponsoring Authority has been defined under PIR, 1986 and depending upon the nature of the project, different Ministries of Central Government/Departments of State Government have been specified as sponsoring authority.

A project import contract becomes eligible for registration only after the sponsoring authority approves of the project. A contract can be further divided into sub-contracts and registered separately with customs authorities. In other words, under a project import scheme, there could be several sub-contracts.

Flow chart given below provides an overview of the implementation of the scheme.

Figure 1: Flow chart – Implementation of Project Import Scheme



A gist of regulations pertaining to eligibility, registration, importation, reconciliation of goods imported, Plant Site Verification (PSV) and finalisation of assessment/contract procedures is provided in **Appendix 1**.

1.3 Trend of contracts registered and value of contracts

Number of contracts registered under Project Imports and value of contracts registered during FY 12 to FY 16 have shown a declining trend.

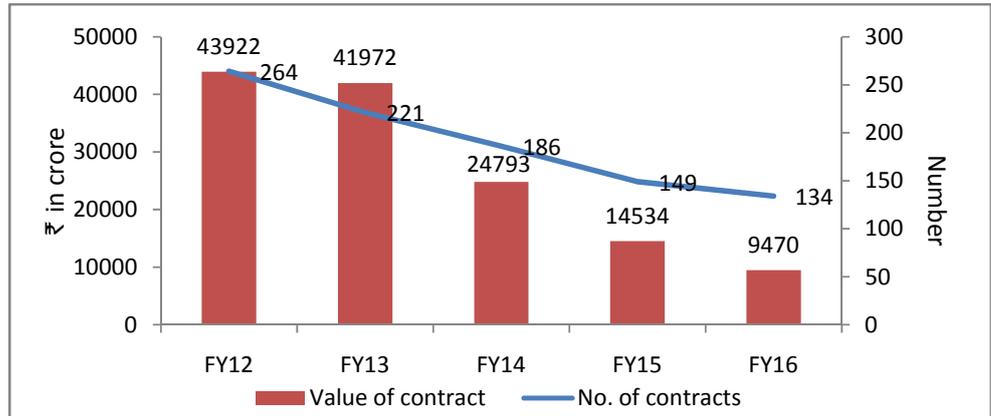
In the last 5 years the number of contracts registered has declined by 49 per cent from 264 in FY12 to 134 in FY16.

Table 1: Number of contracts registered in the last five years

Year	Number of contracts registered
2011-12	264
2012-13	221
2013-14	186
2014-15	149
2015-16	134

Source: CBEC (DGPM)

Figure 2: No. of Project Import contracts and registered value (in ₹ crore)



Source: CBEC (DGPM)

The declining trends indicate that importers may not be resorting to the scheme due to other schemes like EPCG/ Zero duty EPCG for import of capital goods which have been introduced subsequent to Project Imports, under which importers might be availing similar or more benefits. In addition, the fact that overall the custom duty rates have been rationalised and peak duty rates are at an average of 10 per cent, the benefits from project import may not seem very advantageous to the importers.

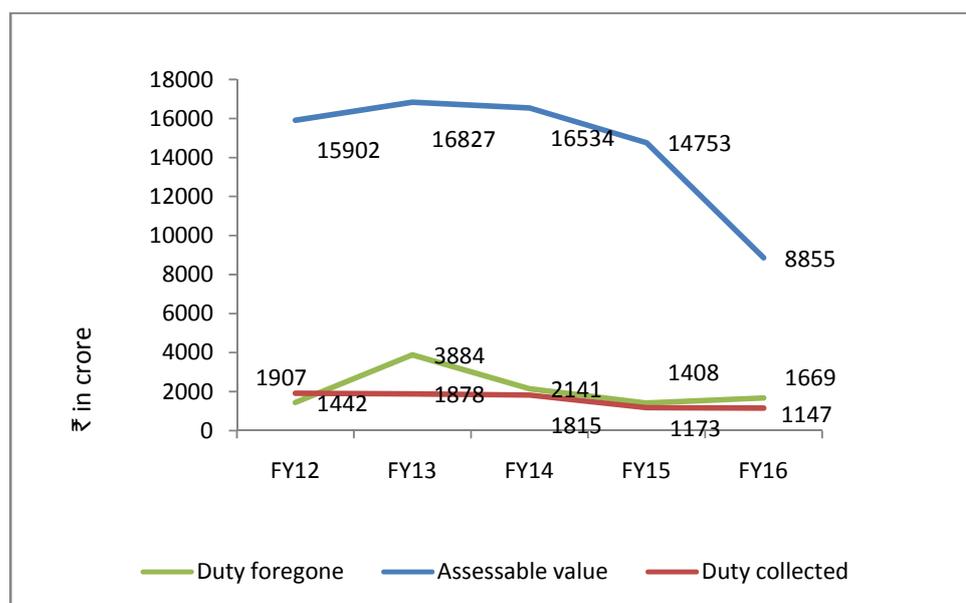
1.4 Customs Revenue under the Scheme

As per Directorate General (Systems and Data Management), the total Customs revenue collected between FY 2012 to FY 2016 under the scheme

