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**SPECIAL ECONOMIC ZONES (SEZs)**

[Action Taken by the Government on the Observations/  
Recommendations of the Committee contained in their  
Thirtieth Report (15th Lok Sabha)]

**MINISTRY OF COMMERCE AND INDUSTRY  
(DEPARTMENT OF COMMERCE)  
AND  
MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)**

**PUBLIC ACCOUNTS  
COMMITTEE  
2012-2013**

**SIXTY-SECOND REPORT**

FIFTEENTH LOK SABHA



**LOK SABHA SECRETARIAT  
NEW DELHI**

SIXTY-SECOND REPORT  
PUBLIC ACCOUNTS COMMITTEE  
(2012-2013)

(FIFTEENTH LOK SABHA)

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the Committee contained in their Thirtieth Report (15th Lok Sabha)]

MINISTRY OF COMMERCE AND INDUSTRY  
(DEPARTMENT OF COMMERCE)

AND

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

*Presented to Lok Sabha on 30 August, 2012  
Laid in Rajya Sabha on 30 August, 2012*



LOK SABHA SECRETARIAT  
NEW DELHI

*August, 2012/Bhadrapada, 1934 (Saka)*

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COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2012-2013)

Dr. Murli Manohar Joshi — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Anandrao Vithoba Adsul
3. Dr. Baliram
4. Shri Sandeep Dikshit
5. Dr. M. Thambidurai
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SECRETARIAT

1. Shri Devender Singh — *Joint Secretary*
2. Shri Abhijit Kumar — *Director*
3. Smt. A. Jyothirmayi — *Deputy Secretary*

## INTRODUCTION

I, the Chairman, Public Accounts Committee (2012-13), having been authorised by the Committee, do present this Sixty-second Report (Fifteenth Lok Sabha) on Action Taken by the Government on the Observations/Recommendations of the Committee contained in their Thirtieth Report (Fifteenth Lok Sabha) on '**Special Economic Zones (SEZs)**', relating to the Ministry of Commerce and Industry (Department of Commerce) and Ministry of Finance (Department of Revenue).

2. The Thirtieth Report was presented to Lok Sabha/laid in Rajya Sabha on 24th February, 2011. Replies of the Government to the Observations/Recommendations contained in the Report were received on 12th June, 2012 from the Ministry of Commerce and Industry (Department of Commerce) and on 2nd September, 2011 from the Ministry of Finance (Department of Revenue). The Public Accounts Committee considered and adopted this Report at their sitting held on 23rd August, 2012. Minutes of the sitting are given at *Appendix-I*.

3. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report.

4. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor-General of India.

5. An analysis of the Action Taken by the Government on the Observations/Recommendations contained in the Thirtieth Report (Fifteenth Lok Sabha) is given at *Appendix-II*.

NEW DELHI;  
28 August, 2012  

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06 Bhadrapada, 1934 (Saka)

DR. MURLI MANOHAR JOSHI  
*Chairman,*  
*Public Accounts Committee.*

## CHAPTER I

### REPORT

This Report of the Public Accounts Committee deals with the action taken by the Government on the Observations/Recommendations of the Committee contained in their Thirtieth Report (15th Lok Sabha) on 'Special Economic Zones' based on the Report of the C&AG Report No. PA 6 of 2008 (Performance Audit), Union Government (Central Excise, Service Tax and Customs) for the year ended March, 2007.

2. The Thirtieth Report (15th Lok Sabha) was presented to Lok Sabha/laid in Rajya Sabha on 24th February, 2011. The Report contained 9 Observations/Recommendations. Action Taken Notes in respect of all the Observations/Recommendations have been received from the Ministry of Finance (Department of Revenue) and Ministry of Commerce and Industry (MoC) and these have been categorized as under:

- (i) Observations/Recommendations of the Committee which have been accepted by the Government:

Paragraph Nos. 1-2 and 5-9 Total : 7  
Chapter-II

- (ii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:

-Nil- Total : Nil  
Chapter-III

- (iii) Observations/Recommendations in respect of which replies of the Government have not been accepted by the Committee and which require reiteration:

Paragraph Nos. 3 & 4 Total : 2  
Chapter-IV

- (iv) Observations/Recommendations in respect of which the Government have furnished interim replies:

-Nil- Total : Nil  
Chapter-V

3. The Action Taken Notes furnished by the Ministry of Finance and Ministry of Commerce and Industry on the Observations/Recommendations of the Committee contained in the Thirtieth Report (15th Lok Sabha) have been reproduced in the relevant Chapters of the Report. In the succeeding paragraphs, the Committee have dealt with the action taken by the Government on their Observations/Recommendations made in the Original Report.

