Commerce dept pushing for major tweaks in SEZ norms

Move aimed at mitigating adverse impact of US tariffs

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The commerce department is pushing for major changes to the Special Economic Zones (SEZ) norms to cushion the impact of the steep 50 per cent tariff imposed by the United States (US) on several Indian imports, according to three people aware of the matter.

If implemented, the changes could make it easier for SEZ units to sell goods in the domestic market, receive payments for domestic services in Indian currency, and simplify compliance norms, among other things.

An overhaul of the existing two-decade-old law governing SEZs has been under discussion for almost four years. But, the latest push comes at a time when tariffs have adversely affected these units since August.

ILLUSTRATION: BINAY SINHA

The final decision on the proposals would be taken by the finance ministry, which will also consider whether these reforms could be a part of the upcoming Union Budget.

Over a third of India's outbound shipments from SEZ units are exported to the US. In September, merchandise exports from SEZs to the US contracted 12 per cent year-on-year (Y-o-Y) to $5.46 billion, according to data collated by Export Promotion Council for EOUs and SEZs (EPCES).

The finance ministry and the commerce ministry did not respond to the queries sent by *Business Standard*.

"An announcement in the upcoming Budget would ensure certainty in the implementation of changes in the SEZ law. The changes also aim to mitigate the adverse impact of the additional tariffs imposed by the Trump administration in the US," one of the persons cited above told *Business Standard*.

Some of these changes would require amendments in the Special Economic Zones Act, 2005, while others can be implemented by tweaking the rules. However, the commerce ministry and the finance ministry's revenue department have not been on the same page. Turn to Page 6 ▶

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One of the persons cited above said that the commerce department has been trying to address the concerns of various stakeholders, including the finance ministry. “Concerns would be addressed through alternative mechanisms,” the person said.

Proposed changes

One of the changes in the existing law aims to allow the sale of products manufactured in SEZs to the domestic market on a ‘duty foregone basis’ on raw materials, instead of the finished product. At present, SEZs pay full Customs duty, in case a finished product is sold outside these zones, known as domestic tariff area (DTA).

The amended Bill would allow ‘reverse job work’. This means that SEZ units would be able to do a part of the manufacturing process on its behalf for DTA units and manufacturers would be able to tackle the seasonality in export demand. The changes are expected to enable optimum utilisation of idle capacity, considering that the export market can be unpredictable and demand can fluctuate.

Another change would entail allowing local companies to make payment in Indian currency in the case of services availed from units in the SEZs.

Under the existing law, the payment for services is to be made in foreign exchange. The amendment is likely to make services at par with the manufacturing sector.