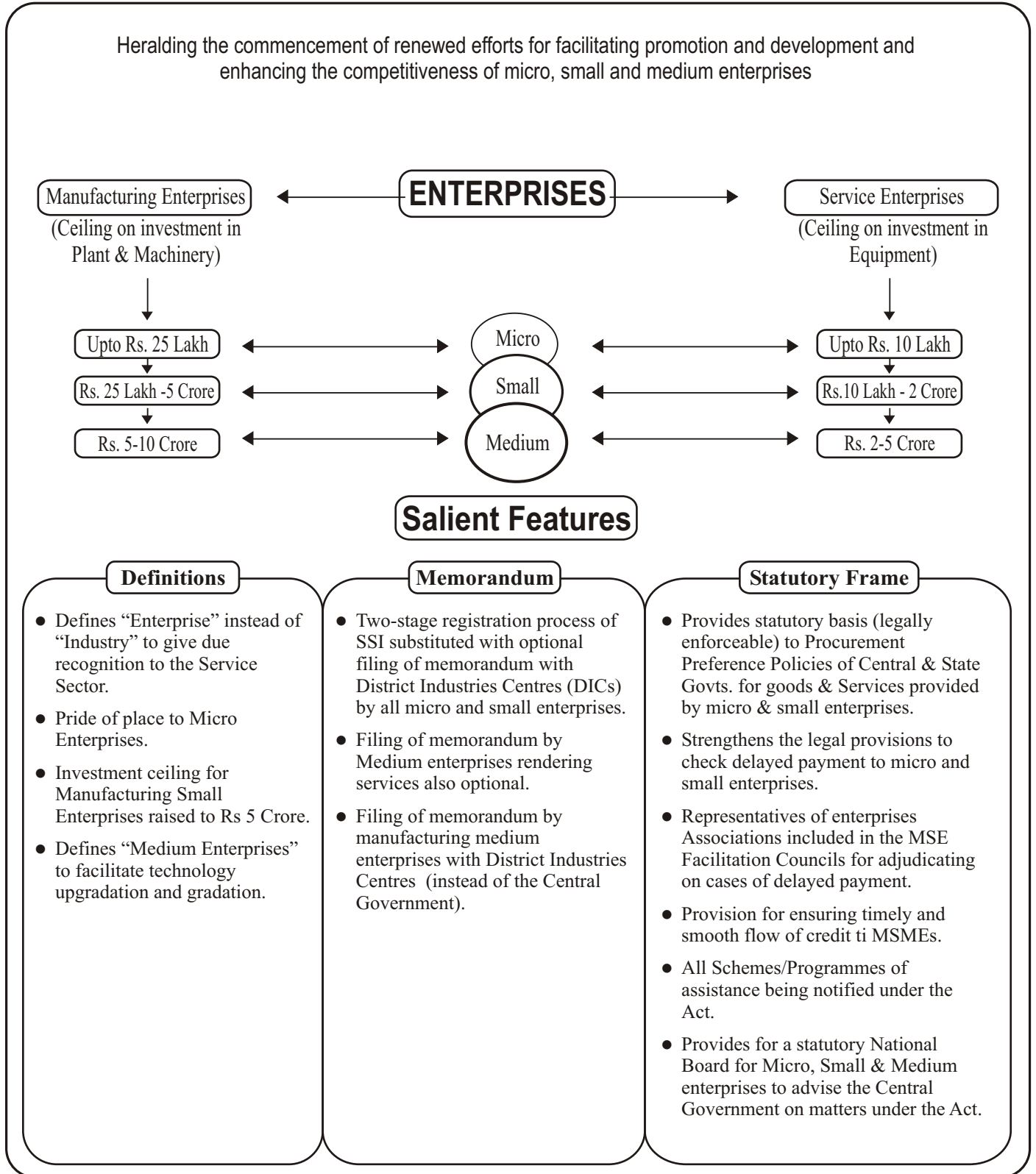


FOR THE KIND ATTENTION OF MEMBERS

1. New Nomenclature and Classification of MSME.



Source : FICCI Newsletter Issue 4 : April 2007

2. MSMED Act, 2006 - As per latest Government of India instructions issued on 1st August, 2007.

·Micro, Small and Medium Enterprises rendering services there is no limitation of 180 days from 2nd October 2006 for filing of EM. It is voluntary for them and these enterprises can file Entrepreneurs Memorandum (EM) anytime they decide to do.

·Other Enterprises i.e. medium enterprises those who could not file the EM within 180 days from 2nd October 2006, are allowed to file EM but they must file such EM expeditiously.

No. 2(3)/1/2007-MSME Pol.(Pt.)

Government of India

Ministry of Micro, Small and Medium Enterprises

Office of the Development Commissioner

(Micro, Small and Medium Enterprises)

'A'-Wing, 7th Floor, Nirman Bhavan

New Delhi-110011.

Dated: 1 August 2007

Subject: Filing of Entrepreneurs Memorandum by Medium Enterprises.

