

Chapter-6

SPECIAL ECONOMIC ZONES (SEZs) AND EXPORT ORIENTED UNITS (EOUs)

Special Economic Zones (SEZs)

The Special Economic Zones Policy was announced in April 2000 with the objective of making the Special Economic Zones an engine for economic growth, supported by quality infrastructure and an attractive fiscal package both at the Central and State level with a single window clearance. The experience in last 55 years with the Industrial areas and Industrial clusters has been that large slums come up in the neighbourhood of these areas. Besides, the additional population creates pressure on the Municipal System. The SEZ concept recognizes the issues related to economic development and provides for developing self-sustaining Industrial Townships so that the increased economic activity does not create pressure on the existing infrastructure.

I. Special Economic Zones Act, 2005 and Special Economic Zones Rules, 2006

Asia's first EPZ was set up in Kandla in 1965. Seven more zones were set up thereafter. However, the zones were not able to emerge as effective instruments for export promotion on account of the multiplicity of controls and clearances, the absence of world-class infrastructure and an unstable fiscal regime. While correcting the shortcomings of the EPZ model, some new features were incorporated in the Special Economic Zones (SEZs) Policy announced in April 2000. This policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented

by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations.

To instill confidence in investors and signal the Government's commitment to a stable SEZ policy regime and with a view to impart stability to the SEZ regime thereby generating greater economic activity and employment through the establishment of SEZs, a comprehensive Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 and received Presidential assent on the 23rd of June, 2005. The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006, providing for drastic simplification of procedures and for single window clearance on matters relating to central as well as state governments. As a result of this Act and Rules coming into force, it was envisaged that the SEZs would attract a large flow of foreign and domestic investment in infrastructure and productive capacity leading to generation of additional economic activity and creation of employment opportunities.

The main objectives of the SEZ Act are:

- generation of additional economic activity;
- promotion of exports of goods and services;
- promotion of investment from domestic and foreign sources;
- creation of employment opportunities; and
- development of infrastructure facilities.

II. Amendments Carried out in The SEZ Rules, 2006

The following important amendments have been made to the SEZ Rules, 2006:

- Increase in minimum processing area for Multi Product SEZs to 50%;
- Prescribing minimum built up area for Bio-technology & Gem & Jewellery Sectors;
- Prescribing minimum processing area for Free Trade Warehousing Zone (FTWZ);
- Inclusion of specific provisions regarding grant of in-principle approval and its extension;
- Providing for a lease period of not less than five years as against the earlier provision of lease period being co-terminus with the validity of Letter of Approval;
- Stipulating the Upper limit of the area required for multi product SEZs at 5000 hectares, with the State Governments having the option to prescribe a lower limit;
- Revising the minimum processing area uniformly at 50% for multi- product SEZs as well as sector specific SEZs;
- Housing facilities to be provided to the SEZ employees by the developer;
- Type of land to be mentioned in the application form of SEZ;
- Reimbursement of duty in lieu of drawback for supply of goods to SEZ developers against Indian rupees;
- A number of other amendments to delegate powers and to simplify the procedure;
- Term “vacant land” defined for the purpose of SEZs;
- Clubbing of contiguous existing notified Special Economic Zones notwithstanding that

the total area of resultant Special Economic Zones exceeds 5000 hectares.

Suggestions have been received to amend the Rules further for extending the period of validity of formal approval, simplification of procedure for import of duty free material domestic tariff area etc. These requests are being examined.

III. Current status of approvals for setting up of Special Economic Zones

Seven Export Processing Zones set up by the Central Government at Kandla (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Noida (U.P.), Chennai (Tamil Nadu), Falta (West Bengal) and Visakhapatnam (Andhra Pradesh), were converted to SEZs upon announcement of the SEZ Policy. Another EPZ set up in the private sector in Surat was also converted to SEZ. In addition to these, 11 more SEZs were set up by the State Governments/ private sector during the period 2000-2005 in the States of West Bengal (2), Gujarat (1), Madhya Pradesh (1), Uttar Pradesh (1), Rajasthan (2) and Tamil Nadu (4). After the coming into force of the SEZ Act, 2005 on 10th February 2006, 568 formal approvals have been granted for setting up of Special Economic Zones, out of which 291 SEZs have been notified and are in various stages of operation.

