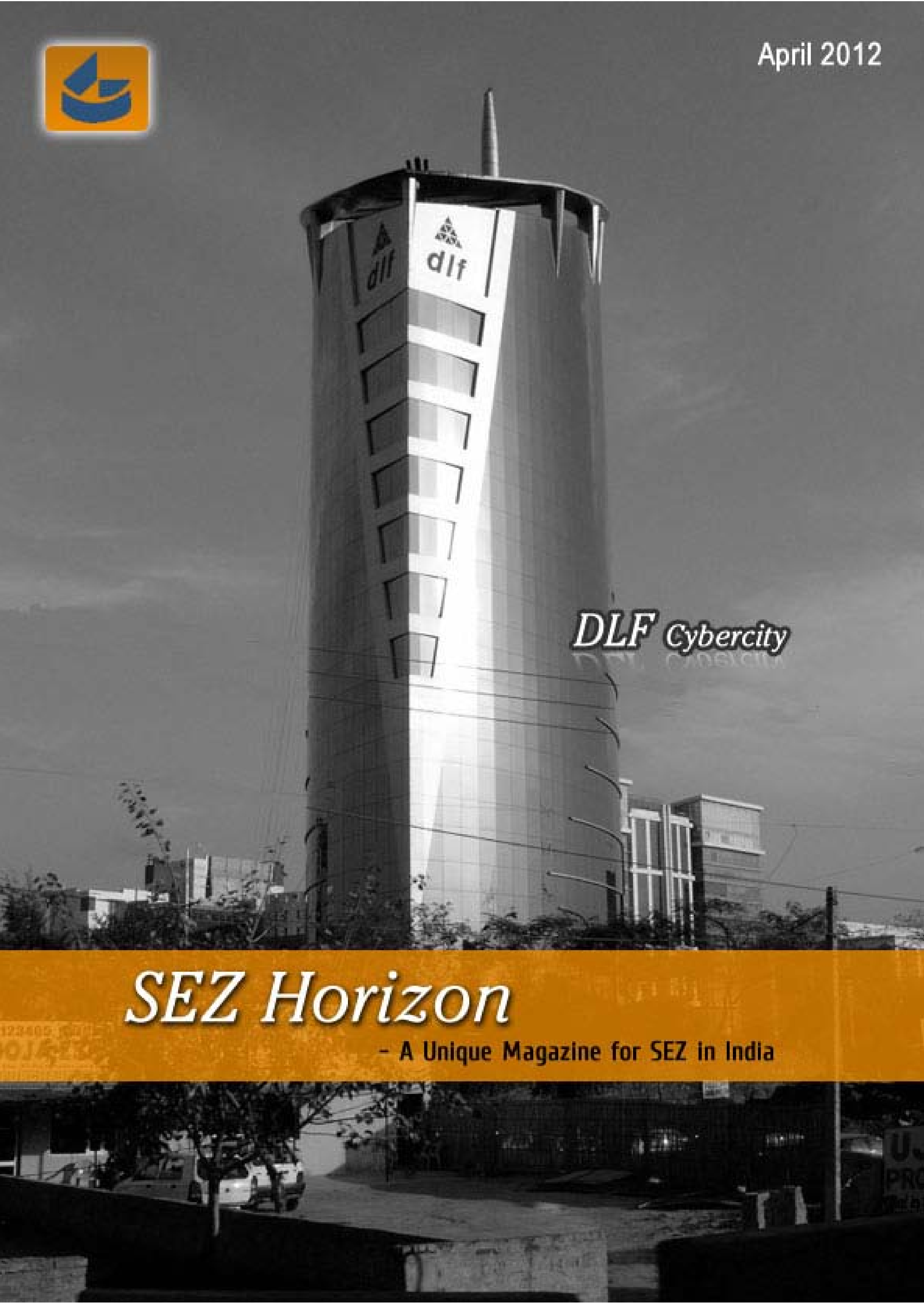
April 2012



SEZ Horizon

- A Unique Magazine for SEZ in India

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List of Content :

Editorial Desk…

Hello !

India is taking a new step in the financial arena since last budget. But in the sector of SEZ, the government should provide a stable policy framework coupled with incentives to encourage more investments in special economic zones (SEZs). The Minimum Alternate Tax (MAT) has discouraged investments as the industry has been expressing concern over the tax imposition on the book profits of SEZ developers and units. Therefore, there is a need for stable policy with long term incentives.

In this present scenario major SEZ developers are concerned about the deadline for profit-linked deductions with introduction of the Direct Tax Code (DTC) from April 1, 2013. The code, which will replace existing Indian Income Tax Act 1961, intends to cut tax rates to bring more people and companies under the tax net, phase out profit linked exemptions for companies and replace them with investment linked incentives.

Under the SEZ Act, SEZ units get 100 per cent tax exemption on profits earned in the first five years of operation, a 50 per cent exemption for the next five years and another 50 percent exemption on re-invested profits in the following five years. SEZ developers, on the other hand, get 100 per cent tax exemption on profits for 10 years, which they can choose to invoke within the first 15 years of operation.

This step of government gives us a clear signal that they are not much keen to promote the SEZ policy in India which is a matter of great concern for the national and global investors. We can only hope that in near future our government will change its approach.

On the ending note, I want to introduce the new look of SEZ Horizon. We know that change is the only constant thing in this world. So we are changing for a good cause. Hope that our government will do the same

Thanks and regards,
Debarati Chakraborty
Editor-in-chief, SEZ Horizon

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" Study of successful SEZs worldwide"

Writer : Anil Mehta
Head-SEZ
Kalpataru Ltd

SEZ Policy in India was introduced with much of enthusiasm and optimism and was considered as panacea for all the problems faced by Indian Industries, more particularly export driven industries. However immediately after of passing of SEZ Act-2005 and SEZ Rules-2006 in Feb-2006, SEZ Policy and SEZ Projects were marred by lot of controversies, mainly related to land acquisitions and so called revenue loss to Government exchequer due to tax breaks allowed to SEZ developers and SEZ Units. At one end Commerce ministry was looking SEZ policy as a major step to boost exports-both goods and services and rapid development of Export oriented industries, Finance ministry always viewed this is a sham for tax evasion and a major loss of revenue.

Acquisition of farm lands for SEZ development is a source of major controversy. No wonder, SEZ developers were greeted with opposition from farmers whose lands were acquired by state Govts for allotment to SEZ developers. Except Gujarat, almost all the states have faced this problem.