1. The proviso of Section 8(1) of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006 contains that an industry having an investment in plant and machinery of more than Rs.1.00 crore but not exceeding Rs.10.00 crore which had filed Industrial Entrepreneurs Memorandum with Department of IP&P in pursuance of Notification No. S.O.477(E) dated 25 July 1991 shall file the E.M. with the District Industries Centre concerned within 180 days from the commencement of this Act. However, a number of clarifications are being sought whether such enterprises which have not filed the E.M. within 180 days of the commencement of this Act can be allowed to file E.M.

2. MSMED Act 2006 under Section 31 empowers the Central Government to remove any difficulty that may arise in giving effect to the provisions of this Act by making an order to that effect. However, it may not be necessary to take recourse to the provisions of Section 31 since a closer reading of the proviso to Section 8(1) reveals that there is no bar on the cited enterprises (investment in P&M more than Rs.1.00 crore but not exceeding Rs.10.00 crore, etc.) from filing the said E.M., which they were enjoined to do within 180 days of 2 October 2006. That being the case, such enterprises may be prompted to file these Memoranda at least now. In fact, the State Governments, through the DICs, could be requested to inform such enterprises that they must file such E.Ms. expeditiously. It is worth mentioning here that MSMED Act, 2006 is facilitatory in nature and not regulatory.

3. To summarise the whole issue:

·For micro and small enterprises and for medium enterprises rendering service there is no limitation of 180 days from 2 October 2006 for filing of EM. It is voluntary for them and these enterprises can file EM anytime they decide to do.

·The kind of enterprises, mentioned in para 1 of this letter and which could not file the EM within 180 days from 2 October 2006, may be allowed to file EM as they have not been debarred from filing of EM after 180 days in MSMED Act, 2006.

(P.K. Sinha)

Deputy Director (MSME Pol.)

Tel.No.011-23061544

3. Guidelines on Lending to Priority Sectors revised.

(Extract from Small Industry Volume:16 Issue : 05 May - 2007)

As announced in the Reserve Bank's Annual Policy Statement for the year 2005-06, the prescriptions relating to priority sector lending have been modified and several new areas included from time to time. There is a view that enlargement of areas has resulted in loss of focus. There have also been suggestions for a further review of the eligibility criteria and other related aspects. Further, it is argued that only those sectors that impact large sections of the population, the weaker sections and the sectors which are employment-intensive such as agriculture, and tiny and small enterprises should be eligible for inclusion under the priority sector.

2. In this context, an Internal Working Group was set up in Reserve Bank (Chairman: Shri C. S. Murthy) to examine the need for continuance of priority sector lending prescriptions; review the existing policy on priority sector lending including the segments constituting the priority sector, targets and sub-targets, etc.; and to recommend changes, if any, required in this regard. The recommendations of the Group have been examined in the light of the comments/ suggestions received from the banks, financial institutions, Non-Banking Financial Companies, Associations of industries, media, public and Indian Banks' Association, and accordingly the guidelines on priority sector lending have been revised.

The detailed revised guidelines are available at GSIA Office for ready reference.

3. These guidelines take into account the revised definition of small and micro enterprises as per the Micro, Small and Medium Enterprises Development Act, 2006.

4. The revised guidelines will be effective with immediate effect. In case, any bank has any difficulty in complying with the revised priority sector guidelines, they may approach Reserve Bank of India with appropriate reasons and time frame for compliance.

4. The Regional Advisory Committee Meeting held on 27.06.2007.

The meeting of the Regional Advisory Committee for the Organized Sector and Small Scale Sector of the Commissionerate of Customs, Central Excise and Service Tax, Panaji-Goa was held on 27.06.2007 in the Conference Hall of the Commissionerate of Customs, Central Excise and Service Tax under the Chairmanship of Shri Chandrahas Mathur, Commissioner of Customs, Central Excise and Service Tax.

GSIA representative Shri Atul P. Naik attended the meeting and put forward the point under Central Excise and accordingly reply given the Chairman is reproduced here below as follows;

CENTRAL EXCISE

P.1. GOA VAT DEFERMENT CUM NET PRESENT VALUE SCHME 2005.

As recorded at point 8 in the Minutes of the RAC held on 15/12/2006, the Chairman had informed the members that the matter pertaining to claim of Central Excise on Sales Tax retained by the Assessees who had opted for Goa Sales Tax/VAT Deferment-cum-Net Present Value Scheme of the Goa Government is sub-judice and is pending before the Hon'ble Supreme Court of India for decision. Further the office of the Commissioner of Customs and Central Excise had informed Goa Small Industries Association vide their letter No. V/30/18(A)/06-CX-I/943 dated 14-3-2007 that as matter is time bound, Show Cause Notice have to be issued, however the Show Cause Notices will be kept in abeyance till the Apex Court decides the, matter.