The fact that the approved SEZs are spread over 19 States and 3 Union Territories indicates that these are not concentrated in any particular region. The total land area involved in the 568 formally approved SEZs and 144 in-principle approvals is around 1913 sq.kms. The total land area required for these SEZs would not be more than 0.064 % of the total land area of the country and not more than 0.118 % of the total agricultural land in India.

Table: 6.1**State-wise Distribution of Approved SEZs (as on 31.3.2009)**

State	Formal approvals	In-principle approvals	Notified SEZs
Andhra Pradesh	101	3	60
Chandigarh	2		2
Chattisgarh	1	2	
Delhi	1	-	-
Dadra & Nagar Haveli	4	-	-
Goa	7	-	3
Gujarat	50	11	25
Haryana	46	17	26
Himachal Pradesh	-	3	-
Jharkhand	1	-	1
Karnataka	50	9	25
Kerala	21	1	8
Madhya Pradesh	14	6	4
Maharashtra	109	35	48
Nagaland	2	-	-
Orissa	10	3	5
Pondicherry	1	1	
Punjab	10	7	2
Rajasthan	8	11	7
Tamil Nadu	69	17	47
Uttar Pradesh	34	5	16
Uttarankhand	3	-	2
West Bengal	24	13	10
GRAND TOTAL	568	144	291

Source: Department of Commerce

CHART 6.1

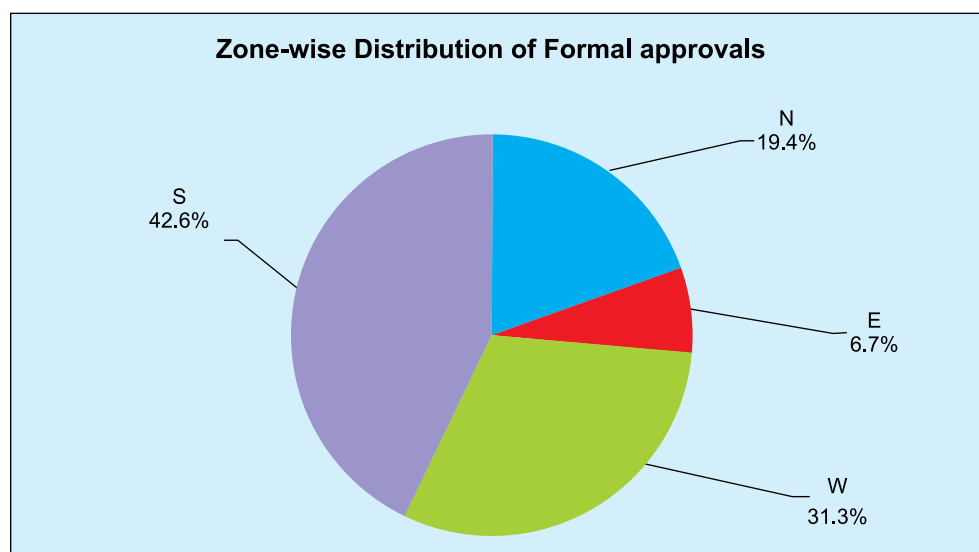
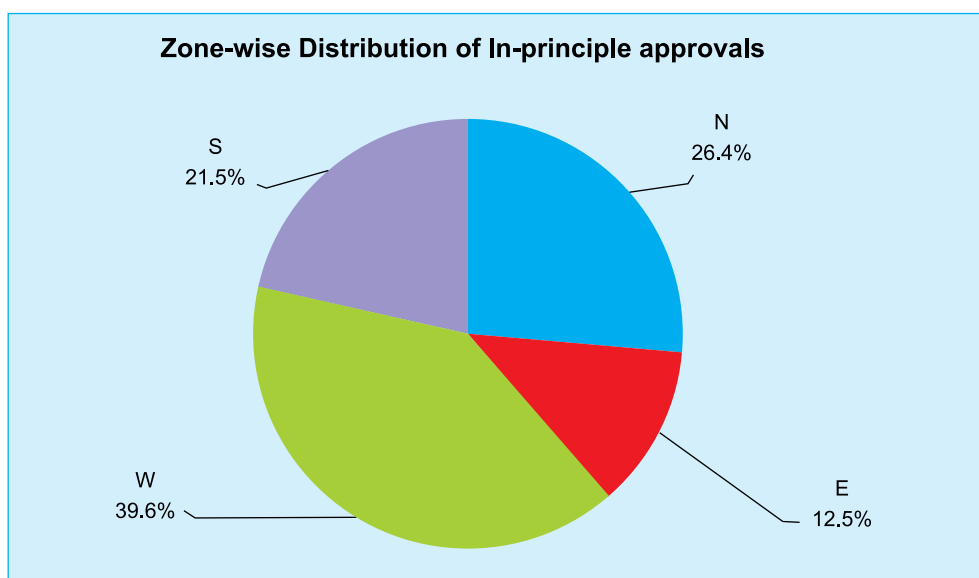