Within 5 years of launch of SEZ Policy and with 500+ SEZ approved, once a darling of private developers and policy makers, now SEZ Policy has became hot potato, no one want to touch.

With this background, its necessary to understand what has gone wrong with SEZ Policy in India and why it failed miserably. To find out answer to these questions, a brief study of successful SEZs worldwide is undertaken to understand right prescription and critical aspects of SEZ Development. We had considered and studied following factors as important for success or otherwise of SEZs;

- ✓ configuration of the SEZ including critical size, location, infrastructure etc;
- ✓ fiscal and non fiscal concessions and support provided by governments
- ✓ Development modes- Private sector / Public Sector /Joint sector and role of Government and Support extended for development of SEZs
- ✓ Financial viability and self-sustainability of the zones
- ✓ Social cost-benefit analysis
- ✓ Typical gestation period and phasing of the project
- ✓ Impact on national economy in terms of contribution to GDP, Export, Employment generation, FDI etc
- ✓ Investment required, employment and industrial output generated.

Purpose of this brief study is to understand what are the main factors that contributed success of SEZ in other countries and what has gone wrong with SEZ Policy in India.

Following are some of the most successful zones worldwide viz.

(a) Shenzhen Special Economic Zone, China
(b) Thailand Singapore 21 Industrial Park, Thailand
(c) Batam Bonded Economic Zone, Indonesia
(d) Jebel Ali Free Trade Zone, UAE
(e) SAIF Zone UAE

A brief study of Shenzhen Special Economic Zone is undertaken hereunder.

Background

Chinese administration had realized that its vast and cheap work force and untapped natural resources can help its economy grow at rapid speed but controlled economy and stringent laws are a major reason for keeping international companies away from it. With a view to achieve rapid industrial growth and attract foreign companies, Govt has decided to implement SEZ Policy. In July 1979, the State Council of China granted special economic powers to Guangdong and Fujian Provinces to create a special economic zone in Shenzhen city. The State Council gave the privilege of expanded authority over economic planning, investment decision making and the conduct of foreign trade to these two provinces. Guangdong and Fujian provinces were chosen as the testing grounds for bold and far-reaching economic reforms and policies.

Shenzhen is located in the south of Guangdong Province with Hong Kong to its south. It is a coastal city with floor space of 2020 square kilometers with total coastal line of 230 KMs

Important characteristics of Shenzhen SEZ made it a Industrial Powerhouse

- ✓ Located in Port city
- ✓ Excellent location on the east coast suitable for trade expansion
- ✓ Well developed economic foundation
- ✓ Abundant availability of labor
- ✓ Proximity to overseas Chinese business communities in Hong Kong, Macao, Taiwan – with a clear intention to attract them to Shenzhen

Shenzhen is the largest SEZ in China with a total area of 327.5 square kilometers or 32,750 Hectors or 80,000 acres of land (approximately one-third the size of Hong Kong and more than half the size of Singapore).

In 2010, area of Shenzhen SEZ was expanded to cover entire city of Shenzhen and thus the area of the economic zone increased from 327.5 square kilometers to 1,952.8 square kilometers. This make Shenzhen SEZ expanded to 6 times then its original size

Configuration and Management

Shenzhen City is under the direct administration of the Guangdong Provincial Government and consists of two geographical areas, the SEZ and the non-SEZ.

Investment Options

Shenzhen SEZ offers many options for foreign and domestic investors for investing in the SEZ. These options include free trade or bonded zones, a high-tech industrial park and a large industrial estate, which offer competitive grants and incentives.

Industries

Shenzhen SEZ has attracted large number of industries, most important of which are as under:

- Electronics
- Textiles
- Edible Oils, agriculture, dairy and food industries.
- Petrochemicals
- Footwear
- Logistic and Warehousing

Infrastructure Development

Infrastructure development at the Shenzhen SEZ was essentially carried out with support from the central and the provincial government, since the fiscal revenues from the existing industrial and commercial sector was very small. The support from the government was as high as 48 percent in the initial years and subsequently reduced to 24 percent of total capex when the SEZ was able to raise funds from internal and external sources.

During the period 1985 to 1995, the SEZ accounted for more than 90 percent of the investment in production and non-production activities in Shenzhen City.

Of the total investment of RMB 17.23 billion (US$ 2.07 billion) made into Shenzhen City for infrastructure development, RMB 15.72 Billion (US$ 1.89 billion) was accounted for by the infrastructure development at the SEZ for production and non-production purposes. The production related investment category included projects in agriculture, industry, construction, and transport and communication sectors. The investment in the non-production category includes urban utilities, education and recreation facilities, health care, residential and the R&D sector.

Investments and Sources of Funds for investment

SEZ had to essentially depend on government support since the economic base of Shenzhen City was very small and therefore insufficient for development needs of the SEZ. The investment scenario however changed considerably in the following years with more emphasis on foreign investments, self-financing schemes and domestic loans. The State Appropriation, which was initially to the tune of more than 40 percent, was reduced to nil in the 1990’s. The self raised funds made the maximum contribution (of more than 50 percent) to the investments made in the SEZ.

Labour Reforms

Labour reforms were introduced in the SEZ, A significant relaxations is allowed from otherwise stringent labour laws applicable in other parts of China.

Administration

The Shenzhen Development Company acts as an SEZ agent in negotiating land leases, and receiving foreign investment and is also responsible for the overall administration of the SEZ. Parallel to the Company, the Municipal Government headed by the Mayor assures a high level of contact with the Provincial Government of Guangdong for the SEZ.

Performance of the SEZ

The Growth Pattern and Economic Structure of Shenzhen SEZ

Shenzhen SEZ has grown rapidly since 1980. While the Chinese economy grew at a rate of 9.6 percent, the SEZ grew at a rate of 40 percent during 1984 to 1998. The growth of Shenzhen SEZ can be divided into the following broad phases:

- The initial phase of construction (upto 1984)
- The second phase of downswing (1984-1986)
- The third phase of major development (1986 onwards)

The rate of real GDP growth was very high (averaging 75 percent) during the initial phase of development in SEZ, mainly due to low base effect. The high growth rate during this period was due to the construction and real estate boom, expansion activities in the SEZ and a weak base from which the SEZ was carved out. The second phase of development was a major downswing for the SEZ; the growth rate fell from about 69 percent to less than 25 percent in 1985 and by 1986 reached an all time low of 2.7 percent. This sharp decline was due to the policy changes, which took away the investment interest of the foreign investors.