However, now the Office of Deputy Commissioner of Customs and Central Excise have issued Show Cause cum Demand Notices to some of the Industries as to (i) why the additional amount retained by the industries should not be assessed to the Central Excise duty; (ii) why the said amount calculated as Central Excise Duty should not be demanded and recovered under the first proviso of sub-section (1) of 11A of Central Excise Act, 1944; (iii) why penalty equal to amount of duty should not be imposed and; (iv) why the interest on duty should not be demanded. The Assessees have been asked to reply within 30 days to the Show Cause cum Demand Notices.

The industry therefore, desires to know the exact view being taken by the Department in the matter.

R. Chairman informed the members that Show Cause Notices are required to be issued within normal period/ extended period as per the time limit prescribed under Section 11A of the Central Excise Act, 1944, further proceedings in these cases will be held in abeyance till the matter is decided by the Hon'ble Supreme Court.

Detailed minutes are available at GSIA office for kind information of members.

5. Explanatory Notes - Service Tax

Secondary and Higher Education Cess:

A cess @ 1% is being imposed on services liable to service tax. It shall be levied on the service tax payable on such services. The cess paid on inputs services shall be available as credit for payment of cess on output services. It will come into force from the date of enactment of the Finance Bill, 2007.

Section 65 is being amended to :

- (A) Specifically include and define the following services in the list of taxable services, namely:
- (i) telecommunication services; (ii) mining services;
 - (iii) services provided in relation to renting of immovable property, other than residential properties and vacant land, for use in the course or furtherance of business or commerce;
 - (iv) services component of a works contract, other than works contract in respect of roads, airports, railways, transport terminals, bridges, tunnels and dams;
 - (v) development and supply of content service for use in telecommunication services, advertising agency services and on-line information and database access or retrieval services;
 - (vi) asset management including portfolio management and all forms of fund management service provided by any person, except a banking company or a financial institution including a non-banking financial company or any other body corporate or commercial concern;
 - (vii) design services, other than interior decorator's service and fashion designing service.
- (B) Specify or expand, as the case may be, the scope of the existing taxable services as follows:
- (a) Sale of space or time for advertisement service, to specifically include sale of space in business directories, yellow pages and trade catalogues which are primarily meant for commercial purposes;
 - (b) Rent-a-cab service to include renting of motor vehicles capable of carrying more than twelve passengers for hire or reward, excluding such motor vehicle or maxicab rented to an educational body, imparting skill or knowledge or lessons on any subject or field, other than a commercial training or coaching centre;
 - (c) Mandap keeper service to specifically include services provided by mandap keepers in relation to use of mandap for organizing marriage functions;
 - (d) Pandal or Shamiana service to specifically include services provided by pandal of shamiana contractor in relation to use of pandal of shamiana for organizing marriage functions;

Management consultant's service,

* to rename the service as management or business consultant's service, and

* to explicitly include business consultancy in the definition itself;

Consulting engineer's service to delete the reference to exclusion of consultancy in computer hardware engineering and to specifically include consultancy in the discipline of computer hardware engineering;

Management, maintenance or repair service to clarify that "goods" includes computer software; define the following terms in relation to respective taxable services, namely;

- (i) design services;
- (ii) development and supply of content;
- (iii) renting of immovable property;
- (iv) telecommunication service;

Exemption from service tax :

The threshold level of service tax exemption for small service providers has been increased from the present level of Rs.4 lakh to Rs.8 lakh with effect from 1.4.2007, provided that the aggregate value of taxable services rendered by the such provider of taxable service from one or more premises, does not exceed Rs.8 lakh in the preceding financial year. (refer notification No.4/2007 - Service Tax dated 1.3.2007)

Consequent upon increase in threshold limit of exemption from Rs.4 lakh to Rs.8 lakh, notification No.26/2005-Service Tax dated 7.6.05 and notification No.27/2005 - Service Tax dated 7.6.05 have been amended to raise the limit for obtaining service tax registration from Rs.3 lakh to Rs.7 lakh. (refer notification No.5/2007-Service Tax dated 1.3.2007, notification No./6/2007-Service Tax dated 1.3.2007 and notification No.7/2007 - Service Tax dated 1.3.2007)

These changes will come into effect from 1st April, 2007.

Exemption from service tax is being provided to services provided by resident welfare associations to their members,

where the monthly contribution does not exceed Rs.3000/- per month. (refer notification No.8.2007 - Service Tax dated 1.3.2007)

Courtesy: CDISSIA-Vol. 9 Book12; March 2007 issue.

6. **Maharashtra State Financial Corporation Regional Office.**

Merger of Goa Regional Office with Kolhapur Regional Office.

Under the restructuring process of MSFC, it has been decided by the Corporation to merge MSFCs Goa Regional Office with Kolhapur Regional Office w.e.f. 1st August, 2007. The work pertaining to Goa Regional Office will henceforth be looked after / monitored from our Kolhapur Regional Office. However, for convenience of the borrowers, a small Office / Contact Point in the form of Branch Office will be kept in Goa at the present office address of Goa Regional Office.