CHART 6.2



The six major sectors of IT/ITES, Hardware etc., Textiles and Apparel (including Wool), Pharma and Chemicals, Biotech, Engineering and Multi-products account for bulk (82%) of the SEZ formal approvals granted so far. IT/ITES/Electronic Hardware/Semiconductor is the single most important segment accounting for about 61% of the total formal approvals followed by Biotech and Engineering SEZs. More than half (about 51%) of the 568 formal approvals issued so far have reached

the stage of notified SEZs. This ratio is the highest in Pharma/Chemicals sector (68%) followed very closely by engineering sector (67%).

Among the major sectors, the progress in this regard is slowest in respect of Bio-tech SEZ wherein only 36% of formal approvals have been converted into Notified SEZs. Sector-wise details of formal approval, in-principle approvals and notified SEZs are given in table 6.2 and charts 6.3 and 6.4 below.

Table: 6.2**Sector-wise Distribution of Approved SEZs (as on 31.3.2009)**

Sectors	Formal approvals	In-principle approvals	Notified SEZs
Aviation/Aerospace	1	2	-
IT/ITES/Electronic Hardware/Semiconductor	348	11	188
Textiles/Apparel/Wool	20	13	11
Pharma/chemicals	22	2	15
Petrochemicals & petro.	4	0	1
Multi-Product	23	54	13
Building product/material	1	2	-
Beach & mineral/metals	3	0	1
Bio-tech	28	1	10
Ceramic & glasses	1	-	-
Engineering	24	9	16
Multi-Services/Services	17	11	6
Metallurgical Engineering	1	-	-
Electronic prod/ind	3	4	3
Auto and related	3	5	1
Energy related	-	-	-
Footwear/Leather	7	2	4
Gems and Jewellery	11	4	3
Power/alternate energy	4	2	2
FTWZ	8	8	1
Metal/Stain. Steel/Alum/Foundary	9	4	4
Food Processing	5	2	3
Non-Conventional Energy	5		2
Plasting processing	-	1	-
Handicrafts	4	1	2
Agro	5	4	2
Port-based multi-product	7		2
Airport based multiproduct	2	2	-
Writing and printing paper mills	2	-	1
GRAND TOTAL	568	144	291

