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SEZs' area benefit: Small entrepreneurs may gain

TNC Rajagopalan / New Delhi July 26, 2010, 0:27 IST

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<http://www.business-standard.com/india/news/sezs%5C-area-benefit-small-entrepreneurs-may-gain/402510/>

The commerce ministry has made it a little easier to set up special economic zones (SEZs) for select sectors in smaller cities. The minimum built-up processing area requirement has been reduced for SEZs proposed to be set up in cities designated as B-1 and B-2 cities exclusively for electronics hardware and software (including information technology-enabled services) biotechnology, non-conventional energy (including solar energy equipment/cell) and gem and jewellery sectors.

In bigger cities designated as A and A-1 cities i.e. Mumbai, Delhi, Chennai, Kolkata, Bangalore, Hyderabad, Ahmedabad, Pune, Kanpur, Nagpur, Jaipur, Vijaywada, Lucknow, Surat, Coimbatore and Visakhapatnam, SEZs for electronics hardware and software (including information technology enabled services) must be set up with a minimum built-up processing area of 100,000 square metres. In these cities, the minimum built-up area requirement for biotechnology, non-conventional energy (including solar energy equipment/cell but excluding non-conventional energy production and manufacturing) is 40,000 square metres. For gem and jewellery sector, the minimum built-up area requirement is 50,000 square metres.

For B-1 cities, the minimum built-up processing area will be 50 per cent of that stipulated for A and A-1 cities. The cities covered in the B-1 list are Kochi, Patna, Indore, Bhopal, Guntur, Vadodara, Nashik, Guntur, Ludhiana, Agra, Kakinada, Raipur, Madurai, Varanasi, Rajkot, Rajahmundry, Jabalpur, Allahabad, Amritsar, Asansol, Dhanbad and Jamshedpur. In case of all cities, other than A, A-1 or B-1 cities, the minimum built-up processing area will be 25 per cent of that stipulated for A and A-1 cities.

The minimum land requirement of 10 hectares for the select sectors has not been relaxed. Also, the stipulation that at least 50 per cent of the land area shall be earmarked for developing processing area is not relaxed for multi-product and specific sector SEZ. Moreover, in SEZ having area less than 1,000 hectares, Free Trade and Warehousing Zone (FTWZ) may be permitted with no minimum area requirement provided the maximum area of such FTWZ does not exceed 20 per cent of the processing area. Earlier, this relaxation for FTWZ was available only for sector-specific SEZ.

The latest changes regarding lower minimum built-up processing area requirement for select sectors come at a time when there is widespread apprehension that the income-tax exemption will not be available for Export-Oriented Units (EOUs) and units in the Software and Electronic Hardware Technology Parks (STP/EHTP) under the Direct Taxes Code (DTC), to be put in place by next year. Already many established units in the select sectors in Domestic Tariff Area (DTA) or under the EOU/STP/EHTP schemes have started migrating to SEZs. Now, they have the option to establish or migrate to SEZs with a less minimum built-up area in the smaller cities. The revised DTC draft is silent on income-tax exemptions to new SEZ units but the expectation is that the exemptions will be made available for units established in SEZs that have already received approval.

The merit in the latest decision to allow SEZs with less built-up processing area for select sectors in smaller cities is that it may help smaller entrepreneurs also turn SEZ developers and help in providing employment in smaller cities but the flipside is that over a thousand SEZ tax havens may come up further distorting the tax regime. Whether a policy that encourages proliferation of small SEZs is worthwhile needs better consideration.

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