

# A BLUEPRINT FOR MODERNIZING INDIA'S IMPORT TARIFFS AND CUSTOMS REGIME



**GTRI Report**

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# **A Blueprint for Modernizing India's Import Tariffs and Customs Regime**

**Global Trade Research Initiative**



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# **Preface**

## **Customs Reforms**

India stands at a moment where Customs reform is no longer a technical exercise—it is a competitiveness imperative.

With a large share of India’s economic activity and trade flows routed through Customs, even small frictions in tariff design, notifications, inspections and documentation now translate into higher input costs, slower supply chains, delayed exports and weaker investor confidence.

As India pushes for manufacturing scale, export diversification and deeper supply-chain integration amid global trade fragmentation, the country cannot afford a tariff schedule that is distortionary or a border regime that is process-heavy and unpredictable.

This GTRI report sets out a practical blueprint of 23 reforms—spanning tariff rationalisation, transparency and legal certainty, modern risk-based clearance, export stress-point fixes, and smarter manpower deployment—to convert Customs from a clearance-centric bottleneck into a growth-enabling institution that supports trade, investment and jobs.

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# **A Blueprint for Modernizing India's Import Tariffs and Customs Regime**

## **Highlights**

This Global Trade Research Initiative (GTRI) report identifies 23 critical reforms in India's tariff structure and Customs processes. Taken together, they can turn Customs into a growth-enabling system, aligning trade policy, export promotion, logistics efficiency and tax modernisation into a single reform agenda.

### **Key Reforms Proposed:**

#### **A. Tariffs and Trade Policy**

1. Overhaul Import Duties
2. Rationalise Duty Slabs Based on Total Import Burden

#### **B. Clarity and Transparency**

3. Simplify Customs Notifications
4. Publish a Single, Unified Import Duty Schedule
5. Make Sunset Reviews of Exemptions Transparent
6. Align Duty Drawback Codes with Standard HS Classification
7. Create a Searchable Database of Customs Tribunal Rulings
8. Conduct Unannounced, Independent Time Release Studies
9. Undertake a Zero-Base Review of Customs Rules

#### **C. Customs Process Reform**

10. Make Direct Port Delivery the Default for RMS-Cleared Cargo
11. Restore the Authority of Risk-Based Clearance
12. Record All Inspections Through CCTV Monitoring
13. Shift from Document Uploads to Data-Based Processing
14. Extend Risk Management Across All Border Agencies
15. Enable Flexible Inland Facilities for Modern Supply Chains
16. Standardise Procedures Across Ports and Airports
17. Expand Advance Rulings Beyond Classification

#### **D. Export Stress Points**

18. Fix EGM Mismatches Blocking Export Incentives
19. Integrate Customs and DGFT Systems in Real Time
20. Allow Aggregation of Small RoDTEP Credits
21. Extend RoDTEP Claim Validity

## **E. Strategic Use of Manpower**

22. Reallocate Customs Manpower in Line with Automation
23. Deploy Customs Officers Overseas

## Report

# A Blueprint for Modernizing India's Import Tariffs and Customs Regime

## Introduction

India stands at a critical inflection point where Customs reform has shifted from being desirable to unavoidable.

With nearly 29% of GDP flowing through Customs and merchandise trade exceeding \$1.16 trillion, even small inefficiencies now impose large economy-wide costs—raising input prices, delaying shipments, weakening export competitiveness and deterring investment.

At the same time, India is pursuing deeper manufacturing, export diversification and supply-chain integration amid global trade fragmentation and rising protectionism. An outdated tariff structure and process-heavy Customs system risk undermining these objectives just as global firms are reassessing sourcing and investment locations. Customs tariff and process reforms sit at the core of India's economic architecture.

The Finance Minister Nirmala Sitharaman's December 6 commitment to overhaul Customs provides a rare policy window.

This GTRI report identifies 23 critical reforms in India's tariff structure and Customs processes. Taken together, they can turn Customs into a growth-enabling system, aligning trade policy, export promotion, logistics efficiency and tax modernisation into a single reform agenda.