Source: Department of Commerce

CHART 6.3

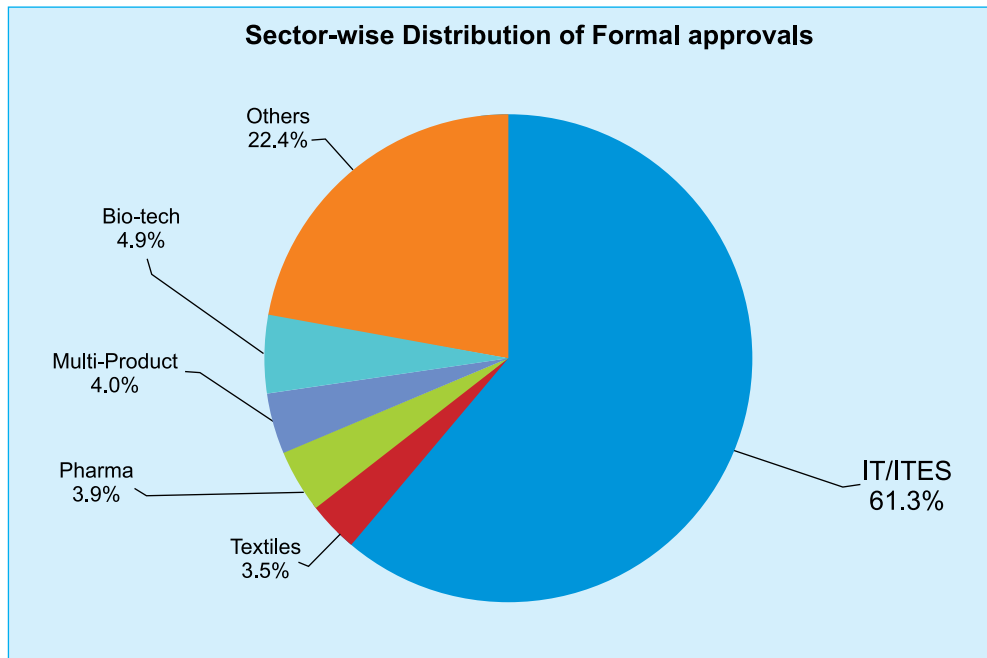
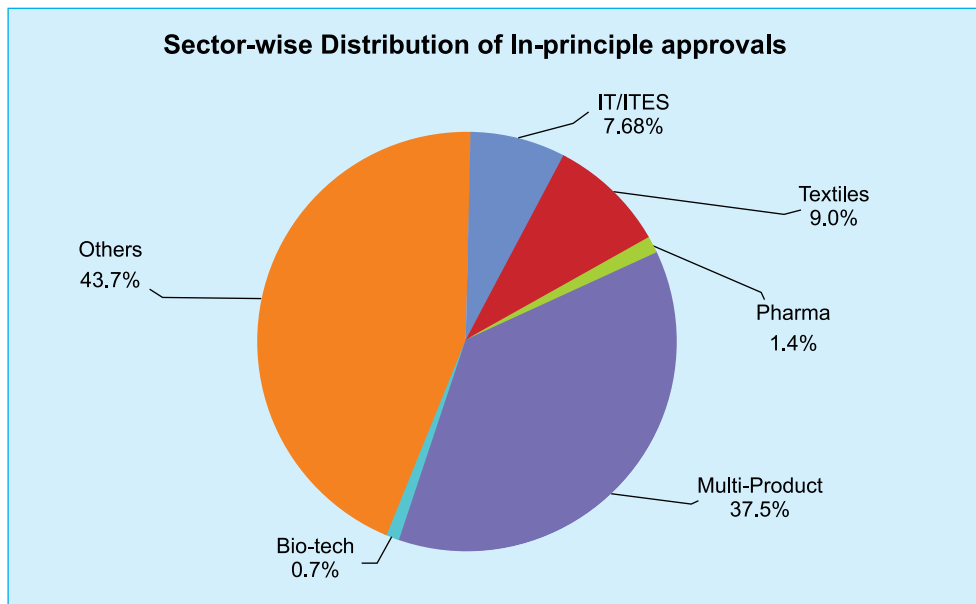


CHART 6.4



IV. Some success Stories in SEZs

Details of some prominent new generation SEZs which have made significant progress in terms of exports, employment and investment generation are given below:

Nokia Special Economic Zone in Tamil Nadu (Telecom Equipments SEZ):

- Physical exports of Rs. 10385.3 crore effected in three years (2006-07 to 2008-09)
- Direct employment provided to 14859 persons.

- Investment of Rs. 2225.47 crore has already been made in this SEZ, out of which FDI is Rs. 833.51 crore.
- Projected investment of Rs.2930 crore and projected direct employment of 20000 persons.

Mahindra City SEZ, Tamil Nadu (Apparels and Fashion Accessories; IT/Hardware; Auto Ancillary):

A cluster of three sector specific SEZs in Tamil Nadu, for Apparels and fashion accessories; IT and Hardware; and Auto ancillary. Employment, investment and exports together for these three SEZs are:

- Physical exports worth Rs. 1524.56 effected in three years (2006-07 to 2008-09) Direct employment provided to 9383 persons.

- Investment of Rs. 1372.5 crore has already been made in this SEZ, out of which FDI is Rs. 187.63 crore.
- Projected investment of Rs.2404.17 crore and projected direct employment of 56766 persons.

Apache SEZ (Adidas Group) in Andhra Pradesh (Footwear SEZ):

- Physical exports worth Rs.172.03 crore effected in three years (2006-07 to 2008-09)
- Direct employment provided to 5342 persons, out of which 1453 are women employees.
- Investment of Rs.227.15 crore has already been made in this SEZ, out of which FDI is Rs. 16.77 crore.
- Projected direct employment of 20000 persons.