It is, therefore, requested to make all the correspondence pertaining to MSFC's Goa Regional Office to the Regional Manager, MSFC, Kolhapur Regional Office, Kolhapur at the following address:

The Regional Manager

Maharashtra State Financial Corporation Regional Office, Kolhapur
Udyog Bhavan, Assembly Road,
Kolhapur - 416 003

Phone No: (0231) 2652451, 2657636

FAX No : (0231) 2652283

Email Id: msfckro@sancharnet.in

sd/-

P.M. Bandekar

Asstt. Manager (Law)

7. **National Manufacturing Portal under the Project Vikas a joint initiative of the National Manufacturing Competitiveness Council (NMCC) and the Microsoft (India) Pvt. Ltd.**

No.F.2(18)/2007-NMCC dated the 22nd June, 2007.

Government of India

National Manufacturing Competitiveness Council

Ministry of Commerce & Industry

Department of Industrial Policy & Promotion

The NMCC along with the Microsoft (India) Pvt. Ltd. has launched the National Manufacturing Portal under the Project Vikas. The Portal is designed to serve the MSMEs; individual firms/ companies; potential entrepreneurs; cluster industry associations; public at large in India and abroad, It contains data bank on MSMEs, empowerment of MSMEs through ICTs, geographical cluster locator's, Central/ State Government Acts/ Policies, credit finance related areas, IPR information and market information to increase market access etc. The Portal may be useful for members.

For more details please visit this portal at www.nmcc-vikas.gov.in or www.nmcc-vikas.in

sd/-

(P.C. Bhatt)

Additional Chief

Tel.No.: 011-23022405

8. **New Domain name for Ministry of Micro, Small and Medium Enterprises.**

Office Memorandum No. 71(12)/MPR/IT/2006, SENET dated 03 August 2007

Office of the Additional Secretary

& Development Commissioner (MSME)

Ministry of Micro Small Medium Enterprises

SENET Division, New Delhi

Consequent upon the merger of the Ministry of Small Scale Industries (SSI) and the Ministry of Agro & Rural Industries (ARI) into the Ministry of Micro Small and Medium Enterprises (MSME), a new domain name www.dcmsme.gov.in has been hosted by the office of the Development Commissioner (MSME).

This domain name is available on the web, alongwith the existing domain names www.laghu-udyog.com and www.smallindustryindia.com

sd/-

(Sanjeev Kaushal)

Joint Secretary & Add. Development Commissioner

SPECIAL ECONOMIC ZONES - A Review

SEZs were introduced in 2000 as part of the Foreign Trade Policy. A policy was introduced on 1.4.2000 for setting up of Special Economic Zones in the country with a view to provide an internationally competitive and hassle free environment for exports. Units may be set up in SEZ for manufacture of goods and rendering of services.

Thiru Murasoli Maran, our Late Industry and Commerce Minister picked up the concept of SEZ from its emulatory success story when he visited China. Consequently, the concept made a formal entry via the EXIM Policy and progressively climbed up the priority charts of successive governments. In the year 2004 the SEZ concept had a concrete base in India and Hon'ble Union Finance Minister in the same year in his budget speech announced that Special Economic Zones will be set up by me Ministry of Commerce and Industry for the growth of industries and economy. Accordingly, the Draft SEZ Bill was introduced in 2004, in year 2005, the SEZ Act, 2005 was enacted and now in 2006, the SEZ Rule is in force. Under the above rules and acts, approval had been given for setting up of 42 Special Economic Zones in various parts of the country in the private/joint sectors or by the State Government.

Detailed rules and acts can be had from www.sezindia.nic.in. Some of the Frequently Asked Questions on SEZ is given hereunder:

Q. What is a Special Economic Zone?

Special Economic Zone (SEZ) is a specifically delineated duty free enclave and shall be deemed to be foreign territory for the purposes of trade operations and duties and tariffs.

Q. Who can set up SEZs?

Any private/public/joint sector or State Government or its agencies can set up Special Economic Zone (SEZ).

Q. Can Foreign Companies set up SEZs?

Yes

Q. How can one apply for setting up of SEZs?

15 copies of application, indicating name and address of the applicant, status of the promoter along with a project report covering the following particulars may be submitted to the Chief Secretary of the State:

- Location of the proposed Zone with details of existing infrastructure and that proposed to be established;
- Its area, distance from the nearest sea port / airport / rail / road head etc.
- Financial details, including investment proposed, mode of financing and viability of the project.
- Details of foreign equity and repatriation of dividends etc., if any
- Whether the Zone will allow only certain specific industries or will be a multi-product Zone.

The State Government shall, forward it along with their commitment to the following to the Department of Commerce, Government of India:

- That area incorporated in the proposed Special Economic Zone is free from environmental restrictions;
- That water, electricity and other services would be provided as required;
- That the units would be given full exemption in electricity duty and tax on sale of electricity for self generated and purchased power;
- To allow generation, transmission and distribution of power within SEZ;
- To exempt from State sales tax, octroi, mandi tax, turnover tax and any other duty/cess or levies on the supply of goods from Domestic Tariff Area to SEZ units;
- That for units inside the Zone, the powers under the Industrial Disputes Act and other related labour Acts would be delegated to the Development Commissioner and that the units will be declared as a Public Utility Service under Industrial Disputes Act.
- That single point clearances system and minimum inspections requirement under State Laws/Rules would be provided.

