Chapter 7: Conclusion

The Scheme was introduced in 1965 and further amended in 1986 with the main objective~~s~~ to simplify the procedures by single classification/single rate of duty for various types of capital goods and spare parts for use in industrial plants aimed at enhancing the manufacturing capacity base of the country, and consequent facilitation to importers by quicker customs clearance of the imported goods.

The scheme was introduced at a time when tariff structure in India was complex, and tariff barriers were comparatively high. However, 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. Other 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.

During the years FY 12 to FY 16there has been decelerating trend in number of contracts registered and revenue generated and the percentage of new contracts registered under the scheme has come down by almost half (49 per cent) and revenue from project imports has declined by about 40 per cent. It was in this background that a performance review of the Project Import Scheme was taken up.

Review of the implementation of the scheme has brought out weaknesses/gaps in statutory provisions which have created opportunities for inconsistent application of law.

Audit observations on compliance issues are indicative of an overall inefficiency in the scheme implementation, and deficient action on part of the department. Collating data and information on certain trade facilitation measures, Audit has concluded that the benefits of trade facilitation have not accrued to the Project Imports. In fact, high transaction costs could be keeping away the medium and small scale importers/manufacturers from taking benefits of the scheme.

Finally, lack of integration of Project Imports scheme with the EDI system remains one of the biggest stumbling points for better implementation and monitoring of the scheme.

Overall, the above conclusions indicate that the Project Import scheme may have outlived its utility in view of newer and more beneficial schemes for capital imports and rationalisation of duty structure. DoR has also acknowledged that there is a lesser need to rely on imported technology and machinery due to increased indigenisation, and also that all exemptions are under review in the context of implementation of GST. Thus, this is the right time for reviewing the scheme and its continuation for new projects, through inter-Ministerial consultations.

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 matter which could not be quantified.

New Delhi	**(Shefali S Andaleeb)**
Dated: 24 January 2017	**Principal Director (Customs)**

Countersigned

New Delhi	**(Shashi Kant Sharma)**
Dated: 24 January 2017	**Comptroller and Auditor General of India**