The State Council approved the plan of expanding the Shenzhen Special Economic Zone to the entire city of Shenzhen in 2010, and thus the area of the economic zone increased from 327.5 square kilometers to 1,952.8 square kilometers. Just see the size. Area of Mumbai including New Mumbai is 603 Sq.Mtrs whereas area of Delhi NCR is 177 Sq.KMs,(source Wikipedia) i.e area of Shenzhen SEZ is almost 11 time than entire Delhi NCR.

ACHIEVEMENTS OF SHENZHEN SEZ

1. In 2009 GDP of Shenzhen SEZ hit 820 billion yuan ($120 billion), from $0.12 billion, 979 times greater than total output value in 1979, or an year on year average annual growth rate of 25.8 percent for a period of 30 years This is nothing short of a miracle. Starting with the construction of urban infrastructure facilities, the stunning speed of economic development in the Shenzhen SEZ has drawn worldwide attention over the past 30 years.
2. Shenzhen is among the top cities in China with its per-capita GDP in 2009 reaching $13,600, equal to the world-acknowledged standard of moderately developed countries. The GDP per capita, in India was last reported at $3582 in December of 2010.
3. Over the past 30 years, the city has undertaken a large number of urgently needed projects for economic and social development in such sectors as transportation, communication, energy, and municipal facilities, as well as industrial projects that drive the city's economic growth. Today Shenzhen boast of best social and industrial infrastructure, comparable to any European or American City.
4. Residents' savings deposits rose from 37 million yuan ($24.6 million) in 1979 to 572 billion yuan ($84 billion) in 2009, with per-capita savings deposits growing from 118 yuan ($78) to 64,223 yuan ($9,444), according to Chinanews.com. This might be highest per capita Saving Deposit worldwide.
5. Currently, Shenzhen is home to 167 top 500 companies worldwide. List of companies in Shenzhen includes Wal-Mart, General Electricals, Sony, Toshiba, Mitshubushi, Huawei Technologies and so on They lead the city's industrial upgrading efforts and promote Shenzhen's development into an international metropolis

Shenzhen SEZ is a vivid example of what a rightly configured and developed SEZ do to Economy and wellbeing of the citizen of Country. It is the time for Indian Government to wake up and take a call for revival of SEZ in India

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Special Economic Zones Must for Industrial Revolution.

Writer : Hom Nath Gaire

A Special Economic Zone (SEZ) is a geographical region that has economic laws that are more liberal than a country's typical economic laws. In more specific terms, SEZ is a trade capacity development tool with the goal to promote rapid economic growth by using tax and business incentives to attract foreign direct investment (FDI) and technology.

By offering privileged terms, it is assumed that SEZ can attract domestic as well as foreign investment and foreign exchange, encourage employment and boost the development of improved technologies and infrastructure.

Moreover SEZ provides a mechanism wherein it not only attracts foreign companies looking for cheaper and efficient location to set up their offshore business, but it also allows the local industries to improve their export through a proper channel and with the help of the new foreign partners to the rest of the world at a very competitive price.

This is because, SEZ offers relaxed tax and tariff policies which is different from the other economic areas in the country. Duty free import of raw materials for production is one example. Moreover, the free trade zones attract big players who want to set up business without any license hassles and the long process involved in it.

Most of the allotment, for SEZ, is done through a highly transparent and shorter one window system. One of the mottos to set up SEZ, therefore, is to increase FDI, enabling increased public-private partnership and ultimately resulting in a development of world class infrastructure, boost economic growth, exports and employment.

China is the pioneer of the concept of SEZ where more than one third FDI is contributed by SEZs. The SEZ model, as the engine of growth was also successfully implemented in Poland and Philippines. In Poland, the SEZs contribute almost 40 per cent of the FDI inflows. Shenzhen in China has been at the helm of rapid economic development, after growing by an amazing 28 per cent's annual growth in FDI for the last 25 years.

The SEZ policy was first introduced in India in 2000 AD, as a part of the Export-Import (EXIM) policy. It has been successful in enhancing foreign investment and promoting exports from the country to provide level playing field to the domestic enterprises and manufacturers to be competitive globally for the purposes of trade operations, duties and tariffs. Now there are more than 3000 SEZs operating successfully throughout India. The SEZs are important in today's context for the least developing countries like Nepal, which have been suffering from low economic growth, huge trade deficit and mass unemployment. For undertaking any kind of massive development program the government requires huge amount of funds. So it looks out for potential partners to help the government carry out the program. Now for setting up an SEZ, the government may tie up with a private partner willing to invest in that area, thus a win-win situation for both.

The government gets the capital needed to establish the required infrastructure and also the expertise. The private player on the other hand gets the right to market and use the SEZ with relaxed tax laws, thereby, increasing its revenue generating capacity and also moving out the economic growth of the company in a more efficient way with better tax policies. Actually SEZs with relaxed import tariffs help the import dependent and export driven industries to flourish by helping them develop manufactured goods at competitive prices.

Though the concept of SEZ originated years ago, there is no SEZ operating in Nepal till now. The government has finalized some areas to construct the SEZs and even completed the construction of one SEZ in Bhairahawa. But the SEZ Bill is pending in the parliament, where it was tabled by the Ministry of Industry about three years ago. Giving reasons for the Bill not being approved by the Government, according to the Ministry of Industry, the Bill is facing opposition from some of the members of the ruling party.

The Industry Minister had said sometime ago the government will enact the SEZ bill through ordinance before the upcoming session of parliament to address investors´ concerns and promote industries. Speaking at a program organized by Confederation of Nepalese Industries (CNI) to discuss draft Industrial Enterprise Act, he had said the government was prepared to enact the law through ordinance as opposition from a faction of UCPN Maoist forced him to withdraw the bill from the regular agenda during a session of the parliament. According to a source, discussions are on of the possibility of enacting SEZ bill through ordinance before the next session of parliament. Initially, labor unions protested saying it does not protect labor rights. But after trade unions softened their stance, resistance from a faction of Maoist emerged. Industrialists, meanwhile, requested the government to enact the SEZ bill as soon as possible and to provide all the facilities promised in the bill. Once the SEZ Bill is passed, SEZ at Bhairahawa, bordering India will come in operation. Another SEZ is ready to set up in Simara, near of Birgunj dry port. SEZs on these locations will reduce transportation costs and make our goods more competitive in the Indian market. The SEZs would benefit the garment, carpets, handicrafts as well as other sectors of Nepal.