The proposal incorporating the commitments of the State Government will be considered by an Inter-Ministerial Committee in the Department of Commerce. On acceptance of the proposal, a letter of permission will be issued to the applicant

Q. Are there any terms & conditions for setting up of SEZ?

Only units approved under SEZ scheme would be permitted to be located in SEZ.

- The SEZ units shall abide by local laws, rules, regulations or bye-laws in regard to area planning, sewerage disposal, pollution control and the like. They shall also comply with industrial and labour laws as may be locally applicable.
- Such SEZ shall make security arrangements to fulfill the requirements of the laws, rules and procedures applicable to such SEZ.
- The SEZ should have a minimum area of 1000 hectares and at least 25% of the area is to be earmarked for developing industrial area for setting up of units.
- Minimum area of 1000 hectares will not be applicable to product specific and port/airport based SEZs.
- Wherever the SEZs are landlocked, an Inland Container Depot (ICD) will be an integral part of SEZs.

Q. What is role of State Governments?

State Governments will have a very important role to play in the establishment of SEZ. Representative of the State Government, who is a member of the Inter-Ministerial Committee on private SEZ, is consulted while considering the proposal. Before recommending any proposals to the Ministry of Commerce & Industry (Department of Commerce), the States must satisfy themselves that they are in a position to supply basic inputs like water, electricity, etc.

Tax & Incentive Sops: The tax incentives package in India for SEZs is a shade better than China. China provides tax sops up to 3 years. Generally, a concessional tax rate of 15 per cent (as against 33 per cent) is available for SEZs. Our tax incentives may not be in line with the recommendations of the successive tax reforms committees, particularly the Chelliah Committee and the Kelkar Committee. The Kelkar panel was in favour of pruning and phasing out tax exemptions, while bringing down the overall tax rates.

100% FDI allowed for townships with residential, educational and recreational facilities on a case to case basis and franchise for basic telephone service in SEZ. Income Tax benefit under (80 IA) to developers for any block of 10 years in 15 years, Duty free import/ domestic procurement of goods for development, operation and maintenance of SEZs, Exemption from Service Tax /CST. Income of infrastructure capital fund/ co. from investment in SEZ exempt from Income Tax, Investment made by individuals etc in a SEZ co. also eligible for exemption u/s 88 of IT Act, Developer permitted to transfer infrastructure facility for operation and maintenance, Generation, Transmission and distribution of power in SEZs allowed, Full freedom in allocation of space and built up area to approved SEZ units on commercial basis. Authorized to provide and maintain service like water, electricity, security, restaurants and recreation centres on commercial lines.

Q. What is the approval mechanism for the units?

All approvals to be given by the Unit Approval Committee headed by the Development Commissioner. Clearance from the Department of Policy and Promotion/Board of Approvals, wherever required will be obtained by the Development Commissioner, before the Letter of Intent is issued.

Q. What is the obligation of the Unit under the Scheme?

SEZ units have to achieve positive net foreign exchange earning as per the formula given in paragraph Appendix 14-II (para 12.1) of Handbook of Procedures, Vol. I. For this purpose, a Legal Undertaking is required to be executed by the unit with the Development Commissioner.

The units have to provide periodic reports to the Development Commissioner and Zone Customs as provided in Appendix 14-1 F of the Handbook of Procedures, Vol. I.

The units are also to execute a bond with the Zone Customs for their operation in the SEZ.

Any company set up with FDI has to be incorporated under the Indian Companies Act with the Registrar of Companies for undertaking Indian operations.

Q. What are the incentive/facilities available for SEZ units?

Following incentive/ facilities to SEZ enterprises:

Customs and Excise :

SEZ units may import or procure from the domestic sources, duty free, all their requirements of capital goods, raw materials, consumables, spares, packing materials, office equipment, DG sets etc. for implementation of their project in the zone without any licence or specific approval.

Duty free import/ domestic procurement of goods for setting up of SEZ units.

Goods imported/ procured locally duty free could be utilized over the approval period of 5 years.

Domestic sales by SEZ units will now be exempt from SAD. Domestic sale of finished products, by-products on payment of applicable Custom duty.

Domestic sale rejects and waste and scrap on payment of applicable Custom duty on the transaction value.

Income tax

Physical export benefit 100% IT exemption (10A) for first 5 years and 50% for 2 years thereafter.

Reinvestment allowance to the extent of 50% of ploughed back profits.

Carry forward of losses

Foreign Direct Investment:

100% foreign direct investment is under the automatic route is allowed in manufacturing sector in SEZ units except arms and ammunition, explosive, atomic substance, narcotics and hazardous chemicals, distillation and brewing of alcoholic drinks and cigarettes, cigars and manufactured tobacco substitutes.

No cap on foreign investments for SSI reserved items.

