

CHAPTER-7

SPECIAL ECONOMIC ZONES

Eligibility	7.1	<p>(a) 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.</p> <p>(b) Goods going into the SEZ area from DTA shall be treated as deemed exports and goods coming from the SEZ area into DTA shall be treated as if the goods are being imported.</p> <p>(c) SEZ units may be set up for manufacture of goods and rendering of services, production, processing, assembling, trading, repair, remaking, reconditioning, re-engineering including making of gold/ silver/ platinum jewellery and articles thereof or in connection therewith.</p>
Export and Import of Goods.	7.2	<p>(a) SEZ units may export goods and services including agro-products, partly processed jewellery, sub-assemblies and component. It may also export by-products, rejects, waste scrap arising out of the production process.</p> <p>SEZ units, other than trading/service unit, may also export to Russian Federation in Indian Rupees against repayment of State Credit/Escrow Rupee Account of the buyer, subject to RBI clearance, if any.</p> <p>(b) SEZ unit may import without payment of duty all types of goods, including capital goods, as defined in the Policy, whether new or second hand, required by it for its activities or in connection therewith, provided they are not prohibited items of imports in the ITC(HS). Goods shall include raw material for making capital goods for use within the unit. The units shall also be permitted to import goods required for the approved activity, including capital goods, free of cost or on loan from clients.</p> <p>(c) SEZ units may procure goods required by it without payment of duty, from bonded warehouses in the DTA set up under the Policy and from International Exhibitions held in India.</p> <p>(d) SEZ may import, without payment of duty, all types of goods for creating a central facility for use by software development units in SEZ. The Central facility for software development can also be accessed by units in the DTA for export of software.</p> <p>(e) Gem & Jewellery and Jewellery units may also source gold/ silver/ platinum through the nominated agencies.</p> <p>(f) SEZ units may also import/procure goods from DTA without payment of duty for setting up of units in the Zone.</p>
Leasing Of Capital Goods	7.3	SEZ unit may, on the basis of a firm contract between the parties, source the capital goods from a domestic/foreign leasing company. In such a case the SEZ unit and the domestic/ foreign leasing company shall jointly file the documents to enable import/procurement of the capital goods without payment of duty.
Net Foreign	7.4	SEZ unit shall be a positive net foreign exchange earner. Net Foreign exchange

exchange		Earning (NFE) shall be calculated cumulatively for a period of five years from the commencement of commercial production according to the formula given in Paragraph 7.4 of the Handbook (Vol-I).
Earning (NFE)		
Monitoring of performance	7.5	<p>(a) The performance of SEZ units shall be monitored by a committee comprising of Development Commissioner and Customs. The Committee shall be headed by the Development Commissioner. It will also see that the wastage/manufacturing loss on gold/ silver/ platinum jewellery and articles are within the overall percentage prescribed in Appendix- 14 L of Handbook (Vol-I). In case of higher wastage/ manufacturing loss, the committee shall satisfy itself of the reasonableness of the same.</p> <p>(b) The performance of SEZ units shall be monitored as per the guidelines given in Appendix-14 E of Handbook (Vol-I).</p>
Legal Undertaking	7.6	The unit shall execute a legal undertaking with the Development Commissioner concerned and in the event of failure to achieve positive foreign exchange earning it shall be liable to penalty in terms of the legal undertaking or under any other law for the time being in force.
Approvals and Applications	7.7	<p>(a) Applications for setting up of SEZ units, satisfying the conditions mentioned in paragraph 7.19 of the Handbook (Vol.1) may be given approval by the concerned Development Commissioner of SEZ. In other cases, approval may be granted by the Board of Approvals (BOA) as notified and indicated at Appendix 14 -B of Handbook (Vol-I).</p> <p>(b) Proposal requiring industrial License may be considered by the Board of Approval on case to case basis.</p>
DTA Sales and Supplies	7.8	<p>(a) SEZ unit may sell goods, including by-products, and services in DTA in accordance with the import policy in force, on payment of applicable duty.</p> <p>(b) DTA sale by service/trading unit shall be subject to achievement of positive NFE cumulatively. Similarly for units undertaking manufacturing and services/ trading activities against a single LOP, DTA sale shall be subject to achievement of NFE cumulatively.</p> <p>(c) The following supplies effected in DTA by SEZ units will be counted for the purpose of fulfilment of positive NFE:</p> <p>(i) Supplies effected in DTA in terms of Paragraph 8.3 of the Policy.</p> <p>(ii) Supplies made to bonded warehouses set up under the Policy and/or under Section 65 of the Customs Act.</p> <p>(iii) Supplies to other EOU/EPZ/SEZ/ EHTP/ STP units provided that such goods are permissible for procurement by units in terms of paragraph 7.2 of the Policy.</p> <p>(iv) Supplies against special entitlement of duty free import of goods</p> <p>(v) Supplies of goods to defence and internal security forces, foreign missions/diplomats provided they are entitled for duty free import of such items in terms of general exemption notification issued by the Ministry of Finance.</p>