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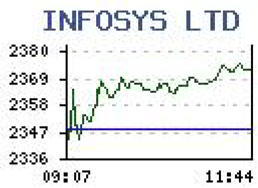
Infosys to expand SEZ in Dakshina Kannada district

Infosys Technologies, India's second largest IT services company, has secured an additional 42 acres of land for its proposed facility at the ITôITeS Special Economic Zone (SEZ) in the coastal district of Dakshina Kannada. The State High Level Clearance Committee (SHLCC), headed by the chief minister of Karnataka has recently approved the request of the company for allotment of additional land.

The company is already in possession of 311.86 acres in the SEZ, which was allotted to it by the state government in 2004.

BSE | NSE Price



Last but not the least, the huge transfer pricing adjustments leading to potential high tax outflows and routine rejection of service tax refund claims made by transfer pricing officers are adding fuel to the fire.

According to highly-placed sources in the state government, Infosys had informed the state government that out of 311.86 acres only 100 acres was usable. The remaining 211.86 acres land forms valleys, hillocks, undiluted and steep slopes and cannot be used. Further, the official said, to make the boundary of ITTES SEZ complete and contiguous, the company has requested for allotment of additional 42.74 acres of land at Pajeeru, Kairangala and Kurunadu villages of Bantwal taluk in Dakshina Kannada District.

The government said out of the 42.74 acres about 35.51 acres were notified for acquisition by Karnataka Industrial Area Development Board (KIADB) in various survey numbers of Kairangala, Kurunadu & Pajeeru villages of Bantwal taluk in Dakshina Kannada district and remaining 7.23 acres of government land is being handed over by the Dakshina Kannada district authorities, for the project. Confirming the development, Infosys spokesperson said the new piece of land is on the southern side of the existing IT SEZ campus and is part of the existing SEZ. This was taken up to complete the campus which was a part of earlier master plan to make the campus a contiguous piece.The company in the first phase of the software development centre plans to create a built up area of 2 million square feet with an investment of around Rs 700 crore.

"We started operations in this park in 2007. The total built up area is 1.13 million square feet (including 0.4 million under construction) and have already invested Rs 380 crore in this project", Infosys spokesperson added.As of March 2012, in Mangalore the company has a built up area of 9,50,072 square feet with a seating capacity of 4,682 and another 3,83, 897 sq.ft is under construction which will have a seating capacity of 2,500 people. Presently, the company has one more software development centre in Mangalore with 1,200 engineers, which was set up in the year 1996.

Headless, CSEZ slips into danger zone

KOCHI: Uncertainty looms large over the business prospects of the Cochin Special Economic Zone (CSEZ), Kakkanad, as it has been functioning for the past eight months without a new chief. According to sources, the institute is facing such a dilemma for the first time since its inception in 1984.

The absence of a Development Commissioner (DC), who is the overall authority of the CSEZ, has put many activities on hold. Though the central government had appointed commissioners on ad-hoc deputation twice, sources said that was only a temporary solution. “The ad-hoc DCs appointed twice by the Union Ministry of Commerce were based at Vishakapattanam. In the event of major issues which called for an immediate addressal, the ad-hoc DCs were not able to tackle them effectively. The co-ordination with other authorities faced difficulties,” said a highly-placed CSEZ official.

The standoff between the customs authorities and CSEZ over the inspection of transshipment containers at the International Container Transshipment Terminal (ICTT) has reportedly got worsened in the absence of a DC. The Customs and the CSEZ authorities have been at loggerheads ever since the commissioning of the ICTT. The former had sought permission to inspect the transshipment cargo, but this was� unacceptable to the CSEZ authorities who maintained that the entry to ICTT was restricted because the area came under the SEZ Act. “Foreign investors have been lured to CSEZ by offering amenities such as uninterrupted power and water supply and a strike-free environment. However, state government has now imposed a load-shedding on CSEZ. To take this issue up with the state government, we do not have a chief,” sources said.

The companies under CSEZ together contribute `30,000 crore to the exchequer. There are about 160 companies under the CSEZ with 15,000 employees. Appointing a DC is the need of the hour, and the lethargy of the concerned authorities is deplorable, they added.

HPCL set to revive Vizag project, applies for land

Hindustan Petroleum Corporation Ltd (HPCL) is set to revive its plan to set up an integrated mega refinery near Visakhapatnam.
The company has approached the Andhra Pradesh government for allotment of about 1,500 acres at Achyutapuram near Vizag for this.
The land the state-owned company is keen on falls under a special economic zone and the state is yet to take a final decision on that.

According to state government sources, HPCL is keen on setting up a mega refinery, an aromatic plant and a naphtha unit in its proposed project with an estimated outlay of Rs 35,000 crore.
The refiner had come up with a similar proposal in 2006 and was allotted the required land by the government. However, it had deferred its plan and the land was also taken back by the government.

“The proposal is still at an early stage. They (the HPCL officials) have met state government officials and conveyed their interest in going ahead with the project this time. However, land allotment is an issue this time since significant part of the SEZ land has already been allotted. Anyway, the state government has asked HPCL to come back with a detailed report on the project,” a government source said.

HPCL already has a refinery near Vizag with a capacity of about 8.3mmtpa. The Vizag refinery is the largest in terms of capacity while the other refinery is in Mumbai with a capacity fo about 6.5 mmtpa. According to sources, HPCL was also keen on roping in a partner for the proposed second project at Vizag. However, it could not find a suitable partner.

“The issue of incentives has also come up during the recent meeting. The state has a policy for each of the sectors and the incentives would be passed on accordingly,” the source said.

In fact, the state government is this time confident of HPCL grounding its project while not insisting on a particular set of incentives since it is believed that the oil company had earlier gone to other states after deferring its Vizag plans and could not find a suitable location.

“It will be a prestigious project and the government too is keen on accommodating the project near Vizag. However, there is a lot of procedure to follow before confirming the arrival of the project,” the source said.

Lupin to set up new plant at Nagpur

Pharmaceutical firm, Lupin, is setting up a new manufacturing plant at the MIHAN special economic zone (SEZ) in Nagpur, entailing an investment of Rs 400 crore over a period of five years.

The new formulation manufacturing facility at the Multi modal International Cargo Hub and Airport (MHIAN) SEZ will take close to a year to be operational, the company said in a statement.

While the company did not specify the investments to be made in the new facility, sources said it will be “around Rs 400 crore in a phased manner over a period of five years“.

The company today held the ground breaking ceremony of the plant.

Commenting on the development, Lupin Ltd Group President and Executive Director, Mr Nilesh Gupta, said: “The strategic investment in the new formulation facility at MIHAN is not only in keeping with the consistent growth that Lupin has witnessed across key markets like US, but it would also ensure that our manufacturing capacities are attuned to future demand.”