Banking / Insurance/External Commercial Borrowings

Setting up Off-shore Banking Units allowed in SEZs. OBU's allowed 100% Income Tax exemption on profit for 3 years and 50 % for next two years. External commercial borrowings by units up to \$ 500 million a year allowed without any maturity restrictions. Freedom to bring in export proceeds without any time limit. Flexibility to keep 100% of export proceeds in EEFC account. Freedom to make overseas investment from it. Commodity hedging permitted.

Exemption from interest rate surcharge on import finance. SEZ units allowed to 'write-off' unrealized export bills.

Central Sales Tax Act:

Exemption to sales made from Domestic Tariff Area to SEZ units.

Service Tax:

Exemption from Service Tax to SEZ units.

Environment: SEZs permitted to have non-polluting industries in IT and facilities like golf courses, desalination plants, hotels and non-polluting service industries in the Coastal Regulation Zone area.

Exemption from public hearing under- Environment Impact Assessment Notification.

Companies Act:

Enhanced limit of Rs. 2.4 crores per annum allowed for managerial remuneration Agreement to opening of Regional office of Registrar of Companies in SEZs. Exemption from requirement of domicile in India for 12 months prior to appointment as Director.

Drugs and Cosmetics:

Exemption from port restriction under Drugs & Cosmetics Rules.

Sub-Contracting/ Contract Farming

SEZ units may sub-contract part of production or production process through units in the Domestic Tariff Area or through other EOU/SEZ units. SEZ units may also sub-contract part of their production process abroad. Agriculture/ Horticulture processing SEZ units allowed to provide inputs and equipments to contract farmers in DTA to promote production of goods as per the requirement of importing countries.

Q. Whether SEZs have been exempted from Labour laws?

Normal Labour Laws are applicable to SEZs, which are enforced by the respective state Governments. The state Government have been requested to simplify the procedures/ returns and for introduction of a single window clearance mechanism by delegating appropriate powers to Development Commissioners of SEZs.

Q. What are the facilities for Domestic suppliers to Special Economic Zone

Supplies from Domestic Tariff Area (DTA) to SEZ to be treated as physical export. DTA supplier would be entitled to :

- Drawback/ DEPB
- CST Exemption
- Exemption from State Levies
- Discharge of EP if any on the suppliers
- Income Tax benefit as applicable to physical export under section 80 HHC of the Income Tax Act.

Q. Who monitor the functioning of the units in SEZ?

Performance of the SEZ units monitored by a Unit Approval Committee consisting of Development Commissioner, Custom and representative of State Govt. on annual basis.

Q. Are SEZ's controlled by Government?

In all SEZ's, the statutory functions are controlled by the Government. Government also controls the operation and maintenance function in the 7 Central Government controlled SEZs. In rest of the operation and maintenance are privatized.

Q. What are the special features if we come to the zone?

The units would be entitled for a package of Incentives and a simplified operating environment.

Q. What about the Licenses for Imports?

No License is required for imports, including second hand machineries.

Q. If one buy goods from DTA should they require to pay State Sales Tax and Excise?

NO. State has exempted the sales from DTA to SEZ from local levies and taxes.

Q. What is the practical role of Development Commissioner?

Development Commissioner is the nodal officer for SEZs and help in resolution of problem, if any, faced by the units / developer.

Q. Routine examination of goods by customs in the EOU is common.

Will the same practice continue at the SEZ?

Customs examination is to the bear minimum. SEZ units function on self certification basis.

Q. What are the provisions relating to External Commercial Borrowing (ECB) in SEZ?

External commercial borrowings by units up to \$ 500 million a year allowed without any maturity restrictions For details please see guidelines issued by RBI.

Q. Will it be possible to supply to other units in SEZ?

YES. Inter Unit Sales are permitted as per the Policy.

Buyer procuring from another unit pays in Foreign Exchange.

Controversies between Ministries: The present Government gave the requisite legislative tooth on June 23, 2005, by promulgating the Special Economic Zones Act, 2005. Tax holiday provisions provide for a 15-year staggered tax holiday to units within the SEZs and complete 10-year holiday to developers of SEZs. The tax holiday provisions are similar to those provided to free trade zones, software technology parks etc. The obvious question is whether the SEZ regime implies backdoor entry for continuing with tax holidays, which otherwise expire in March 2009.

The tussle between the commerce and finance ministries, with one aggressively promoting and encouraging the SEZ scheme and the other against tax sops, stands to be resolved. The joint point statement by both ministers second week of October, presumably at the behest of the PM, is certainly a sigh of relief to project developers. There were claims of a whopping \$40 billion

revenue losses by the finance minister, countered by the commerce minister's claim that SEZs would lead to a net tax gain of \$25 billion by 2010. Lately, assurances from the North Block that SEZs shall not be viewed adversely have been welcomed.

