



EXECUTIVE SUMMARY

We conducted a performance audit on the levy of customs duty on ‘natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof, imitation jewellery, coin (chapter 71 of Customs Tariff Heading)’ to evaluate the adequacy of the provisions of the relevant Acts, Rules and instructions in ensuring proper assessment and collection of revenues.

The estimated duty foregone in this sector during 2005-06 to 2007-08 amounted to Rs. 68,192 crore. We found that the revenue earned from gems and jewellery by eleven audited commissionerates, during 2005-06 to 2007-08 was Rs. 2,023 crore, while the duty foregone was Rs. 20,864 crore. As against the import growth of 16 per cent, the growth in exports was only 13 per cent during the three years. Thus, despite the substantial revenue foregone and the various benefits and exemptions extended to this sector, the exports growth has not yet caught up with the rate of growth of imports. Our major findings and related recommendations are summarised in the following paragraphs:

- The Director General of Valuations (DGOV) was maintaining a database of the imports/exports of gems and jewellery which was found to be largely incomplete and could not be used as planned. The major portion of the data gap was attributable to the Diamond Plaza Customs Clearing Centre (DPCC), which handled bulk of the trade but their transactions were not entered in the database. The DPCC had also not implemented the Indian Customs Electronic Data Interchange System (ICES) used for assessments. We recommend that these two major IT systems should be kept updated and should be implemented by the DPCC, which handles the bulk of the trade.
- The goods exported by the Special Economic Zone (SEZ) units are not subjected to any physical verification. We recommend prescription of norms for physical examination of goods cleared by the SEZ units for adhering to the RBI requirements and to prevent any loss of revenue.
- There is ambiguity in the duty rate applicable for gold coins. We recommend that the ambiguity in the related notification may be clarified so that ‘gold coins’ can be classified as a unique item subjected to a specified rate of duty.
- The calculation of net foreign exchange (NFE) of exporters suffers from serious deficiency. The value of goods sold to Domestic Tariff Area (DTA) against foreign exchange payments are treated as exports whereas the value of goods purchased from DTA are not treated as imports. We recommend that the Government should introduce a provision in the SEZ rules to consider supplies made by DTA units to SEZ units, on foreign exchange payments, as ‘imports’ by SEZ units for the purpose of calculating NFE.

- The Export Oriented Units (EOUs) are obliged to achieve minimum value addition in its operations to avail benefits of duty free inputs, whereas there is no similar requirement for SEZ units. We recommend that the Government may consider prescribing similar value addition for SEZ units to bring them at par with the EOUs, thereby providing a level playing field.
- Annual Performance Report (APR) of the EOUs and SEZ units which are used for verifying whether the units have indeed achieved the required positive NFE, are not supported by any other documentation. We recommend that the department should institute a suitable control mechanism to get assurance on the reliability of the data furnished in APRs and ensure their timely submission.
- We identified several instances where exporters did not fulfil their obligations and other mandatory conditions for availing of benefit of duty free imports. Import duties of Rs. 82.78 crore forgone in these cases are to be recovered.
- We have also found instances of sale of branded jewellery without payment of applicable excise duty of Rs. 63.97 crore.