		(vi)	Supply of services (by services units) relating to exports paid for in free foreign exchange or for such services rendered in Indian Rupees which are otherwise considered as having been paid for in free foreign exchange by RBI.
		(vii)	Supplies of Information Technology Agreement (ITA-I) items, provided that the items are manufactured in the unit and attract zero rate of basic customs duty.
Entitlement for Supplies from the DTA	7.9	(a)	Supplies from the DTA to SEZ units shall be eligible for the following: <ul style="list-style-type: none"> (I) DTA supplier shall be entitled for :- <ul style="list-style-type: none"> (i) Relevant entitlements under paragraph 8.3 of the Policy. (ii) Discharge of Export performance, if any, on the supplier. (II) SEZ units shall be entitled for:- <ul style="list-style-type: none"> (i) Reimbursement of Central Sales Tax; (ii) Exemption from payment of Central Excise Duty on all goods eligible for procurement as per paragraph 7.2 of the policy. (iii) Reimbursement of Central Excise Duty, if any, paid on bulk tea procured by SEZ units so long as levy on bulk tea in this regard is in force. (iv) Reimbursement of Duty paid on fuels or any other goods procured from DTA as per the rate of drawback notified by the Directorate General of Foreign Trade from the date of such notification.
		(b)	Supplier of cut and polish diamonds, precious and semi-precious stones, synthetic stones and processed pearls from Domestic Tariff Area to the units situated in SEZ shall be eligible for grant of Replenishment Licenses at the rates and for the items mentioned in Appendix-13 of the Handbook (Vol. I).
		(c)	The entitlements under paragraphs (I) and (II) (i) and (ii) above shall be available provided the goods supplied are manufactured in India.
Export Through Status Holder	7.10		SEZ unit may also export goods manufactured by it through a merchant exporter/ status holder recognized under this Policy or any other EOU/EPZ/ SEZ/ EHTP/STP unit.
Inter-unit Transfer	7.11	(a)	Transfer of manufactured goods, including partly processed/semi-finished goods from one SEZ unit to another SEZ/EOU/EPZ/ EHTP/ STP unit will be allowed.
		(b)	Goods imported/procured by an SEZ unit may be transferred or given on loan to another unit within the same SEZ which shall be duly accounted for, but not counted towards discharge of export performance.

- (c) Transfer of goods in terms of sub-paras (a) and (b) above within the same SEZ shall not require any permission but the units shall maintain proper accounts of the transaction.
- (d) Capital goods imported/procured may be transferred or given on loan to another SEZ/EOU/ EPZ/ EHTP/ STP unit with prior permission of the Development Commissioner concerned.

Other

Other entitlements of SEZ units are indicated in the Handbook (Vol-1).