Zones in India: At present there are eight functional Special Economic Zones located at Santa Cruz (Maharashtra), Cochin (Kerala), Kandla and Surat (Gujarat), Chennai (Tamil Nadu), Visakhapatnam (Andhra Pradesh), Falta (West Bengal) and Nodia (Uttar Pradesh) in India. Further a Special Economic Zone at Indore (Madhya Pradesh) is now ready for operation. In addition 18 approvals have been given for setting up of SEZ at Positra (Gujarat), Navi Mumbai and Kopata (Maharashtra), Nanguneri (Tamil Nadu), Kulpi and Salt Lake (West Bengal), Paradeep and Gopalpur (Orissa), Bhadohi, Kanpur, Moradabad and Greater Noida (U.P.), Vishakhapatnam and Kakinada (Andhra Pradesh), Valiarpadam/ Puthuvypeen (Kerala) Hassan (Karnataka), Jaipur and Jodhpur (Rajasthan) on the basis of proposals received from the State Governments.

Agitations of Farmers: First, the concept of SEZ included only the manufacturing sector. Later, it was enlarged to accommodate even service sector units also. Then it was further widened to include multiple products. Ultimately, the residential houses, roads, hotels, cinema theatre and even swimming pools are included under the SEZ concept.

The geographical locations required for such SEZ amounts to thousands of acres. The State Governments were ordained to procure lands for the SEZs. The compulsory procurement led to commotions and struggle all over the country. Our former Prime Minister, Shri V.P. Singh took the initiatives against SEZ in Uttar Pradesh. Later, agitations took aggressive phase in Maharashtra. Andhra Pradesh has also jumped the band wagon.

Farmers protest everywhere against taking their lands for SEZs. At one stage, the President of All India Congress Smt. Sonia Gandhi declared that no farm land would be divested from for SEZ. This was followed by categorical assurance from the Agriculture Minister Shri Sharad Pawar. Agitations all over the country till date and to a certain extent they were subdued.

The left parties have also protested. The West Bengal State Government is taking steps to organise one automobile zone in Kolkatta. The latest report from Maharashtra Government requested the SEZ developers to deposit 15% of the cost of the SEZ projects for rehabilitation for the badly affected farmers. The dark clouds are hanging, but we hope they will settle down soon.

Coutresy - SMALL INDUSTRY; OCTOBER, 2006 issue

SPECIAL ECONOMIC ZONE-ITS WORKING AND ADVANTAGES-AN OVERVIEW

-By Adv. Y. S. PAI BIR.
Hon. Advisor (Commercial Taxes) GSIA.



Government of India had announced a Special Economic Zone scheme in April 2000 with a view to provide an internationally competitive environment for export. The intention behind formulating such a scheme was to make available goods and services free of taxes and duties supported by integrated infrastructure for export production. The scheme also envisaged the package of incentives with a view to attract foreign and domestic investment for promoting export.

CONCEPT OF SEZ:-

Special Economic Zone (SEZ) is a specifically delineated duty free enclave which is deemed to be a foreign territory for the purposes of trade operations, duties and tariffs. According to government of India guidelines, SEZ can be developed in the public, private or joint sectors or by the State Government. It is expected that exploiting the concept of SEZ fully, will bring large dividends to the state in terms of economic and industrial development and also generation of employment.

ADVANTAGES OF SEZ:

SEZ offers the following advantages and benefits:

- Generation of additional economic activity.
- Promotion of exports; investment from both domestic and outside.
- Development of infrastructure.
- Creation of employment.

Besides undeveloped areas of the state could be brought under SEZ net for development.

GROWTH OF SEZ:-

The SEZ scheme has generated overwhelming response among the investors both in India and abroad. Since 10\2\2006 i.e. on enforcement of SEZ Act, 2005 and Rules framed thereunder, 341 formal approvals have been granted spread over 18 states and 3 Union Territories. As on 10\7\2007 out of the 341 formal approvals notifications in respect of 130 SEZ have been issued. In respect of SEZ notified after 10\2\2006 investment of Rs.42, 123 crores has been made and direct employment of over 35,000 persons is provided for. As per estimates further investment of Rs.2, 59, 159 crores is expected and 17.44 lakhs additional jobs are also expected to be created from these specified SEZ. The estimate up to December 2009 is further investment for Rs.3, 00,000 crores and 400 crores additional jobs on above stated 341 formally approvals SEZ comes in full operation.

As regard exports from SEZ, in the year 2003-2004 were Rs.13,854 crores which during the year 2006-2007 have gone up to 34,787 crores which marks an increase of 151% in 3 years period. The projection for 2007-2008 is over 67,000 crores and likely to cross 1 lakh in 2008-2009.

ROLE OF STATE GOVERNMENT IN SETTING UP OF SEZ:-

The State Government has to play a lead role in establishment of SEZ. Basic inputs like water, electricity etc shall have to be provided by the State. The area incorporated in SEZ should be free of environmental restrictions. Generation, transmission and distribution of power within SEZ needs to be permitted. Exemption on VAT, Octroi etc. on supply of goods from Domestic Trade Area to SEZ units is required to be granted. It is also necessary to delegate the powers under Industrial Dispute Act and other related labour laws to the Development Commissioner. Single window clearances system and minimum inspections should also be provided for.