Swift, coordinated action—through tariff rationalisation and process simplification—can cut costs immediately, restore predictability for traders and investors, and transform Customs from a bottleneck into a driver of economic growth.

## Key Reforms Proposed:

### A-Tariffs and Trade Policy

#### 1-Review import duties

- End complex and distorted tariffs with a product-wise overhaul of import duties
- Move to zero duty on most raw materials and intermediates
- Adopt a low, standard customs duty on finished industrial goods
- Eliminate inverted duty structures that hurt domestic manufacturing

India must undertake a comprehensive, product-by-product overhaul of customs tariffs to make trade policy support manufacturing and exports. Customs duty today contributes only 6% of

India's gross tax revenue and equals just 3.9% of the value of imports, showing that tariffs have lost their relevance as a revenue instrument.

The distortion is stark: 90% of import value is concentrated in less than 10% of tariff lines, while the bottom 60% of tariff lines generate under 3% of customs revenue, making most of the tariff schedule administratively wasteful.

India should therefore move to zero duty on most industrial raw materials and key intermediates, and adopt a 5% standard duty for most finished industrial products over the next three years. Extreme tariffs such as the 150% duty on alcohol should be rationalised, as they encourage evasion while delivering negligible fiscal gain. Tariff policy must also eliminate inverted duty structures that tax inputs more than finished products and quietly destroy domestic manufacturing competitiveness.

Equally important, all policy decisions must be based on total import duty, not merely basic customs duty. Businesses face the cumulative burden of cesses, antidumping duties, and other levies—and reform must address the complete tax load, not just headline rates.

## **2-Reduce Customs duty slabs taking into account all duties.**

India must simplify its customs duty structure by reducing the actual number of duty slabs rather than merely the Basic Customs Duty (BCD) rate slabs. While the last Budget reduced the number of ad valorem BCD rates to eight, including zero, this reform excluded the large number of specific duties, mixed duties, and conditional rates, which continue to create hundreds of effective tariff slabs in practice. Further, part of the BCD was shifted to the Agriculture Infrastructure and Development Cess (AIDC) to show a lower slab count on paper, while keeping the total import duty unchanged, undermining the stated reform objective. Since importers also pay AIDC, Social Welfare Surcharge, and health cesses, the real tariff structure is far more complex. India should therefore consolidate all duties into a small number of transparent slabs based on total import duty, not just BCD.

## **B-Clarity and Transparency**

### **1-Use simple language in customs notifications.**

Notifying import duty is a critical task of the CBIC and Customs, yet finding the correct Customs duty for a product is incredibly challenging. One must navigate through a labyrinth of hundreds of Customs notifications issued each year. The complexity arises from the way Customs notifies duty

changes. These notifications are often not self-contained, frequently amending parts of notifications issued over 20 years ago. This results in most notifications suffering from significant complexities. On top of this, several exemption notifications do not even mention exact HS codes, adding to the confusion. The solution is simple: every new notification should be self-contained and clearly state its full impact, as done by DGFT. The government should also build a searchable online database of all notifications so users can find rules easily and quickly.

## **2- Publish All Import Duties in a Single, Clear Schedule**

Publish the total import duty payable for every product in one place instead of forcing importers to piece together charges from multiple notifications and websites. Today, businesses must calculate basic customs duty, cesses, anti-dumping duties and GST separately, making duty determination slow, confusing and error-prone—even for professionals. The government should provide a single online table or downloadable Excel sheet showing the complete duty burden for each HS code. A unified duty schedule will reduce dependency on intermediaries, prevent mistakes and significantly improve ease of doing business.

**3-Make Sunset Reviews Transparent** — India’s customs duty exemptions are legally time-bound and subject to review under the Customs Act, which provides that most conditional exemptions lapse after two years unless renewed. These sunset provisions are intended to ensure that exemptions remain justified and aligned with public interest, even as some—such as those linked to trade agreements—are exempt. When exemptions are reviewed and extended, the government should publish a brief explanation of its findings, including whether the original rationale still holds, whether the measure supports current national priorities rather than legacy interests, and whether conditions or compliance requirements need tightening. Such disclosures would improve transparency, strengthen accountability and enhance coherence in trade and tax policy.

