

# SEZs not likely to be allowed to sell locally at concessional import duty

Finance Ministry is not in favour of the move as it may lead to revenue leakages, says official

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New Delhi, December 7

Units in special economic zones (SEZs) looking for import duty exemption in the forthcoming Budget for selling their products in the domestic market may be in for disappointment.

The Commerce Ministry, which had proposed that SEZs be allowed to sell their items locally by paying concessional import duties which is hitherto allowed to India's free trade partner countries, has almost given up its claim as the Finance Ministry has ruled that it could lead to heavy revenue leakages, an official said.

"We do not expect duty exemption for domestic sale of SEZ goods to be announced in the Budget as the Finance Ministry is

not in favour of it," he added.

According to the Finance Ministry, if SEZ units are allowed to sell items in the domestic market at zero or low import duties offered to FTA partners, third country items could come in without duties being paid.

"It is feared that SEZ units could import items from countries with which we don't have FTAs at zero import duties (as SEZs are exempted from paying duties on imported items) and then re-sell it in the domestic market at much lower duty rates (which could also be zero). It would defeat the purpose of encouraging SEZ production and also cause revenue leakage," the official said.

The Commerce Ministry had earlier suggested that the gov-



The entrance to the Jawaharlal Nehru Pharma City, near Visakhapatnam (file picture). The Commerce Ministry has been looking at ways to make SEZs more attractive to investors

ernment should come up with a mechanism that would specify conditions including rules of origin with minimum value addition requirement to establish and certify that an item is actually produced in a SEZ unit and

not imported from another country before it is allowed to be sold in the local market at concessional import duties.

However, the Finance Ministry did not find the mechanism convincing as it argued that it would

be difficult to monitor if the rules of origin were being respected.

SEZ units were keen that they should be allowed to sell in the domestic market at concessional import duties to compete with FTA partner countries and make their operations more lucrative.

With investments into the SEZs drying up following the imposition of minimum alternate tax (MAT) and Dividend Distribution Tax (DDT) in 2011, the Commerce Ministry has been looking at ways to make the zones more attractive to investors.

A total of 204 SEZs are operational in the country and 408 SEZs have been formally approved. Total investment in SEZs is over \$50 billion and the zones are providing direct employment to over 1.5 million persons, according to government figures.