# THE MOOWR SCHEME: A CRITICAL APPRAISAL OF INDIA'S BONDED MANUFACTURING FRAMEWORK UNDER SECTION 65 OF THE CUSTOMS ACT, 1962

*Duty deferment without an export condition — what makes it work, and where it still falls short*

## Abstract

The Manufacture and Other Operations in Warehouse Regulations, 2019 ("MOOWR"), framed under Section 65 of the Customs Act, 1962, let a licensed private bonded warehouse import capital and revenue goods without paying Basic Customs Duty upfront, and until 2023, without Integrated GST also. There is no export obligation, no minimum investment, no Net Foreign Exchange condition, and the license never expires — a marked departure from SEZ, EOU, EPCG and Advance Authorisation, each of which is tied to export performance in some form. This piece walks through how the scheme works, places it against its peers, and tests it: four weaknesses stand out — regulatory rather than statutory foundations, the 2023 withdrawal of IGST deferment, exclusion from Duty Drawback and RoDTEP, and administrative friction unrelated to the law itself. What limits MOOWR's uptake is not the legal design but the machinery around it.

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### Introduction

Chapter IX of the Customs Act, 1962 has allowed goods to sit in a bonded warehouse without immediate duty payment for decades. MOOWR's contribution, notified on 19 June 2019 via Notification No. 44/2019-Customs (N.T.) and operationalised through Circular No. 34/2019-Customs, was to attach an unrestricted manufacturing licence to that old warehousing facility. A unit can now manufacture, process, repackage, test or repair goods inside the bonded premises and clear the output either into the domestic market on payment of duty, or abroad free of it. The 2019 regulations revived a 1966-vintage framework that had fallen dormant, positioned it as a Make in India measure: duty on imported inputs stops being a working-capital cost paid at the border and becomes a deferred, contingent liability instead.

What sets it apart from SEZ, EOU, EPCG and Advance Authorisation is structural, not incremental. Each of those schemes ties its benefit to export performance, Net Foreign Exchange positivity, or a bond backing an export obligation. MOOWR asks for none of that — a unit can import, manufacture and sell entirely within India, paying duty only when goods leave the warehouse. There's a defensive upside too: after the WTO ruled against several of India's export-linked incentive schemes, a benefit not conditioned on exporting is harder to challenge as a prohibited subsidy.

## Legal and Regulatory Architecture

MOOWR isn't a standalone law. It's assembled from several instruments, all anchored in the Customs Act:

- Section 58, read with the Private Warehouse Licensing Regulations, 2016, governs licensing of the premises itself.
- Section 65 gives the actual power to manufacture inside a bonded warehouse, subject to conditions the Principal Commissioner or Commissioner of Customs may impose.
- The MOOWR (No. 2) Regulations, 2019 set out the procedural conditions — records, bonds, permissions — while the Warehoused Goods (Removal) Regulations, 2016 cover inter-warehouse and ex-bond movement.
- Circular No. 34/2019-Customs, dated 1 October 2019, along with later clarifications, is CBIC's working guidance on valuation, capital-goods treatment and duty computation at ex-bonding.
- Section 65A, inserted by the Finance Act, 2023 from 29 March 2023, withdraws deferment of IGST and cess — BCD deferment stays untouched — for goods warehoused after that date.
- The Finance Act, 2024 gives the Central Government power to notify goods or operations excluded from the facility entirely. Unused so far, but it changes the risk calculus for anyone weighing a licence now.

> *The benefit structure therefore rests on notifications, regulations and two inserted sections rather than on a dedicated Act of Parliament — not a drafting curiosity but, as Part 5 argues, a principal source of the uncertainty constraining adoption.*

## Operating Mechanics and Eligibility

### *1. Eligibility and application*

Any entity holding, or applying for, a Section 58 licence can seek Section 65 permission. No minimum investment floor, no sector restriction, no requirement of prior exports. The applicant files Annexure A along with a site plan, Import Export Code, incorporation papers, fire-safety and solvency certificates, and projected input-output norms; executes a general bond (historically three times solvency value/ BCD value); and after site verification, receives a licence/ provisional licence and warehouse code. Two to three months is typical, though this varies by Commissionerate.

