

Executive Summary

'Project Imports' is a scheme of Government of India to facilitate setting up of or substantial expansion of industrial plants¹, 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. The scheme is available to projects falling under specified sectors like, industrial plant, irrigation project, power project, mining, and oil/ mineral exploration project.

The scheme of project imports is mainly governed by the Customs Tariff Heading (CTH) 98.01 and Chapter Note to Chapter 98 of the Customs Tariff Act, 1975; Project Import Regulations (PIR), 1986; General Exemption Notification Nos. 12/2012-Customs and 21/2012-Customs dated 17 March 2012.

There has been simplification/revision in duty structure during last 15 years and lesser rate of duty in categories of goods required for setting up of an industrial plant or project. Also schemes such as EPCG/Zero duty EPCG and other trade promotion measures have been introduced subsequent to Project Imports providing similar kinds of benefits for capital goods for manufacturer-exporter.

There is decelerating trend in the number of contracts registered and revenue generated from FY 12 to FY 16. During these years, the percentage of new contracts registered under the scheme has come down by 49 per cent and revenue from project imports has declined by about 40 per cent. During FY 12 to FY 16, power sector projects had the largest share of project imports among all the eligible sectors.

In 2016, a performance audit of the Project Import scheme was conducted covering a period of previous five financial years, i.e. FY 12 to FY 16. The performance audit sought assurance that adequate statutory provisions exist to support simplified procedures for project imports, there was compliance with procedural requirements, scheme succeeded in providing mechanisms

¹An 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.

for trade facilitation and monitoring, coordination and internal controls were adequate and effective.

Key findings from the performance review are highlighted in subsequent paragraphs.

Adequacy of Rules and Procedures

A review of the existing legal provisions of the scheme reveals considerable ambiguities in the scheme due to later notifications and amendments. Thus, the assessments are being done in an inconsistent manner leading to under/over valuations and incorrect levy of duty. Lack of appropriate provisions in the regulations to monitor completion of imports have resulted in many projects lingering for indefinite periods, and undue advantage of concessional imports being extended to importers even after the commencement of projects. There are multiple sponsoring authorities for a single project without clear administrative responsibilities for monitoring completion of projects and whether the projects for substantial increase in capacity have achieved their objective.

Compliance to Rules and Procedures

Performance audit has brought forth numerous instances of weak or incorrect compliance to the existing provisions. Contracts were finalised even in the absence of requisite documents, contracts for substantial expansion of project were allowed without actual verification of the expansion of capacity, and inadmissible imports and undedicated goods were allowed under project imports. Audit noticed several instances of imports of spare parts much in excess of the prescribed ceiling and application of incorrect rates of duty and interest.

Facilitation of imports under Project Imports

Audit examined aspects of trade facilitation like dwell time² of cargo, documentation requirements, time taken in finalisation of assessments and contracts and transaction costs³. Audit found instances of delay in clearance of cargo at some of the major ports with delays upto 297 days in some cases. Examination of documentation requirements revealed that multiple documents were required to be submitted by importers and that in several cases importers had not submitted the documents or had submitted the same with delays. Although the time prescribed for finalisation of provisional assessments by the Commissionerates was three months, audit found many cases of delay especially when the imports were effected from ports other

² Dwell time is the measure of the time elapsed between the arrival of goods in the port and their final clearance.

³ Transaction cost includes differential cost of credit at international and domestic rates, costs due to procedural delays and costs of transportation delays.

than the port of registration. It was estimated that transaction costs were 5-14 per cent of total imports under the scheme.

Monitoring, coordination and internal control

Even though the Customs Department has computerised its operations through the EDI system, the performance audit revealed that no steps have been taken to integrate the Project Import scheme within the EDI system. The system does not capture complete data regarding project import transactions. Consequently, it is almost impossible to have a complete overall picture of all the imports being effected under the projects registered under the scheme, besides making the monitoring of the scheme highly cumbersome and dependent on manual interventions. Audit found instances of incomplete or non-existent records and reports and missing files pertaining to ongoing contracts which indicated a weak internal control.

This performance audit has revenue implication of ₹ 1,822 crore, in addition systemic issues worth ₹ 203 crore which could not be recovered due to inconsistency and ambiguity in the existing regulations and rules besides internal control matters which could not be quantified.

There are nine recommendations in this performance audit report, out of which the Ministry has accepted eight recommendations. The recommendations and Ministry's responses are listed below.

Summary of recommendations

1. *Audit recommends that the Ministry, after reviewing the existing statutory provisions and rulings of the apex court on this issue remove the inconsistency in the provisions for assessment under project imports by issuing appropriate instructions.*

The Board stated that they are considering withdrawal of the circular dated 8 August 1987.

2. *Audit recommends that the Ministry may consider amending the PIR 1986, to provide for the condition of time bound completion of imports to be incorporated in the contracts registered under Project Import scheme.*

The Board stated that they were considering a time period of three years extendable by two years for completion of imports under Project Imports in consultations with other ministries.

3. *Audit recommends that the provisions regarding sponsoring authority in the PIR 1986 may be clarified to establish a primary sponsoring authority for composite/integrated projects to avoid any scope for undue benefits and for better monitoring of projects.*

The Board stated that recommendation is being examined and suitable amendment/clarification would be issued.

4. *Audit recommends that the Ministry may consider reviewing the volume of documents required under the Project Import scheme with a view to simplify the requirements.*

The Board stated that documents specified in the Regulation for pre and post import stages are reasonable. However, Ministry concurs that there is a need for meticulous monitoring at the senior level.

5. *Audit recommends that the Board may streamline the process and monitor the imports effected through other ports, by exploring the possibility of electronic transmission of TRA assessments (BEs) from TRA ports to the port of registrations, to avoid delay in finalisation of contracts.*

The Board stated that based on the changes in the PIR, a Project Management Module will be developed in ICES 1.5 including electronic transmission of TRA assessments (BEs) from TRA ports to port of registration.

6. *Audit recommends that the Ministry review the factors contributing to high transaction costs associated with the Project Import scheme, and compares the benefits of the scheme, vis-a vis other schemes (like EPCG).*

The Board stated that the Project Import Scheme is not linked to any export obligation and it has its distinct advantages. Review of regulations would be taken up with objective of procedural simplification and enhancing level of automation in ICES 1.5. This would bring down the transaction cost.

7. *Audit recommends that for having better control over the Project imports and for monitoring their credit/debits in the Bond Ledger in an efficient and accurate manner, Board may consider introducing a centralized Bond Management Module separately for Project Imports to monitor the imports made through the Port of Registration and the imports made in other Ports through TRA.*

The Board stated that Ministry concurs with recommendation on creation of Centralised Bond Management module in ICES 1.5 after a thorough review of PIR.

8. *Audit recommends that for effective monitoring of Project Import cases through Customs EDI system (ICES 1.5v) Board may explore the possibility of a Project Management Module on the lines of EPCG*

scheme in ICES so as to reduce the dependency on monitoring of Project Import cases through manual system.

The Board stated that based on the changes in the PIR, a Project Management Module will be developed in ICES 1.5.

9. *Audit recommends that Board may consider having a centralised database for project import cases so that inconsistency of data among different entities could be avoided.*

The Board stated that Ministry concurs with recommendation on creation of Centralised Database in ICES 1.5 after a thorough review of PIR.