Govt to Introduce Scheme for Duty-Free Import of Capital Goods

The Government is working on a scheme to allow duty-free import of capital goods by the domestic industry, a measure that may be linked to employment generation.

Background

- At present, exporters can import capital goods duty-free under the Export Promotion Capital Goods (EPCG) scheme and also under initiatives for EOUs (export-oriented units) and SEZ (Special Economic Zone) units.
- However, since India’s per capita Gross National Income (GNI) exceeded the threshold of $1,000 for three years in a row in 2015, it can no longer extend export subsidies, under WTO rules and hence it has to be phased out or withdrawn.
- In this year, the United States had complained to the WTO’s dispute settlement body that India's export subsidies were harming American companies. It identified five popular export promotion schemes, including the merchandise export from India scheme (MEIS), the EPCG scheme, and some incentives available to EOUs and SEZ units, as being in violation of the WTO Agreement on Subsidies and Countervailing Measures.

Key highlights

- The new scheme is being designed to offer similar benefits to manufacturers within the boundaries of WTO norms.
- The initiative could be an alternative to some of the export incentive schemes that will now have to be phased out or withdrawn because of their incompatibility with global trade rules,
- The duty-free import of capital goods scheme being designed will be available to all domestic producers and would be linked to criteria other than exports — such as employment. This will ensure that exporters will continue to get duty-free benefits along with other domestic producers.

Challenges

- A scheme to incentivise capital goods import could go against the interests of the domestic capital goods industry.
- Also, the Finance Ministry would also suffer a revenue loss if a duty-free import scheme is implemented as capital goods are a source of generation of income from Customs duty.