The company will be using the Nagpur facility to export formulations to developed markets like US, Europe, Japan and along with some key emerging markets.

Lupin operates 11 facilities across India and Japan. It has been investing about $ 100 million on capital expenditure each fiscal for the last three years.

Shares of the company were trading at Rs 538.55 per share in the late afternoon trade on the BSE, down 1.81 per cent from the previous close.

Norms eased for setting up power units in SEZs

In a boost to power firms with plans to set up units in Special Economic Zones (SEZ), the Government has exempted them from the positive net foreign exchange (NFE) obligation applicable to regular units in such enclaves.

The decision will help power companies such as Torrent Energy, Welspun Energy and AES.

Most power firms have been reluctant to set up plants in SEZs due to feasibility concerns arising from the positive NFE norm. The positive net NFE norm stipulates that foreign exchange earned from exports should exceed foreign exchange spent on imports.

According to the new guidelines, power plants can be set up by developers and co-developers in the processing area (where export units are present) as well as in the non-processing area with social infrastructure, including houses, schools and hospitals.

Power plants in the processing area can also avail themselves of fiscal benefits under the SEZ Act. These include benefits for initial setting up, such as duty-free import of raw materials, components and consumables for operation and maintenance of the power plant as well as generation of power. According to the norms, power plants in both the processing and non-processing areas will have no obligation to achieve positive NFE status.However, if a power plant is set up as part of infrastructure facility in the non-processing area, it will be entitled to fiscal benefits only for the initial setting up and not for operation and maintenance.

The new norms also allow transfer of surplus power to the Domes Tariff Area (the area outside the SEZ) on payment of duty as applicable on import of such power.These activities — generation, transmission and distribution of power — will be governed by the Electricity Act and Electricity Rules as well as the Power Ministry's resolutions.

AMBIGUITY CLEARED

Reacting to the new guidelines, Mr Ashok Khurana, Director General, Association of Power Producers, said, “This circular clears the ambiguity regarding the benefits available to power units in the processing zone.” Earlier, the Revenue Department was treating a power plant in the processing area just as any other export unit and not as an infrastructure facility/developer/co-developer. This meant its output was considered as ‘goods' attracting the positive NFE obligation.Power companies had claimed that unlike manufacturing/IT/ITES units, it is not possible for them to achieve a positive NFE. Though the supply of power to units within the SEZ is treated as exports and counted towards calculation of positive NFE, achieving economies of scale is difficult by just supplying to SEZ units.

The only option is to sell the surplus electricity generated to units in the domestic tariff area (area outside the SEZs where all taxes and duties apply) by paying the applicable levies.

Power companies were not bothered about paying levies, but were concerned about the positive NFE condition. Even if all their supplies to the SEZ units are deemed as exports, it would have been difficult for them to meet the positive NFE norm due to the high capex.

E&Y Global Shared Services to open third centre in Kerala

THIRUVANANTHAPURAM, APRIL 23:

Ernst & Young Global Shared Services Kerala is taking up 60,000 sq ft of built-up area at the Kinfra Film and Video Park Special Economic Zone (SEZ) here.

Kerala Industrial Infrastructure Development Corporation (Kinfra) and E&Y Global Shared Services Kerala signed a memorandum of understanding to this effect.

Kinfra Film and Video Park at Kazhakkootam near here is a fully owned subsidiary of Kinfra.

GSS CENTRES

Mr Tim Eddy, Global Vice-Chair, E&Y Global Shared Services (GSS), and Mr S. Ramnath, Managing Director, Kinfra, signed the MoU.

Present at the ceremony were Mr P. K. Kunhalikutty, Minister for Industries and IT, Kerala; and Mr P. H. Kurian, Principal Secretary, IT.

E&Y were represented by Ms Mala Garg, Global Leader; Mr Deepak Swaroop, Global Service Delivery Leader; and Mr Binu Koshy, Leader, Kerala, and Director, Innovation and Research.

GSS Kerala is a wholly owned subsidiary of E&Y. It has a headcount of 1,254 and has facilities at Technopark, Thiruvananthapuram; and Infopark, Kochi.

There are six GSS centres distributed across Bangalore, Gurgaon and Kerala in India, and China, Poland and Argentina. GSS Kerala was set up in 2002 in Technopark.

EFFECTIVE STEPS

According to Mr Eddy, the State Government has been able to take effective steps in attracting investments.

Opening a third facility for GSS Kerala was important to E&Y's strategy, he said. “We already have highly-skilled professionals in our Kerala centre.

“This new facility will serve our growth needs very well, enabling us to expand to meet the increasing demand for our services,” he added.

Mr Kunhalikkutty claimed that Kerala continued to be the only State which offers single window clearance to industries.

“This makes it the ideal ground for companies such as E&Y to quickly start up their activities in the SEZ.

“It is good to see global firms taking advantage of the excellent infrastructure and support we offer,” he added.

HC notice to state on Mangalore Special Economic Zone Limited dumping soil in Gurupur

MANGALORE: The Karnataka high court has issued an emergent notice to the state government with regard to the alleged encroachment of Gurupur river towards construction of a road-cum-pipeline by Mangalore Special Economic Zone Limited (MSEZ).

Residents of Kuloor, Panambur, Baikampady and Citizens Forum for Mangalore Development had approached the high court seeking orders directing MSEZ not to dump soil in Gurupur river. The petitioners also prayed that necessary steps should be taken to restore the river to its original condition prior to encroachment by MSEZ.

Accepting the petition, the high court on Monday directed respondents including MSEZ and Karnataka State Pollution Control Board to submit statement of objections within two weeks. The court said the petitioners are at liberty to move an interim order before the vacation court, if MSEZ continues the river filling work.

Meanwhile on April 18, office of the regional director of environment served a notice to the managing director of MSEZ to restore the river by removing the soil dumped on its bed. Environment department assistant director Mahesh Kumar told TOI that the MSEZ has been asked to restore the river immediately as it would cause flooding in the region.

MSEZ had obtained necessary clearance for the proposal from the Union ministry of environment and forest (MoEF) on April 3, 2008. However, Mahesh said, "there is difference regarding work site mentioned in the proposal sent to MoEF by the MSEZ and the present work site."

The environment department had served a notice on April 5 directing MSEZ to remove the soil dumped in the river within 15 days. Though MSEZ had sought time till May 25 to restore the river, the environment department was firm on its decision citing fear of floods. Citizens Forum for Mangalore Development joint co-ordinator Vidya Dinker said that action should be taken against MSEZL officials, who did not take initiatives to restore the river even though the deadline ended on Friday.