## **4-Align Duty Drawback Codes with Standard Customs Classification**

India should urgently align the Duty Drawback scheme with the eight-digit ITC (HS) codes already used for imports and exports, instead of continuing with a separate and confusing product-coding system. At present, while the country has adopted ITC (HS) classification for trade, the Duty Drawback scheme—the largest indirect tax refund system—uses only the first four HS digits and then applies its own product codes and descriptions. This forces exporters to use two different codes for the same product, increasing errors, delays and rejection of claims. The drawback schedule should therefore fully adopt the standard ITC (HS) structure so that exporters use one code across customs, DGFT and refund systems, reducing compliance costs and making tax refunds quicker, simpler and more reliable.

## **5-Create a Searchable Online Database of Customs Tribunal Decisions**

India should place all Customs Tribunal orders in one public, searchable online database so that importers and exporters can easily access past rulings on valuation, classification, penalties, and other disputes. Although tribunal decisions are public documents, they are currently scattered and hard to find, forcing businesses to depend on lawyers or unofficial sources to understand legal positions. A central database would give traders a clear view of legal precedent, encourage consistent decision-making, reduce uncertainty, and improve compliance. It would also help tribunals themselves follow established rulings more closely, shorten case timelines, and lower the volume of repeat litigation by providing clarity before disputes arise.

## **6-Conduct Unannounced, Random Time Release Studies**

India should reform the way Time Release Studies are conducted by allowing independent agencies to measure clearance times during unannounced and randomly selected weeks instead of pre-informed periods. When officials know audits are coming, systems temporarily improve, masking everyday bottlenecks and delays. Random assessments would reveal how customs, ports and logistics chains actually function in normal conditions, not just during inspections. This will produce honest data on clearance times, highlight real problem areas, and drive sustained improvements rather than short-term compliance for reviews.

## **7-Conduct a Zero-Base Audit of Customs Rules and Procedures**

Launch a comprehensive zero-base audit of all customs rules, notifications, circulars, procedures, and related port processes to identify and scrap what has become redundant, outdated or contradictory. Over the years, layers of regulations have stacked over one another, creating complexity without adding value, slowing clearance, and increasing disputes.

## **C-Customs Process Reform**

### **1- Make Direct Port Delivery the default for cleared cargo**

Minimise customs processing at ports by allowing all consignments cleared by the Risk Management System (RMS) to move under Direct Port Delivery (DPD) wherever import duty is paid within 24 hours of the container's arrival at the terminal. If an assessment has already been waived by the system, there is no justification for diverting cargo to Container Freight Stations (CFS), which only adds transport costs, storage charges and delivery delays. Automatic DPD

clearance for RMS-approved shipments will cut logistics costs, ease port congestion and speed up supply chains without compromising revenue or control.

## **2- Restore the authority of risk-based clearance and limit officer discretion.**

Strengthen the Risk Management System (RMS) by making its risk-clearance decisions binding in normal cases and fully transparent when overridden. At present, officers frequently cancel RMS clearance and order inspections without recorded justification, defeating the purpose of risk-based facilitation. Every instance where RMS is bypassed should be mandatorily recorded in the system with written reasons, and this data should be open to audit and available under the RTI Act. This will curb discretionary inspections, ensure accountability, improve targeting of high-risk consignments, and restore the RMS as a trade-facilitating tool rather than a symbolic one.

## **3- Record and monitor inspections using CCTV systems**

Mandate that all customs inspections take place only in designated inspection zones under continuous CCTV recording, with footage retained for a defined period and made accessible to importers, exporters and their authorised agents. All ports, ICDs and CFS operators should be required to create adequate inspection infrastructure and digital storage systems to support this reform. Recorded inspections will protect both officers and businesses, bring uniformity in practice, and build trust in border procedures.