Infosys Tech Ltd. –Mahindra World City

Wipro Limited, Andhra Pradesh (IT SEZ):

- Physical Exports worth Rs. 586 crore was effected in two years (2007-08 to 2008-09)
- Direct employment provided to 4437 persons.
- Investment of Rs. 371.701 crore has already been invested in this SEZ.
- Projected investment of Rs.223 crore and projected direct employment of 7000 persons.

Mundra Port and Special Economic Zone, Gujarat (Multi product SEZ):

- Physical Exports worth Rs. 768.44 crore was effected in two years (2007-08 to 2008-09)
- Direct employment provided to 870 persons.
- Investment of Rs.5219.009 crore has already been made.

- Projected investment of Rs.25545 crore and projected direct employment of 2,08,869 persons.

Reliance Jamnagar Infrastructure Ltd., Gujarat (Multi Product):

- Physical Exports in 2008-09 was Rs. 9882.28 crore.
- Direct employment provided to 2385 persons.
- Investment of Rs. 32082 crore has already been invested in this SEZ.
- Projected investment of Rs.36274 crore.

V. Employment, Investment and Exports in SEZs:

The details of employment and investment generated in the Special Economic Zones are given in Box 6.1 and 6.2 below:

Box 6.1

Direct Employment in Special Economic Zones (as on 31.3.09)

- SEZs in India provide direct employment to over 3.87 lakh persons;
- New generation SEZs set up under the SEZ Policy of 2000 and SEZ Act, 2005 are providing direct employment to about 1.9 lakh persons
- The incremental employment generated by the SEZs in the short span of time since the SEZ Act came into force in February 2006, is of the order of 2.53 lakh persons.

Box 6.2

Investment in Special Economic Zones

The Special Economic Zones notified under the SEZ Act, 2005 have already made an investment of Rs. 98498 crore in the very short span of time since the coming into force of the SEZ Act in February, 2006.

Export Performance

As on 31.3.2009, 91 SEZs have commenced exports. The exports in the current year i.e 2008-

09 from the SEZs as a whole have been to the tune of Rs.99689 crore. Exports from the functioning Special Economic Zones during the last six years are as under:

Table: 6.3

Exports from the functioning SEZs during the last six years

Year	Value (Rs. Crore)	Increase (%) (Over previous year)
2003-2004	13,854	39
2004-2005	18,314	32
2005-2006	22,840	25
2006-2007	34,615	52
2007-2008	66,638	93
2008-2009	99,689	50

Source: Department of Commerce



M/s Deltmal Safety Shoes Ltd., a unit in Falta SEZ

Foreign Direct Investment in SEZs:

In the Special Economic Zones notified under the SEZ Act, 2005 and SEZ Act, 2006 substantial amount of FDI has already been invested.

Some SEZs with major FDI component of investment are:-

- Apache SEZ Development India Private Limited, Andhra Pradesh
- Brandix India Apparel City Private Limited, Andhra Pradesh
- Emaar Hills Township Private Limited, Andhra Pradesh
- Zydus Infrastructure Private Limited, Gujarat
- Essar Hazira SEZ Limited, Gujarat
- DLF Limited, Haryana
- Tanglin Development Limited, Karnataka
- M/s Information Technology Park Ltd, Karnataka
- Quarkcity India Pvt. Ltd., Punjab
- Flextronics Technologies (India) Private Limited, Tamil Nadu
- SIPCOT SEZ, Tamil Nadu {Foxconn & Motorola (as co-developer) - Dell (unit)}

VI. Studies on Special Economic Zones:

According to a study conducted by the Institute of South Asian Studies (SAS), the fiscal environment available to SEZ developers and units have played a vital role in attracting export oriented foreign investment in areas such as hardware, apparel and shoes, which would have normally headed for other Asian destinations in its absence. This study also points towards the relief and rehabilitation packages in poor areas where people's lives have improved as a result of SEZ activity. The study has showcased some of the successful SEZs in manufacturing sectors in some of the investor

friendly states of India and also made suggestions on areas which need to be focused for the smooth execution of the SEZ Act in its spirit.