Meanwhile, AG Holla, senior counsel for MSEZ, assured the court that MSEZ on its part will not take any steps which will prove harmful in any way. MSEZ PRO Ramachandra Bhandarkar said: "we are bound to abide by the court order."

Anti-special economic zone protest turns violent

AMANAKKAPETA (EAST GODAVARI): Tension prevailed at Ramanakkapeta village in U Kothapalli mandal on Tuesday when hundreds of anti-Kakinada Special Economic Zone agitators detained a large number of cops of Uppada Kottapalli and Pithapuram police stations for several hours. The angry protestors also damaged a police jeep.

They gave vent to their ire by targeting the cops who tried to drive out hundreds of farmers from the agriculture fields when the latter forcibly tried to plough the fields, which were taken over by the promoters of KSEZ. The incident took an ugly turn when the protestors even detained some journalists who went to cover the protests. The angry farmers detained Pithapuram police when the latter rushed to rescue their colleagues from U Kothapalli. Hundreds of farmers from nearby villages also arrived on the scene and shouted slogans against the police and the KSEZ management.

It all started when farmers of the village tried to plough the land with tractors, demanding that the authorities resume the land taken away from them for setting up the KSEZ. Following this, a large number of policemen were rushed to the area to stop the protestors from cultivating the land.

Angry words were exchanged between the farmers and police. When the cops tried to stop the agitators from ploughing the fields, they were detained. After nearly five hours of high drama, the police personnel were told by their superiors to retreat from the spot. The agitators allowed the cops to go back only after being convinced that they would not face any cases.

Police registered cases against the youth when they were detained for almost six hours at Thondagi mandal one and a half months ago.

Sources said irked by continuous threats, the farmers of U Kothapalli and Thondangi mandals had decided to teach the cops a lesson this time around. "The cops are acting at the behest of the promoters of the KSEZ. Our land should be given back," an angry farmer shouted. A port-based multi-product SEZ which took shape in 2005 envisages development of more than 10,000 acres in both the mandals. The KSEZ promoters promised Rs 40,000 crore in investments to set up industries like oil refineries, power plants, garments and machinery manufacturing units. However, no major industrial activity has taken place till now and people of the mandals allege that half of the 10,000 acres was purchased illegally by paying the farmers Rs 3 lakh per acre by KSEZ promoter K V Rao. The farmers of Ramannakkapet lost 800 acres to the SEZ. The farmers have been conducting `vanta-varpu' in the fields for the last two months as a mark of their protest. "We have no leader to guide us. Farmers are fighting as their livelihood is at stake," an activist, K Rajendra, said.

Assocham bats for stable tax policy, incentive scheme for SEZs

A stable tax policy coupled with constant availability of tax sops and incentives with a reasonable time frame is the most important factor concerning Special Economic Zone (SEZ) developers/co-developers and units, apex industry body**Assocham** said.

Anomalies in every budget vis-a-vis promised tax breaks and stimulus for SEZs might discourage investors owing to blemished implementation of originally intended legislation thereby hurting the credibility of the SEZ policy, said the Associated Chambers of Commerce and Industry of India (Assocham).

``Tax exemptions and related benefits for setting up SEZs were for a defined period highlighting the lack of government support to the tax policy concerning SEZs,`` said **R.N. Dhoot, president, Assocham** while submitting the chamber`s recommendations on SEZs to the Ministry of Commerce and Industry (SEZ division).

``There should be more clarity in this behalf and tax sops should be provided for an indefinite period as SEZs account for about 30% of India`s gross exports and play a pivotal role in providing employment opportunities, shoring up infrastructure and curbing migration,`` said Dhoot.

Assocham has also urged the government to do away with levies of 18.5% minimum alternate tax (MAT) imposed on SEZ developers, units and 15% dividend distribution tax on SEZ developers in union budget 2011-12 as it has raised serious concerns pertaining to stability of government`s tax policy on SEZs.

SEZ developers and investors are in a fix over doubts concerning stability of policy, more so on issues related to taxes and land acquisition policy thereby compelling them to revisit their decision to continue with their business in the sector.

Assocham has also recommended the government to provide facilities like power supply, connectivity, basic infrastructure like availability of water, land and labour to encourage the developers to set up SEZ projects in the rural belt rather than concentrating at urban/semi-urban areas.

Highlighting the role of state governments, Assocham has said that each state must have specific master plan/town plan/building plan in place for SEZs as it takes about six to nine months to commence construction work after issuing the notification.

SEZs must be specially earmarked on barren, wastelands, infertile land and soils with least potential for farming. There should be an effective rehabilitation policy for the actual landowners and displaced landowners like farmers or thevillagers and they must be offered proper stake through share holing in the proposed projects so that he can have a long-term interest in the project and reap long term benefits. Besides, proper training should also be imparted to at least one member of their family to provide a job in the SEZ.

Contiguity norms be strictly applied to the area of core activity of SEZ with certain flexibility to the non-processing area. Besides, there should be a distinction as per the nature of the SEZ like IT SEZ, manufacturing SEZ and others.

Long gestation period and huge investment requirements are certain major factors concerning operationalisation of SEZs. Besides, retrograde provisions like re-notification of SEZs as per various state specific SEZ Act after having notified by the central government is proving to be a stumbling block in smooth operation of many SEZs.

The SEZ units must charge customs duty equivalent to the duty exemption availed on import of raw materials (i.e. on duty foregone basis) with respect to any particular DTA (domestic market sales) transaction.

Assocham has further suggested the government to play a pro-active role while drafting labour laws for SEZs which are deemed foreign territories and existing labour laws are archaic in their case.

Assocham has also stressed upon conducting awareness programmes to educate the industry at large about SEZs, the SEZ Act, rules and regulations to create a positive sentiment about the sector and avoid misinterpretation of the law.

Besides, a single window system must be put in place to ensure hassle free operating environment and the infrastructure and services provided at SEZs must adhere to the well defined global standards and time bound targets.

Top notch administration must be provided to SEZ units by the developers thereby introducing uniform administration practices across the states.

Major SEZ developers are concerned about the deadline for profit-linked deductions. As per the Direct Tax Code (DTC) profit-linked deductions for all SEZs notified on or before Mar. 31, 2012. Besides, SEZ units which will commence commercial operations by Mar. 31, 2014 too will be liable for profit-linked exemptions. Developers and units notified after these dates will only have investment linked exemptions.