## **4- Replace document uploads with data-based digital processing**

Reform the eSanchit system by collecting information instead of scanned documents. Uploading large numbers of PDF files slows the system and prevents automated risk analysis because the data inside documents cannot be read or processed by Customs systems. Instead, traders should be required to enter information such as values, origin, and certificates directly into structured digital fields that can be used by the Risk Management System for automated processing. Scanned documents should be sought only when RMS flags a consignment for verification. This shift to data-based clearance will speed up processing, improve risk targeting, and reduce paperwork without weakening enforcement.

**5. Extend Risk Management Across Border Agencies** — India must extend risk-based controls beyond customs to all participating government agencies and bring them fully under the National Single Window. In an era of expanding trade volumes, complex supply chains and increasingly sophisticated risks, attempting to physically inspect every consignment is neither feasible nor desirable: it would paralyse legitimate trade, overwhelm administrative capacity and divert resources from genuine threats. While customs has applied risk management for nearly two

decades, many other border agencies—covering plant quarantine, food safety and standards—still rely heavily on blanket checks, leading to high intervention rates and uncoordinated inspections. The absence of a unified, system-driven risk framework sharply raises transaction costs and delays, particularly for perishables. A common risk management system across agencies would prioritise inspections where risks are real, reward compliant traders with faster clearance, and deliver a more predictable, transparent and efficient border regime.

**6-Enable Inland Facilities for Modern Supply Chains** — Inland Container Depots and Container Freight Stations are essential to efficient trade, allowing cargo clearance closer to production centres, decongesting ports and borders, and enabling better use of customs resources. Yet the current policy governing their approval, issued by the CBIC in 2020, imposes restrictive criteria on location, land size and distance from existing facilities that risk entrenching monopolies, curbing competition and inflating long-term logistics costs. By insisting that each ICD be a large, fully equipped, one-size-fits-all facility, the policy fails to reflect modern multimodal logistics, where smaller, specialised inland facilities serve niche or product-specific supply chains. The absence of clear timelines across multiple approval stages further discourages investment. As digitalisation reduces the need for intensive on-site customs staffing, policy should shift toward enabling flexible, competitive inland facilities while rationalising officer deployment to improve overall logistics efficiency and export competitiveness.

**7-Process Standardisation and Harmonisation** — India must reduce procedural variations across ports, airports and inland clearance locations by standardising customs processes nationwide. Differences in documentation requirements, examination practices and interpretation of rules create uncertainty, raise compliance costs and encourage discretion. A uniform set of operating procedures, supported by digital workflows and consistent risk parameters, would make clearance outcomes predictable regardless of the port of entry. Harmonisation would also improve integrity, reduce disputes and allow customs officers to focus on risk and enforcement rather than procedural interpretation.

**8-Extend Advance Rulings to More Areas** — India should significantly expand the scope of advance rulings to cover valuation methods, origin determination, exemptions and procedural requirements, beyond the current focus on classification. Advance rulings provide legal certainty before goods are shipped, reducing disputes, detention and litigation at the border. Wider use would be particularly valuable for complex supply chains, free-trade agreement utilisation and high-value manufacturing inputs. By offering binding clarity upfront, an expanded advance ruling system would improve ease of doing business while strengthening voluntary compliance.

## **D-Export Stress Points**

### **1- Fix EGM Mismatches That Block Export Incentives**

Export General Manifests (EGMs), the electronic documents filed by shipping lines confirming that goods listed in shipping bills have physically left the country, have become a frequent bottleneck for Indian exporters. Although exporters submit accurate shipping bills, mismatches often arise because EGM data are entered manually by shipping lines, rely on outdated information, or fail to reflect last-minute changes in vessel or container details. Even trivial discrepancies in spelling, quantity or container numbers can block post-export benefits such as Duty Drawback and the RoDTEP scheme, despite the export having been completed. Customs should allow rapid online correction of EGMs by shipping lines and ensure that revised EGMs automatically link with shipping bills, so that legitimate exporters receive incentives on time and are not penalised for errors beyond their control.

