

SEZ Hotline

June 08, 2006

DID YOU MISS THE SEZ BOUND TRAIN?

Pursuant to our Special Economic Zone ("SEZ") hotline dated June 1, 2006, pertaining to the proposal for availability of SEZ benefits to Software Technology Park ("STP") units, certain developments have taken place in the SEZ saga with the recent meeting on June 6, 2006 of the Empowered Group of Ministers ("eGoM") on SEZ.

In consideration of the Finance Ministry's concern that SEZs will promote the proliferation of existing industrial units to relocate to an SEZ to avail of the tax benefits, the eGoM has decided to cap the number of clearances for the new SEZs at 150 during the first six months after the notification of the SEZ Act on February 10, 2006. The eGoM would review the situation once the clearances reach 150 to see whether further clearances can be allowed. Currently there are 69 SEZs that have already been cleared by the Board of Approval ("BoA"). Further, the eGoM has decided against relaxing any labor laws in SEZs. However, there has been no indication as to the decision on issues with regard to the extension of the SEZ tax benefits to STP units.

After deliberations on various issues including the suggestions by the Finance Ministry, the eGoM has finally restored the minimum area requirement at 10 hectares for Information Technology ("IT"), Gems and Jewellery and Biotech SEZs reversing its earlier decision to completely remove such ceiling. Further the eGoM has also decided to reduce the minimum processing area for multi-product SEZs from 50% to 35% and has retained the minimum area requirement at 1,000 hectares for such SEZs. "Processing area", for the purpose of manufacturing sector, has been defined as manufacturing facilities, through which goods produced are to be exported from the SEZ and in the case of the service sector, it would mean facilities from where such services are exported.

Recently, the Government has released certain statistics, which indicate that the 15 existing and functional SEZs have brought in private investments of approximately USD 490 million and provided employment to 110,000 persons.

In the light of the above statistics, it is certain that the SEZ express is ready to take off, once the initial issues are resolved.

- Nishchal Joshipura & Nithya Reddy

Source:

- *The Economic Times (dated June 6, 2006) - "Processing areas in SEZs to be cut to 35%" and "Govt freezes SEZ at 150".*
- *Business Standard Article (dated June 6, 2006) - "Minimum area clause for SEZ restored"*

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