### *2. Duty treatment*

BCD on inputs and raw materials is deferred, interest-free, until the resulting goods are cleared for home consumption — duty is then charged on the value and classification of the imported input, not the finished product, through an ex-bond bill of entry. Export the goods instead, and the deferred BCD is remitted in full; no duty is ever paid on that portion. Since 29 March 2023, though, IGST and compensation cess fall due at the point of import under Section 65A, cutting into the benefit considerably (see 5.2).

Capital goods get indefinite BCD deferral. Duty is payable in full only if the goods are cleared domestically, with no allowance for use or depreciation. Re-export them after use and no duty applies at all, regardless of residual value.

### *3. Compliance obligations*

Lighter than EOU or SEZ. A monthly return covering receipt, storage, operations and removal goes to the bond officer within ten days of month-end; ledgers and removal records are kept for audit; home-consumption clearance happens on a bill of entry with duty paid then, interest-free. No Net Foreign Exchange requirement, no renewal, no export obligation.

## Comparative Positioning

MOOWR is best understood next to the export-promotion schemes it complements, and partly replaces.

| Feature | MOOWR | SEZ | EOU | EPCG / Advance Auth. |
|---|---|---|---|---|
| Export obligation | None | Net positive forex | Net positive forex | Specific, tied to duty saved |
| Domestic sale | Unrestricted, on duty payment | Restricted; duty as if imported | Restricted, duty-paid | Only after obligation discharge |
| Minimum investment | None | Area / investment thresholds | None (approval-based) | N/A |
| Licence validity | Perpetual | Term-linked to approval | Renewable | Obligation-period bound |
| RoDTEP / Drawback | Not available | Separate SEZ regime | Available, modified form | Available |
| Customs control | No officer posting | Zone-level | Periodic supervision | N/A |

*Table 1: MOOWR compared with SEZ, EOU and EPCG / Advance Authorisation.*

> *The absence of an export obligation is MOOWR's genuine point of departure, and precisely what keeps it outside the category of export subsidy that exposed India's earlier incentives to WTO challenge. The trade-off, is that this same design choice is the stated reason MOOWR exporters are denied RoDTEP and Drawback.*

## Critical Analysis

### *1. What actually holds up*

Three features withstand scrutiny as substantive rather than promotional. Delinking deferment from export performance removes the biggest compliance risk in comparable schemes — retrospective demands for duty, interest and penalty when an export obligation falls short, which has driven much of the EPCG and Advance Authorisation litigation over the years. The perpetual licence and the absence of an investment floor lower the barrier for smaller manufacturers who cannot access SEZ-scale infrastructure. And indefinite deferral on capital goods, with full remission on re-export, is genuinely useful for import-heavy sectors — electronics assembly, aerospace, specialised machinery — where equipment cycles outlast the bond periods available under other schemes.

### *2. Section 65A: the benefit gets smaller*

This is the most consequential weakness, and it is self-inflicted. Section 65A withdrew IGST and cess deferment for goods warehoused from 29 March 2023 onward, while leaving BCD deferment untouched. For manufacturers whose imports carry low BCD but standard-rate IGST — much of the electronics, capital-goods and intermediate-chemical import stream — that removed the larger share of the cash-flow advantage. The change was prospective, so existing licensees were not disrupted, but every new entrant now works with a narrower version of the scheme, and trade commentary treats it as structurally weakened unless the position is restored or offset elsewhere. A simple example shows the scale of what changed.