was ₹ 8,089.68 crore in 50 EDI ports. However, revenue collected under project imports declined by 40 per cent in 2015-16 from 2011-12. As a percentage of total revenue collected, project imports contribution has been less than 3 per cent over the five years' period under audit review (**Appendix 2**).

Total revenue foregone under the scheme during FY12 to FY 16 was ₹ 10,545.30 crore.

Figure 3: Trends in assessable value, duty collected and duty foregone



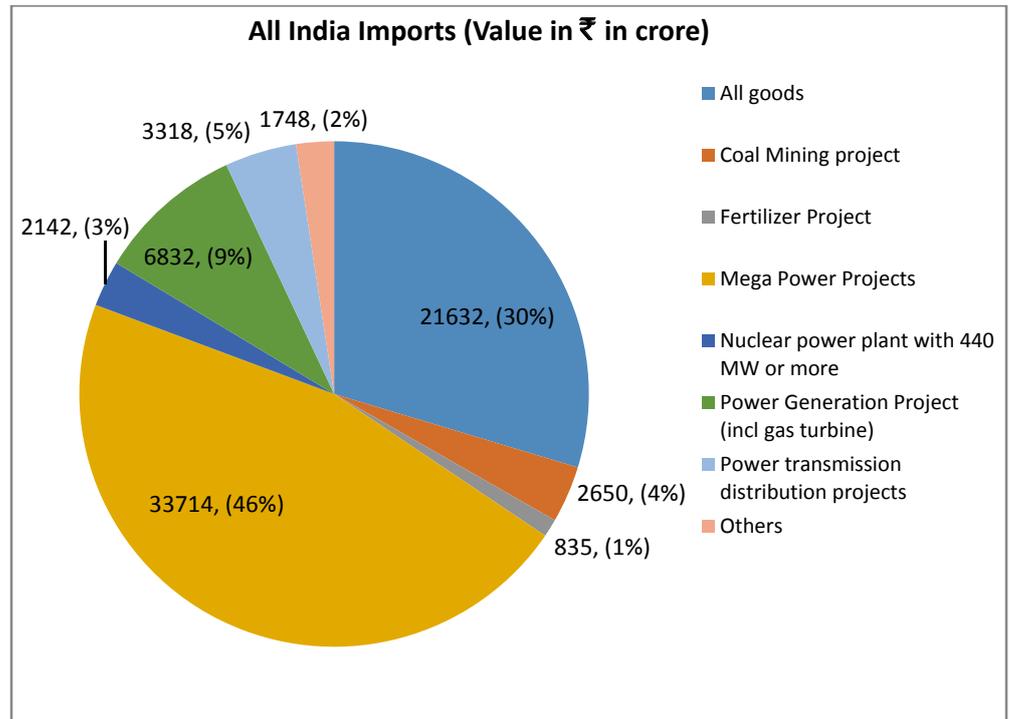
Source: DG (Systems) and CBEC (DGPM), New Delhi

Out of 50 ports, Mumbai Sea, Chennai Sea, Kolkata Sea and Nhava Sheva Sea contributed 71 per cent revenue (₹ 5,708.04 crore) during the period and the remaining 46 ports contributed 29 per cent (₹ 2,381.64 crore).

1.5 Sector wise Project Imports

Data available from DG (System) has been analysed to show sector-wise bifurcation of imports under the scheme. Sector-wise Imports during FY 12 to FY 16 is given in Figure 4 overleaf.

Figure 4: Sector-wise Imports during FY 12 to FY 16



Source: DG (System)

In terms of sector wise value of imports, power sector projects, had the largest share of project imports among all the sectors eligible for project imports. Within power sector, highest value of imports were in the mega power projects followed by power generation projects, power transmission and distribution projects and nuclear plant projects respectively. All goods, which refer to categories of plant and machinery other than those under sectors specified in the exemption notification, were the second largest category of project imports. Other significant sectors which included coal mining projects and fertiliser projects (**Appendix 2**).