The Indian Council for Research on International Economic Relations has also undertaken a study on Special Economic Zones which concludes that if the opportunities thrown open by globalization are to be grabbed, policies ensuring a business environment that is predictable and is in tune with the needs of the private sector need to be the top priority of the policy agenda. The SEZ policy has been described as an attempt by the Government to turn around the domestic economy and find a niche in the global economy. According to this study, if implemented successfully, it can play a crucial role in promoting the manufacturing sector. While highlighting the incremental benefits in terms of employment, the study goes on to state that the SEZ policy will make a positive impact on regional employment and human development by creating economic opportunities, especially for those without high levels of schooling. The fact that the SEZ Policy has encouraged many of the Developers such as Nokia, Apache etc. for setting up of their operations in India has been brought out in the study. SEZ Policy has also encouraged Indian companies like Mahindra, Wipro, Infosys etc. to set up SEZs and units.

Another study by the CUTS International has revealed that the new generation SEZs have created a tremendous local area impact in terms of direct employment, emergence of new activities, changes in consumption pattern and social life, human development facilities (such as for education, healthcare).

Yet another report of CLSA states that SEZs will help build up local infrastructure and reduce the burden on urban areas by housing 12.5% of the growth in the urban population. It projects generation of 14 million new jobs and support annual exports of US \$ 350 billion on a cumulative investment of US \$ 213 billion.

VII. Misapprehensions about issues on SEZs

There have been several misapprehensions on issues relating to Special Economic Zones, such as misuse of land in SEZs, diversion of domestic industries, tax losses on account of fiscal incentives given to SEZs etc., which have been raised from time to time. Misuse of land while creating infrastructure in the non-processing area such as housing, commercial and shopping complexes etc is often quoted. The concept of developing a non-processing area in SEZs is to provide support facilities to the SEZ processing area and the employees working therein. The authorized activities are to ensure that world class infrastructure is set up to facilitate the operation of manufacturing and service units in the SEZ. The scheme envisages that the SEZ Developer would be responsible for providing all civic amenities and infrastructure including roads, sewerage systems, open spaces, green spaces, education facilities, power, water supply and housing etc. At the zone level, the Approval Committee headed by the Development Commissioner which has representatives of State Government officials and Revenue Department approves the activities of the Developer and the units. Only those authorized operations approved by the Board of Approval would be eligible for tax exemptions. In order to regulate usage of SEZ area by the developers, precautions have been taken by way of assessing the size requirement of infrastructural facilities like housing, commercial spaces, recreational amenities etc. based on the employment generation potential of the SEZ and granting approvals by the Board of Approvals. In respect of housing, it is allowed only in phases depending on the progress made in allotting/occupancy of the Units in the SEZs.

Another area of concern often cited was on shifting of domestic industries into SEZs. The objective of the Special Economic Zone Policy being

generation of fresh investment and employment, conversion of any DTA unit or even 100% EOU or STPI unit is not allowed. In order to ensure that such conversions do not occur, the SEZ Act and Rules stipulate that SEZs can be set up only on vacant land. Further, the use of second hand capital goods from the DTA has also been made in line with the provisions of the 10AA of the Income Tax Act, which allows only 20% of used plant and machinery. Studies on SEZs have revealed the fact that there are no evidences to support the view that such relocation of units from other schemes or DTA to SEZs is actually happening.

That the Government would be incurring tax losses on account of the direct and indirect tax incentives being given to SEZs is yet another apprehension expressed from time to time. However, evidences of employment and investment generated by the private sector SEZs in the short time span of two years of operation of the Act show that in the long run, the benefits accrued from SEZs would far outweigh the tax losses to the Government which are notional in nature. Since there are duty remissions provided for all exports and tax exemptions are available for infrastructural projects outside the SEZ, the loss of revenue cannot be attributed to only due to the fiscal incentives given under the SEZ Scheme. Unless suitable incentives are given, no developer would come forward to invest in such mega projects without any return. In any event, the direct and indirect tax income accruing to the Central/State Governments in times to come due to the increased economic activities in the SEZs and the surrounding areas would be far higher than the estimated tax loss.