| Particulars | Before 29 Mar 2023 | After 29 Mar 2023 |
|---|---|---|
| Import value (capital goods) | ₹100 crore | ₹100 crore |
| BCD (7.5%) | Deferred | Deferred |
| IGST (18%) | Deferred | Payable at import |
| Cash outflow at import | Nil | ₹18.0 crore |
| Duty held back at bonding | ₹25.5 crore | ₹7.5 crore |
| Notional cost of funds locked in IGST, @10% p.a. over 3 years | — | ₹5.4 crore |

*Table 2: Illustrative cash-flow effect of Section 65A on ₹100 crore of imported capital goods (BCD 7.5%, IGST 18% (on valuation of imported goods); figures rounded, simple interest used for illustration only).*

On a single ₹100-crore consignment, the amendment turns an interest-free deferral of ₹25.5 crore into an ₹18 crore cash outflow at the border, with a further ₹5.4 crore in notional funding cost if that capital would otherwise have earned 10% over three years. Scale that across a multi-year capex programme and the erosion stops being marginal.

The deeper problem is one of signalling: a scheme marketed as permanent was narrowed within four years of its 2019 relaunch, and licensees now price that precedent into whatever benefit remains.

### *3. No RoDTEP, no Drawback — and that is inconsistent*

MOOWR exports do not qualify for RoDTEP scrips or All Industry Rate Drawback — benefits worth roughly four to five per cent of export value under comparable schemes. That is not simply a subsidy foregone; it is a gap in the policy logic. RoDTEP offsets embedded, non-creditable state and central levies — electricity duty, fuel taxes, mandi cess — which have nothing to do with the customs duty MOOWR already remits in full on export. Denying both to the same exporter treats them as substitutes while they address entirely different costs. In practice, an exporter weighing MOOWR against Advance Authorisation or EPCG has to run its own numbers rather than assume MOOWR wins by default.

### *4. Built on regulations, not a statute*

The whole benefit structure sits on a notification and a set of regulations, not a dedicated Act. The Finance Act, 2024 made that more fragile: its unexercised exclusion power still turns a "perpetual" licence into an entitlement that can be narrowed unilaterally, without consultation. For a scheme whose main selling point is certainty — no renewal, no expiry — that is a real crack in the foundation for anyone planning a decade-long capital programme around it.

### *5. Friction on the ground*

Practitioners consistently say MOOWR's limits have less to do with the law than with how unevenly it is administered. Recurring complaints include:

- no dedicated online portal for monthly returns — the Invest India microsite was withdrawn, pushing filings back to individual Commissionerates and increasing variability across ports;
- unsettled guidance on transferring goods between two MOOWR-licensed units, which matters for groups running supply chains across several bonded sites;
- no direct migration path from EOU status — an EOU must exit first and reapply, with the transitional cost that involves;
- separate ICEGATE credentials for the warehousing module; and
- inconsistent familiarity with the scheme among field officers, a source of avoidable disputes and delayed clearances at lower-volume ports.

None is fatal alone. Together, they explain why a scheme routinely called under-utilised has not reached the scale its 2019 relaunch anticipated.

### *6. Untested legal ground*

The core provisions are recent enough that case law is still forming, so questions that would be settled under older schemes remain open here. Two live examples: how exported capital goods realised below their original import value are to be treated, and whether GST input credit can be claimed on the duty-payment challan generated at ex-bonding the same way it can on a standard bill of entry. Left unresolved, that kind of ambiguity turns a scheme sold as low-compliance into a source of interpretive risk that a cautious tax function may reasonably decide to avoid.

## Sectoral Application in Practice: The SAIL Case

These trade-offs are playing out right now in public-sector steel industry. Steel Authority of India Limited (SAIL) is evaluating MOOWR for a multi-plant modernisation programme involving substantial capital spending across its integrated steel plants, and within the group, IISCO Steel Plant (ISP) has taken the lead — its registration application is currently with the jurisdictional customs authorities.