Entitlements

Sub- Contracting	7.12	<p>SEZ unit, may subcontract a part of their production or production process through units in the DTA or through other SEZ/EOU/EPZ/ EHTP/ STP, with the permission of Customs authorities. Subcontracting of part of production process may also be permitted abroad with the approval of the Board of Approval.</p> <p>Subcontracting by SEZ gems and jewellery units shall be subject to following conditions :-</p> <ul style="list-style-type: none"> i) Goods, finished or semi-finished, including studded jewellery, containing quantity and purity equal to the gold/ silver/platinum so taken out, shall be brought back to the Zone within 30 days. Further, no diamond, precious or semi-precious stones shall be allowed to be taken out of the Zone for sub-contracting. ii) Receive plain gold/silver/platinum jewellery from DTA in exchange of equivalent quantity of gold/ silver/ platinum, as the case may be, contained in the said jewellery. iii) SEZ units shall not be eligible for wastage or manufacturing loss against the jewellery received from DTA after processing as mentioned in (i) and against exchange of gold/silver/platinum as mentioned in (ii) above. iv) The DTA unit undertaking job work or supplying jewellery against exchange of gold/silver/platinum shall not be entitled to export benefits. <ul style="list-style-type: none"> (c) All units, including gem and jewellery, may sub-contract part of the production or production process through other units in the same SEZ without permission of Customs authorities subject to records being maintained by both the supplying and receiving units. (d) SEZ units other than gems and jewellery units may be allowed to undertake job-work for export, on behalf of DTA exporter, provided the finished goods are exported directly from SEZ units. For such exports, the DTA units will be entitled for refund of duty paid on the inputs by way of Brand Rate of duty drawback. (e) Scrap/waste/remnants generated through job work may either be cleared from the job worker's premises on payment of applicable duty or returned to the unit.
De-bonding	7.13	<ul style="list-style-type: none"> (a) SEZ unit may be debonded with the approval of the Development Commissioner. Such debonding shall be subject to payment of

applicable Customs and Excise duties on the imported and indigenous capital goods, raw materials etc. and finished goods in stock. In case the unit has not achieved positive NFE, the debonding shall be subject to penalty, that may be imposed by the adjudicating authority under Foreign Trade (Development and Regulation) Act, 1992.

- (b) SEZ unit may also be permitted by the Development Commissioner, as one time option, to debond on payment of duty on capital goods under the prevailing EPCG Scheme, subject to the unit satisfying the eligibility criteria of that Scheme and standard conditions, as per Para 7.13 of the Handbook (Vol-I).

Export through Exhibitions/	7.14	SEZ gem and jewellery, units shall be entitled for the following:
Export Promotion Tours/Export of branded jewellery/		(i) Export of gold/silver/platinum jewellery and articles thereof, for holding/ participating in exhibitions abroad with the permission of Development Commissioner.
Export through show rooms abroad /Duty Free Shops		(ii) Personal carriage of gold/ silver/ platinum jewellery, precious, semi-precious stones, beads and articles.
		(iii) Export of jewellery and branded jewellery, is also permitted for display/sale in the permitted shops set up abroad.
		(iv) Display/sell in the permitted shops set up abroad or in the show rooms of their distributors/agents.
		(v) Set up show rooms/retail outlets at the International Airports for sale of jewellery.
Personal carriage of Export/ Import parcel.	7.15	Personal carriage of gems and jewellery export parcels by foreign bound passengers and personal carriage gems and jewellery, import parcels by an Indian or foreign national may be permitted as per the conditions given in paragraph 7.15 of the Handbook (Vol.1).
Export by post / courier	7.16	Gold/silver/platinum jewellery and articles thereof may be exported by airfreight or through Foreign Post Office or through courier.
Disposal of Rejects/ Scrap/ Waste/ Remnants	7.17	Rejects/scrap/waste/remnants arising out of production process or in connection therewith may be sold in the DTA on payment of applicable duty. No duty shall be payable in case scrap/waste/ remnants/ rejects are destroyed within the Zone after intimation to the Custom authorities or destroyed outside the SEZ with the permission of Custom authorities. Destruction as stated above shall not apply to gold, silver, platinum, diamond, precious and semi precious stones.
Replacement/ Repair of Goods	7.18	(a) The general provisions of Policy relating to export of replacement/ repaired goods shall apply equally to SEZ units, save that, cases not covered by these provisions shall be considered on merits by the Development Commissioner.
		(b) The goods sold in the DTA and found to be defective may be brought back for repair/ replacement under intimation to Development Commissioner.