VIII. Land acquisition and purchase of land for setting up SEZs

In the wake of controversies on land acquisition, the Ministry of Commerce and Industry has advised all the State Governments that in case of

land acquisition for setting up of Special Economic Zones, first priority should be for acquisition of waste and barren land and if necessary single crop agricultural land could be acquired for the SEZs. If perforce a portion of double cropped agricultural land has to be acquired to meet the minimum area requirements, especially for multi-product Special Economic Zones, the same should not exceed 10% of the total land required for the SEZ.

Subsequent to this, in pursuance of the decisions taken by the Empowered Group of Ministers, the State Governments have been informed on 15th June, 2007 that the Board of Approval will consider only those cases where the land has been allotted by the State Government or its undertakings out of the land acquired by them for industrial purposes before 5th April, 2007 or where the land was acquired by the State Government/ its undertakings

pursuant to SEZ in-principle approval and the land acquisition proceedings are over on or before 5th April, 2007 and there are no disputes relating to such land; or where no land acquisition is involved and the applicant is in possession of the land. The State Governments were informed that the Board of Approval will not approve any SEZs where the State Governments have carried out or propose to carry out compulsory acquisition of land for such SEZs after 5th April, 2007. The Board of Approval only approves those proposals which are duly recommended by the State Governments.

Export Oriented Units (EOUs)

The Export Oriented Units (EOUs) scheme introduced in early 1981, is complementary to the SEZ scheme. It adopts the same production regime but offers a wide option in locations with

Table: 6.4

State-wise distribution of Functioning EOUs (as on 31.3.2009)

States/UTs	Functional EOUs as on 31.3.2009
Andhra Pradesh	237
Chhatisgarh	1
West Bengal	74
Jharkhand	6
Orissa	22
Meghalaya	1
Gujarat	301
Kerala	69
Karanataka	442
Tamil Nadu	463
Pondichery	26
A & N Island	4
Maharashtra	387

States/UTs	Functional EOUs as on 31.3.2009
Goa,Daman & Diu	55
Dadra&Nagar Haveli	22
Delhi	47
Haryana	111
Uttar Pradesh	107
Punjab	24
Rajasthan	116
Himachal Pradesh	4
Jammu & Kashmir	3
Chandigarh	3
Uttrakhand	3
Madhya Pradesh	18
Total	2546

Source: Department of Commerce

Table: 6.5

Export performance of the EOUs (as on 31.3.2009)

(Rs. Crores)

Year	Value of Exports
2005-06	49,462.35
2006-07	69,964.60
2007-08	1,62,265.60
2008-09 (P)*	1,62,647.82

* (P) – Provisional data

Source: Department of Commerce

reference to factors like source of raw materials, ports of export, hinterland facilities, availability of technological skills, existence of an industrial base and the need for a larger area of land for the project. As on 31st March, 2009, 2546 units are in operation under the EOU scheme.

Exports during 2008-09 from EOUs were of the order of Rs.1,62,647.82 crores as compared to the

export of Rs.1,62,265.60 cores during 2007-08 registering a growth of 0.24 %.

EOUs are mainly concentrated in textiles and yarn, food processing, electronics, chemicals, plastics, granites and minerals/ores. Chapter 6 of the Foreign Trade Policy and Handbook of Procedure, (Vol-I) spells out the policy frame work for Export Oriented Units.

Box 6.3

Recent policy changes in the EOU scheme

W.e.f. 11th April, 2008:

- Income tax benefit to 100% EOU under Section 10B of Income Tax Act has been extended by the Government by one more year up to 31.3.2010.
- Interest @ 6% per annum shall be paid to the exporter in case of refund of Terminal Excise Duty and Central Sales Tax (CST) is not made within one month of the due date on all such claims that have become due on or after 1.4.2007.
- EOUs in Textile and granite sector using duty paid imported inputs up to 3% of the Freight on Board (FOB) value of export, will have to pay only excise duty on sale in Domestic Tariff Area (DTA).
- EOU not availing direct tax benefits would also get an enhanced duty credit scrip of 2.5% under Focus Product Scheme (FPS) for export of high value added manufactured products.

W.e.f. 26th February, 2009:

- Authorized person of Gem & Jewellery units in EOU shall be allowed personal carriage of gold in primary form upto 10 kgs in a financial year subject to RBI and customs guidelines.
- Re-imbursement of additional duty of excise levied on fuel under the Finance Acts would also be admissible in respect of EOUs.