### **2- Integrate Customs and DGFT systems in real time**

India must ensure seamless, real-time data integration between Customs' ICEGATE platform and the Directorate General of Foreign Trade's portal so that shipping bill information flows automatically between the two. Today, exporters often find that shipping bills visible on ICEGATE fail to appear on the DGFT system, blocking compliance under schemes such as Advance Authorisation and EPCG. These technical gaps cause delays, procedural violations and penalties despite full exporter compliance. Real-time synchronisation would eliminate manual follow-ups, reduce disputes and ensure that exporters are not penalised for failures within government systems.

### **3- Allow exporters to combine small RoDTEP credits into usable values**

Because RoDTEP scrips are automatically generated shipping-bill wise, exporters often receive multiple very small-value scrips which are hard to sell and attract heavy discounts. Reform the Customs RoDTEP system to allow exporters to combine multiple shipping bills to generate larger value RODTEP scrips. Low-value scrips that are difficult to sell, and because importers prefer high-value scrips, traders are forced into distress sales. Scrips below ₹10,000 often sell at only 60–70% of face value, while larger scrips perform far better—scrips above ₹1 lakh fetch about 98% value and those above ₹5 lakh nearly 99%. Exporters should be allowed to strategically aggregate scrips, as was permitted under earlier schemes, so that incentives deliver their full benefit instead of being eroded by a flawed design.

### **4- Extend RoDTEP Claim Validity to Protect Legitimate Exporters**

Revise the one-year validity limit for RoDTEP scrip generation, which unfairly deprives exporters of benefits due to technical delays or unresolved system issues. Many exporters lose incentives not

because of non-compliance, but because data mismatches, portal errors or procedural bottlenecks prevent timely scrip generation. Earlier export schemes allowed three years with modest penalties, recognising the complexity of compliance systems. RoDTEP should therefore restore a three-year claim period with graded late cuts, ensuring genuine exporters are not penalised for system weaknesses beyond their control.

## **E-Strategic Use of Manpower**

**1-Optimal Use of Manpower** — India’s customs administration must recalibrate staff deployment to match a trade ecosystem increasingly shaped by automation and risk-based controls. With the system operating on an “intervention by exception” model and facilitation levels reaching 85 percent in 2024, according to the National Time Release Study, manpower-intensive frontline revenue checks no longer represent the most efficient use of scarce human resources. Simplifying and modernising import tariffs—especially by removing complex and distortionary structures—would further reduce low-value compliance activity and free staff for higher-impact functions. Deployment should shift toward inland clearance locations, origin verification, post-clearance audits and persistent logistical choke points where delays remain systemic. Such restructuring would improve compliance, sharpen enforcement where it matters, and raise the overall efficiency of cross-border trade administration.

**2-Deploy Customs Officers Overseas** — India should also rethink the role of customs as a tool of export competitiveness by posting more customs and trade officials at Indian embassies and key foreign ports. Rather than being confined to paperwork at home, officers stationed abroad could work directly with foreign customs authorities to resolve non-tariff barriers, prevent shipment detentions, and clear procedural obstacles faced by Indian exporters. They could also help firms fully utilise free-trade agreements and relay global best practices in customs and port management back to India. This outward-facing redeployment would shift customs from a clearance-centric bureaucracy to a strategic instrument for market access and export growth.

## **Finally**

India’s Customs system can no longer be treated as a back-end administrative function; it must be repositioned as a strategic instrument of growth, competitiveness and global integration.

The reforms outlined in this report are not incremental fixes but a blueprint for structural change—one that simplifies tariffs, restores trust in risk-based clearance, removes procedural friction and realigns

Customs with India's manufacturing and export ambitions. The policy window created by the government's stated intent to overhaul Customs must now translate into time-bound execution.

If implemented decisively and as a unified package, these reforms can lower trade costs, unlock export potential, attract investment and ensure that Customs evolves from a control-oriented bottleneck into a modern, facilitative institution that actively supports India's economic transformation.

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## **About Global Trade Research Initiative**

GTRI aims to create high-quality and jargon-free outputs for governments and industry on issues related to trade, technology and investment from the perspective of development and poverty reduction.

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## **Feedback**

Feedback on this report is most welcome. Please write to [ajay@gtri.co.in](mailto:ajay@gtri.co.in)



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