If ISP's application is approved, a similar path is expected at Bokaro, Rourkela and Bhilai, each undertaking significant investment under SAIL's Vision 2030 roadmap. That would make SAIL's experience the first large-scale applications of MOOWR in public-sector heavy industry

— a genuinely different test from the greenfield electronics, EV and light-engineering projects that have dominated adoption so far. Given the scale of imports involved in blast-furnace, coke-oven and rolling-mill work, it will also test the questions raised in Part 5, particularly how capital goods are treated post Section 65A.

### *1. The commercial case, and its conditions*

For a brownfield programme, the appeal comes down to a few concrete points. BCD on imported furnaces, mill equipment and automation packages stays deferred, easing working-capital strain across a multi-year capex cycle, with no interest accruing however long the equipment sits bonded before commissioning — significant when import to commissioning can span several years. Because SAIL sells mostly domestically, having no export obligation matters more than it might for an export-oriented unit; EPCG, by contrast, would impose an obligation pegged to duty saved. There is no ceiling on the value warehoused, and the perpetual licence removes the need to re-approve anything over a decade-long horizon.

None of this comes free. A unit of ISP's size has to institutionalise Section 58 licensing with a designated warehouse keeper, a general bond typically three times solvency value, monthly returns within ten days of month-end, audit-ready records, and duty paid on a home-consumption bill of entry before ex-bond clearance — which means coordinating with dispatch planning. And critically, IGST and cess are payable upfront regardless of continuing BCD deferment. That is a cash-flow line that has to go into the financing plan directly, not get assumed away.

## Conclusion and Policy Recommendations

MOOWR is a genuinely well-designed departure from India's export-obligation-linked facilitation model. The core idea — that deferment does not need an export condition to stay WTO-compatible and fiscally sound — holds up, and low entry barriers make it useful for manufacturers who cannot access SEZ-scale infrastructure. But its record since 2019 also shows the risk of building a flagship scheme on sub-statutory ground: the 2023 withdrawal of IGST deferment and the 2024 exclusion power have chipped away at the predictability it sells itself on, and denying RoDTEP and Drawback creates a real inconsistency in how it is positioned as an export tool.

A few things would help.

1. Exercise the exclusion power, if at all, only after consultation, prospectively, and with a real transition period — regulatory certainty is the scheme's whole commercial pitch.
2. Reconsider a calibrated RoDTEP-equivalent for MOOWR exports. RoDTEP offsets embedded taxes that are conceptually distinct from the customs duty MOOWR already remits in full.
3. CBIC should put out one master circular covering inter-unit transfers, EOU-to-MOOWR migration, and input tax credit documentation at ex-bonding — three separate grey areas that keep coming up in practice.
4. Officer training and a stable digital filing interface would raise adoption faster than any further change to the duty provisions. The constraint is not legal design; it is administrative familiarity. MA

## References

A. Primary Legislation

1. *Customs Act, 1962 (Chapter IX – Warehousing; Section 58 – Licensing of private warehouses; Section 65 – Manufacture and other operations in relation to goods in a warehouse)*
2. *Customs Act, 1962, Section 65A (Special provision relating to instalment of duty), inserted by the Finance Act, 2023, effective 29 March 2023*
3. *Finance Act, 2023*
4. *Finance Act, 2024 (provision empowering the Central Government to notify exclusion of goods/ operations from the MOOWR facility)*
5. *Integrated Goods and Services Tax (IGST) Act, 2017*

B. Regulations & Notifications

6. *Manufacture and Other Operations in Warehouse (No. 2) Regulations, 2019, notified vide Notification No. 44/2019-Customs (N.T.), dated 19 June 2019*
7. *Private Warehouse Licensing Regulations, 2016*
8. *Warehoused Goods (Removal) Regulations, 2016*

C. Circulars / Departmental Guidance

9. *Circular No. 34/2019-Customs, dated 1 October 2019 (CBIC), and subsequent clarificatory circulars on valuation, capital-goods treatment, and duty computation on ex-bonding*