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P.M. Thomas,
First Secretary (E&P)

No. KUW/COM/202/4/2005

May 16, 2005

Dear Sir,

We are pleased to forward herewith a copy of the press release issued by us on Special Economic Zones (SEZs) Bill 2005. The bill is expected to give a big push to exports and Foreign Direct Investment (FDI) into India.

It would be appreciated if the contents of the press release could be brought to the attention of the members of your Council.

With regards,

Yours sincerely,

(P.M. Thomas)

Mr. S.K. Wadhawan,
Chairman,
Indian Business Council,
KUWAIT

**Embassy of India
Kuwait**

PRESS RELEASE

Special Economic Zones(SEZ) Bill 2005

The Special Economic Zones (SEZs) Bill 2005 was introduced in the Lok Sabha by Shri Kamal Nath, Minister of Commerce & Industry, on 9th May, 2005 and passed by the Lok Sabha the next day. The bill is expected to give a big push to exports and foreign direct investment (FDI) inflows into the country. The new law is aimed at encouraging public-private partnership to develop world-class infrastructure and attract private investment (domestic and foreign), boosting economic growth, exports and employment.

The new law is expected to trigger a large flow of foreign direct investment as well as domestic investment in infrastructure and productive capacity, leading to creation of new employment opportunities. This bill will also provide confidence and stability to domestic and foreign investors and signal the government's commitment to the SEZ policy framework. It is expected that many large format, multi-product SEZs that have so far been unable to achieve financial closure will now quickly move towards such closure.

FDI inflows as a result of the new law could be of the order of US \$ 2 billion over the next three years and additional employment of about 50,000 in the next one-year.

The Bill provides a single window clearance and approval mechanism for establishment of SEZs as well as production units inside the Zones. The Bill contains income tax concessions for both SEZ units as well as SEZ developers. SEZ units will be eligible for 100% tax exemption for 5 years, 50% for the next 5 years, and 50% of the ploughed back export profits for the next 5 years. SEZ developers continue to get 100% income tax exemption for 10 years in a block

period of 15 years. -

The other salient features of the Bill relate to the following: (i) Establishment of SEZ and for setting up of units therein, including requirements, obligations and entitlements; (ii) Establishment of free trade and warehousing zones to create world class trade-related infrastructure to facilitate import and export of goods aimed at making India a global trading hub; (iii) Requirements for setting up of offshore banking units and units in International Financial Service Centre in SEZs, including fiscal regime governing the operation of such units; (iv) Establishment of an Authority for each SEZ set up by the Central Government to impart greater administrative autonomy; and (v) designation of special courts and single enforcement agency to ensure speedy trial and investigation of notified offences committed in Special Economic Zones.

Reasons for the passage of SEZ bill

While the policy relating to the SEZs is contained in the Foreign Trade Policy, incentives and other facilities offered to the SEZ developer and units are implemented through various notifications and circulars issued by the concerned Ministries/Departments. The present system, therefore, does not inspire enough confidence for investors to commit substantial funds for development of infrastructure. To provide a long-term and stable policy and expeditious single-window clearance facilities, a Central Act for Special Economic Zones has been found to be necessary in line with international practice.

Fact Sheet on SEZs

Government of India had announced a Special Economic Zone scheme in April 2000 with a view to providing an internationally competitive environment for exports. The objectives of SEZs include making available goods and services free of taxes and duties supported by integrated infrastructure for export production, quick approval mechanisms, and a package of incentives to attract foreign and domestic investments for promoting exports.

There are at present 11 functioning SEZs. These 11 SEZs are in operation at present at Kandla and Surat (Gujarat), Santa Cruz (Maharashtra), Cochin (Kerala), Chennai (Tamil Nadu), Vishakapatnam (Andhra Pradesh), Falta and Salt Lake – Manikanchan (West Bengal), Noida (UP), Indore (Madhya Pradesh) and Jaipur (Rajasthan). In addition, approvals have been given for setting up of 35 new SEZs in the private/joint sectors or by the State Governments and its agencies on the basis of the proposals received from them, which are at various stages of implementation.

Exports from SEZs during 2004-05 amounted to US \$ 4075 million (i.e. \$ 4.07 billion), accounting for a little over 5% of India's total exports. Foreign investment, including investment by NRIs, in the units located in the operational SEZs is about Rs.500 crore.