Benefits of indirect taxes to SEZ developers and units, as intended under the SEZ Act, must continue under the proposed Goods and Services Tax (GST) regime. Any modification in the same might send a strong signal that government is not keen to promote the SEZ policy thereby hurting the investments from global investors.

Besides, there should be an appropriate policy to encourage power generation and distribution through SEZ units.

The chamber reckons with the government`s observation vis-Ã -vis disinvestment and privatization of SEZs to increase its revenue and release money for social-sector development thereby making SEZs more efficient.

Assocham has further suggested the government to create a policy encouraging multi-product SEZs on public-private partnership (PPP) model and the same may also be considered for SEZs based on thrust areas of infrastructure like power, energy and others.

Govt wants probe into possible violations by units in SEZs

New Delhi: The finance ministry asked its enforcement arms to investigate possible violations by entities operating in special economic zones (SEZs), while the commerce department wants more incentives for these export enclaves.

“The CBEC (Central Board of Excise and Customs) and CBDT (Central Board of Direct Taxes) were asked to furnish a report on the findings and views of the ministry of commerce on the violations notified to them against the units operating in the SEZs,” the finance ministry said in an internal note, reviewed by Mint. CBEC and CBDT function under the ministry of finance with investigation arms.

A study group constituted under CBEC cites, in an interim report, large-scale violations by SEZ units, a finance ministry official said. The group will soon submit a final report to finance minister Pranab Mukherjee, he added, declining to be identified.

The commerce ministry is considering fresh tax concessions, lowering the minimum area required for SEZs and extending the benefits of export schemes to SEZ units to make up for the levy of minimum alternate tax and tax concessions that Mukherjee withdrew last year, The Times of India reported on Monday. A commerce ministry official confirmed that the department is in favour of fresh incentives for SEZs.

“SEZ was brought in through a special Act of Parliament and offered tax benefits to developers. Restoring earlier commitments will encourage investors,” said Gaurav Karnik, tax partner at audit and consulting firm Ernst and Young. The “intention was good but the multi-sector and multi-service SEZ did not take off much and to that extent SEZ did not deliver much on what the government wanted.”
The finance ministry is keen to investigate reports of violations by units in SEZs.

Infotech eyes buyouts for $50 mn

Infotech Enterprises Limited, a Hyderabad-based engineering and geographic information services (GIS) provider, is pursuing acquisition opportunities with a ticket size of between $40 million and $50 million as it wants to "put the cash on our books to good use," according to chairman and managing director BVR Mohan Reddy.
Cash balances of the company, including Rs 91 crore that came in as dividend in 2011-12 from an associate company, currently stand at Rs 479 crore.

The company is in the process of integrating the two acquisitions that it had made in the US in 2010 – Daxcon Engineering Inc, a pure-play engineering services company focused on off-highway heavy equipment engineering, and network engineering and management company Wellsco Inc.
"Acquisitions have always been a part of our growth strategies, and we are focusing on mergers and acquisitions at this juncture to augment our capabilities and enter new geographies," Reddy said, while refusing to give any time line.

New SEZ strategy
In addition to the three special economic zone (SEZ) facilities that Infotech owns -- at Kakinada, Visakhapatnam and Noida, he said the company had taken on lease a new SEZ facility at Uppal in Hyderabad that could accommodate 1,000 engineers.
"We are focusing more on moving our incremental business into SEZs so as to bring down our tax incidence in the current financial year. Tax saving of between 1.5 per cent and 2 per cent is expected by moving into SEZs," he said.

To hire 1,500 in FY13
Infotech employs 100 professional at its Vizag SEZ facility, and 150 in Kakinada, which would be scaled up to 450 by this November, according to Ashok Reddy, president (global human resources and corporate affairs).
Reddy said the company would be adding 1,500 engineers this year, to the current headcount of 9,334. "Our full-year plan is to bring on to the board at least 30 per cent of the new recruits from colleges," he said, adding 55 per cent of the company's employees were onsite, while 45 per cent were offshore, with the utilisation being 93 per cent and 80 per cent respectively.
"Our margins will be stable where we are today. However, our operating margin may see a dip in the first quarter of this year as we will be giving an 8-10 per cent pay hike to India-centric employees and 2 per cent to foreign-centric," Mohan Reddy said.

Jubilant expects Rs 1,000 cr revenue from new Gujarat SEZ

NEW DELHI: Jubilant Life Sciences said it expects to generate an additional revenue of Rs 1,000 crore from exports in the next few years when its new facilities at Special Economic Zone (SEZ) in Gujarat reach full capacity.

The company's SEZ, set up at a cost of Rs 500 crore at Bharuch, was inaugurated by Gujarat Chief MinisterNarendra Modi today.

The SEZ will have three manufacturing units in the SEZ -- one for production of Vitamin B3 and 3-Cyanopyridine with a combined capacity of 10,000 tonnes per annum and the other for producing Symtet, a crop science ingredient.

"These facilities will generate exports of about Rs 1,000 crore at full capacity," the company said in a statement

While it did not specify the timeline for reaching full capacity at the SEZ, a company official said it is expected in the "next few years".

In the fiscal 2010-11, the company's exports stood at Rs 1,135 crore. It is yet to announce the full financial results for the fiscal 2011-12.

Jubilant Life Sciences set up the SEZ after it had signed Memorandum of Understanding signed with the state government during the 'Vibrant Gujarat' conference in 2007.

Commenting on the development Jubilant Life Sciences CMD Shyam S Bhartia said: "We are setting up global size world class manufacturing facilities in Gujarat to fulfill our vision of leadership position in chosen areas of business."

Shares of Jubilant Life Sciences today closed at Rs 179.75 on the BSE, down 3.93 per cent from its previous close.Consultants say that the capital financing could appear as a key area in domestic transfer pricing. Presently a number of domestic companies make inter-corporate advances and give guarantees to group firms. At market rates, these transactions attract charges of three-four per cent. These charges will be supplementary to the taxable income.

“TP officers will put to use all lessons learnt from foreign firms over the past 10 years. They know exactly where to attack. Questions will be raised on routing of transactions through multiple entities, and adjustment entries,” said Tolani of ELP. “The whole system will be cleaner.”

High-level panel clears TCS plan to set up IT/ITES SEZ in Bangalore

The Karnataka's State High-Level Clearance Committee (SHLCC) has cleared Tata Consultancy Services' (TCS) proposal to set up IT/ITES SEZ in Bangalore.