INCENTIVE AND FACILITIES OFFERED TO SEZ UNITS:-

The incentives and facilities offered to units in SEZ, in short are as under:

- Duty free import/domestic procurement of goods for development, operation and maintenance of SEZ units.
- 100% Income Tax exemption on export income for SEZ unit's u/s 10AA of the Income Tax Act for first 5yrs, 50% for next 5yrs thereafter and 50% of the ploughed back export profit for next 5 years.
- Exemption for minimum alternate tax u/s 115JB of the Income Tax Act.
- External commercial borrowing by SEZ units up to US \$500million in a year without any maturity restrictions through recognized banking channels.

- Exemptions from Central Sales Tax and Service Tax.
- Single Window Clearance for Central and State level approvals.
- Exemption from State Sales Tax (VAT) and other levies as extended by the respective State government.

PROCESSING AREA AND NON-PROCESSING AREA:

The SEZ concept provides for developing Self Sustaining Industrial Township so as to increase economic activity and to ensure also that such increase does not create pressure on the existing infrastructure. In furtherance with this issue the SEZ policy has specified non-processing areas for creating support infrastructure. In short every SEZ comprises of processing area and non-processing area. The processing areas where alone the SEZ units are expected to come up whereas in non-processing area support infrastructure is aimed to be created. The SEZ developer carries the responsibility for all civic amenities and infrastructure including roads, sewerages, open spaces, green spaces, education facilities, power, water supply, housing etc. As per recent government decisions minimum processing area is fixed at 50% for multi-product SEZ as well as to sector specified SEZ.

MINIMUM LAND REQUIREMENT FOR DIFFERENT CLASS OF SEZ:

The SEZ rules provide for different minimum land required for different class of SEZ. These are 1000hectares for multi-product SEZ, 100hectares for sectors specified SEZ, 100hectares for multi-service SEZ and 10hectares for multi-built up processing area of 1lakh sq.mtrs, 40,000sq.mtrs and 50,000sq.mtrs for I-T, bio-technology, gems and jewellery SEZ respectively. Lesser minimum area required has been specified in respect to Union Territories and special category states. Goa is one of the beneficiaries.

SEZ SPREADING OVER:

Amongst the 341 formal approvals granted referred to above, 70 are in respect of Maharashtra, followed by 50 of Andra Pradesh and 50 of Tamil Nadu. As far as Goa is concerned the number stands at 7. The least ones are Chattisgarh, Jharkhand and Puducherry with one each. Viewed from sectorial distribution IT/ITES/Electronics Hardware/Semiconductor occupies the first place with 211 approvals. The Pharma (Chemical) and bio-technology occupies 15 and 17 approvals respectively. Amongst the successful SEZ's, mention has to be made to Nokia SEZ in Tamil Nadu which has already commenced commercial production and export. The investment is 100 million US \$. Additional 150 million US \$ investment is expected by December 2007. The employment provided is 3800 persons and the ancillary manufacturing industries which are being settled shall provide employment to 12,000 persons by December 2007. One more SEZ namely Maharashtra Airport Development Company Limited is expected to provide employment to 1, 20,000 persons so far 1200 persons have already employed. Yet one more SEZ namely Rajiv Gandhi Technology Park, Chandigarh has recruited 1000 persons who are under training and expected further employment of 6000 persons.

GOA SCENARIO:

Goa is a tiny State with total area of only 3701sq.Kmtrs and population of 11.4lakhs as per 2001 census. The major economic activity of the state includes Mining, Small Scale Industries and Tourism. In 2004-05 the ore export of Goa origin stood at 23,308 thousand tons. The Small Scale Industry units as on 31/12/2006 stood at 7095 employing 49,257 number of workers and 350crs of investment. The medium and large scale industries stand at 209 employing approximately 25,664 workers. As regards Tourism Industry, in the year 2005 tourists visiting Goa stood at 23.02lakhs out of which 3.39lakhs foreign origin tourists.

Every year three engineering colleges, Medical college, Polytechnic, Pharmacy College produce quite a large number of technocrats and technicians, doctors etc. given the size of the State and present state of investment, it is humanly impossible to create jobs for all of them and therefore our efforts should be to find out a solution to provide these ambitious young man and women opportunity to live a better life by providing them alternate source of work.

Given the size of the state, the land available for opening of SEZ, non availability of raw material within the state, one can very well visualize that the employment opportunity created with the opening of SEZ may not be substantially for local population. It is, therefore, likely that job seekers from outside the State may enter Goa Employment Market. Naturally, these people will bring their families thereby increasing the population which will put a pressure on Goa infrastructure such as water, electricity, roads, bridges and law and order. No doubt, SEZ can offer a solution on our employment problem but it has to be adopted cautiously. The industrial sector especially SSI and associations catering to their interests should therefore endeavour to hold a debate and to discuss the pros and cons of the issue thread bare. One of the solution could be to have SEZ in joint sector i.e. Goa state and private, in service sector exclusively, and that too on having reasonable size units within such SEZ to be allotted to SSI's and Micro Units. The cost can be recovered from them at affordable rates. This idea needs to be discussed thoroughly and developed as per needs.