		(c)	Goods or parts thereof on being imported/ indigenously procured and found defective or otherwise unfit for use or which have been damaged or become defective after import/ procurement may be returned and replacement obtained or destroyed. In the event of replacement, the goods may be brought back from the foreign suppliers or their authorised agents in India or the indigenous suppliers.
		(d)	Goods may be transferred to DTA/abroad for repair/ replacement, testing or calibration, quality testing and R & D purpose under intimation to Customs authorities.
Management of SEZ	7.19	(a)	SEZ will be under the administrative control of the Development Commissioner.
		(b)	All activities in the zone of SEZ units, unless otherwise specified, shall be through self certification procedure.
Setting up of SEZ in Private/ joint/State Sector	7.20		A SEZ may be set up in the public, private, joint sector or by state Government as notified by the Ministry of Commerce and Industry. The existing Export Processing Zones (EPZs) may also be converted into SEZ by the Ministry of Commerce and Industry through issue of a notification.
Samples	7.21		SEZ units may, on the basis of records maintained by them, and on prior intimation to Customs authorities:
		(i)	supply or sell samples in the DTA for display/market promotion on payment of applicable duties;
		(ii)	Remove samples without payment of duty, on furnishing a suitable undertaking to Customs authorities for bringing the goods back within a stipulated period;
		(iii)	Samples, including samples made in wax models, silver models and rubber moulds may be exported on the basis of records maintained by the unit and under intimation to the Custom authorities. Samples may also be exported through courier agencies.
Sale of Un-utilised Material/ Obsolete goods	7.22	(a)	In case an SEZ unit is unable, for valid reasons, to utilize the goods, including capital goods and spares, it may dispose them in the DTA in accordance with the import policy in force and on payment of applicable duties or export them.
		(b)	Capital goods and spares that have become obsolete/surplus may either be exported or disposed of in the DTA on payment of applicable duties. The benefit of depreciation, as applicable, will be available in case of disposal in DTA.
		(c)	No duty shall be payable if the goods are destroyed with the permission of Customs authorities.
		(d)	SEZ unit may be allowed by Customs authorities concerned to donate imported/ indigenously procured (bought or taken on loan) computer and computer peripherals, including printer, plotter, scanner, monitor, key-board and storage units without payment of duty, two years after their import/procurement and use by the units, to recognized non-commercial educational institutions, registered charitable hospitals,

public libraries, public funded research and development establishments, organisations of the Government of India or Government of a State or Union Territory as per Custom/ Central Excise notification issued in this regard.

Entitlement for SEZ Developer	7.23	(a)	Developer of SEZ in the Private/Joint/State sector may import/ procure goods from DTA without payment of duty for the development, operation and maintenance of SEZ.
		(b)	SEZ developer shall be eligible for the entitlements as provided for in the Income Tax Act for development, operation and maintenance of SEZ.
Transitional Arrangements	7.24	An existing EPZ unit will have the following options:	
		(a)	It can opt for SEZ Scheme under this Chapter. On conversion, its previous obligations as an EPZ unit shall be subsumed by its obligations under the SEZ Scheme. The raw materials, components, consumable and finished goods lying in stock with the unit at the time of conversion shall be taken as its opening balance under the SEZ Scheme. All unutilized DTA sale entitlements of the unit shall cease to exist from the date of conversion as notified by the Ministry of Commerce and Industry
		(b)	In case an existing EPZ unit decides not to opt for (a) above, it can either convert into an EOU or de-bond. In both the cases, the unit shall physically move out of the SEZ.