TCS is planning to invest Rs 3,400 crore to set up IT/ITES special economic zone on 26 acres in Siddapura and Tubarahalli villages in Bangalore rural district.

Briefing reporters after the SHLCC meet, Mr Murgesh R Nirani, Minister for Large and Medium Industries, said, “The committee, in addition to TCS proposal, has cleared two other SEZ projects to come up in Bangalore and Mysore with an investment of Rs 3,961 crore having employment potential of 33,200 people.”

According to market sources, SEZ proposals cleared are of IT major Wipro on 28 acres in Bangalore rural district and of Jubilant on 25 acres in Mysore.

Other projects cleared today are Patel Engineering, which is planning to establish an integrated township in Anekal taluk, Bangalore, urban district with an investment of Rs 2,025 crore.

CEMENT & STEEL

SHLCC has cleared three cement and one iron and steel projects. Investment in cement sector is Rs 6,475.13 crore with employment potential of 1,525 people.

Projects cleared are Reliance Cementation, which is to set up a 5-mtpa cement plant in Sedam taluk, Gulbarga district, with an investment of Rs 2,500 crore.

Shaasta Cement Corporation proposal to set up 3.5-mtpa cement plant in Chincholi taluk in Gulbarga district, with an investment of Rs 2,320 crore has also been cleared.

In iron and steel sector, investment is from JSW Steel which is planning to set up a ‘cold-rolled annealed and skin passed coils' unit in Sandur taluk, Bellary district, with an investment of Rs 4,190.40 crore and the employment potential is 1,264 people.

Mr Nirani said “Apart from these investments, SHLCC has also approved six sugar projects with an investment of Rs 999 crore in the districts of Belgaum, Bijapur, Bidar and Raichur, which will offer employment to 1,713 people and is expected to add value to the development of northern parts of the state.”anil.u@thehindu.co.in

Keywords: Karnataka's State High-Level Clearance Committee, IT/ITES SEZ,

Telugu Desam Party joins anti- Special Economic Zone agitation

KAKINADA: The Telugu Desam Party (TDP) has demanded that the state government return to farmers land acquired for various SEZs claiming that most of it was anyway lying vacant. Land taken in the name of SEZs is being given away to realtors, said former minister Kodela Siva Prasad. He added that the government should restore land to farmers wherever the proposed projects have failed to come up.

A five-member TDP team on Saturday visited Ramanakkapeta village in Uppada Kottapalli mandal, where farmers are observing a vanta varpu stir against the Kakinada SEZ. TDP leaders MLC Dadi Veerabhadra Rao and Boddu Bhaskara Rama Rao, among others, asked farmers to continue with their protest till the government gives back their land. Prasad alleged that only 26 SEZs in the state can be said to be functioning whereas the allotted figure forAndhra Pradesh was 111, which means that there is a lot of land area that is unused and susceptible to corrupt dealings.

he anti-Kakinada SEZ agitation has been gaining momentum by the day and it was learnt that TDP president Chandrababu Naidu is planning to visit the farmers in a show of solidarityon April 20.
The protest against Kakinada SEZ has gained the support of various political parties in the state. K Narayana, the CPI state secretary, too, has extended his support to the agitators. He has demanded action against those who have come into possession of farming land in violation of rules.

Anti-special economic zone protest turns violent

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Sources said irked by continuous threats, the farmers of U Kothapalli and Thondangi mandals had decided to teach the cops a lesson this time around. "The cops are acting at the behest of the promoters of the KSEZ. Our land should be given back," an angry farmer shouted. A port-based multi-product SEZ which took shape in 2005 envisages development of more than 10,000 acres in both the mandals. The KSEZ promoters promised Rs 40,000 crore in investments to set up industries like oil refineries, power plants, garments and machinery manufacturing units. However, no major industrial activity has taken place till now and people of the mandals allege that half of the 10,000 acres was purchased illegally by paying the farmers Rs 3 lakh per acre by KSEZ promoter K V Rao. The farmers of Ramannakkapet lost 800 acres to the SEZ. The farmers have been conducting `vanta-varpu' in the fields for the last two months as a mark of their protest. "We have no leader to guide us. Farmers are fighting as their livelihood is at stake," an activist, K Rajendra, said.

Cong MP asks PM to review SEZ land allotments

New Delhi, Apr 12 (PTI) Alleging misuse of government's Special Economic Zone policy by private companies, a Congress MP from Andhra Pradesh has written to Prime Minister Manmohan Singh seeking a detailed review of all SEZ land allotments in the country and stringent action against defaulters. In a letter to the Prime Minister today, Rajya Sabha member V Hanumantha Rao said, "Some selfish elements are getting lands allotted under SEZ and they never bother about the objectives of the SEZs." Rao said in his home state Andhra Pradesh, 110 SEZs had been approved but only 36 were operational. Between 2006-11, the state government allotted about 88,492 acres of land to private companies but the recent CAG report had said that 80 per cent of these lands had been lying unused.

"The government acquired fertile lands from farmers by paying a nominal price. The farmers thought their wards can get employment and their area will get developed," Rao wrote. "But these farmers are disappointed now because no employment is generated, no industry came up, no development took place and above all their lands are being sold at high prices by the private parties in front of their eyes only," Rao said in his letter.

He alleged that some companies were doing real estate business with lands allotted at cheaper price. Rao claimed that a company that had been given land to set up a steel plant but no steel plant came up. "I would therefore request you to order a detailed review on all the land allotments to the SEZs throughout India and if there are any defaulters, kindly order stringent action against them," Rao asked the PM in his letter. Rao also said that land should be taken from companies that had failed to set SEZs and returned to the people from whom they were acquired.

Adani Port shares up on JP Morgan upgrade

Shares in Adani Ports and Special Economic Zone Ltd , rose as much as 3.3 per cent after brokerage JP Morgan upgraded the stock to overweight from neutral and raised its target price to Rs 160 from Rs 145, citing expectations of robust earnings growth and strong performance at Mundra Port.
"We think Mundra Port is in a sweet spot over the next five years with spare capacities in high growth coal and container cargo segments," said JP Morgan in a note.

Consolidated annual compunded EPS is estimated at 35 pct over FY12-17 with average 26-27 pct return on equity, which merits a "valuation premium," said the investment bank.

The bank also says a scalable non-major port alternative to Mundra on the west coast is still elusive.

Adani Port has underperformed India's 50-share index Nifty in 2012, rising 10 percent versus 15.3 percent gains in the broader index.

Adani Port was last up 2 percent at Rs 132.20.