## A. Reckoning of Deemed Exports

### [Observation/Recommendation Para No. 2 of the 30th Report (15th Lok Sabha)]

4. The Committee in their Thirtieth Report had observed that one of the main objectives of the SEZ Scheme was augmentation of exports so as to boost Foreign Exchange Earnings. The Committee had observed that out of an overall export of ₹ 7,149.23 crore made by 22 SEZ units, the actual export content was only ₹ 1,999.27 crore (28 per cent) and the remaining ₹ 5,149.96 crore (72 per cent) related to Domestic Tariff Area (DTA) earnings. Though the Committee were apprised that the percentage of deemed exports and the DTA sales were minimal, they found that the actual physical exports which augmented the foreign exchange earnings was quite dismal. The Committee had recommended that the Ministry consider restricting reckoning of deemed exports by an appropriate scale for the purpose of calculating Net Foreign Exchange Earnings in order to reduce the misuse of the Scheme.

5. The Ministry of Finance while furnishing the Action Taken Notes has stated as under:—

“The statement of objects and reasons of the SEZ Act placed before the Parliament mentions that the objective of the Act is to provide for establishment of the Special Economic Zones for the promotion of Exports. Section 5 of the SEZ Act also provides that promotion of export of goods and services will be one of the guiding factors for notifying an SEZ.

In view of the above and also because the units located in the SEZs enjoy considerable tax benefits, it is felt that SEZ units must be export-oriented to further economic growth. The existing rules are not sufficient in this regard. The units located in SEZ are required to have a positive net foreign exchange earning over a period of 5 years in terms of Rule 53 of SEZ Rules, 2006. However, there is no mandatory requirement of undertaking exports in the SEZ legislation. For example, a unit which does not import any raw material or capital goods will be under no obligation to export. As a result, the primary objective of the SEZ Act has been considerably diluted. Department of Revenue's views thus are as under:

- At least 51% of the production of goods and services by a unit in an SEZ be physically exported out of India. Value of inputs and services provided to SEZs from unit in Domestic Tariff Area (DTA) against export promotion scheme/drawback/fulfilment of export obligation be considered as import into SEZ.
- Only those supplies from SEZ to DTA be treated as export which are at par with deemed export provisions for general exporters and EOUs in Foreign Trade Policy.”



6. The Ministry of Commerce in its Action Taken Notes has stated as under:—

“After the SEZ Act came into force *w.e.f.* 10.2.2006, NFE is calculated as per Rule 53 of SEZ Rules, 2006. Rule 53 of SEZ Rules, 2006 deals with modalities for calculation of positive NFE. Under these rules, following categories of supplies from SEZ have been permitted for reckoning towards positive NFE:—

- (i) Supply of goods to such entities which are, in any case, entitled for import of goods without payment of duty. This includes supply of goods against Advance Licence, Export Promotion Capital Goods (EPCG) licence, project financed by multilateral/bilateral agencies under competitive bidding, supply of goods to any project in respect of which Ministry of Finance permits import of goods at zero customs duty, supply to projects funded by United Nations Agencies, supply against Special entitlement of duty free import of goods, supply of goods to Export Oriented Unit (EOU)/SEZ etc.
- (ii) Supply of ITA-1 items which are in any case permitted to be imported at zero duty. There again since these can be imported at zero duty, manufacturing of these goods in the SEZs would lead to generation of additional economic activity and creation of manufacturing capabilities in the SEZs.
- (iii) Third category of the supplies includes supply against foreign exchange earned from the EEFC account of the Domestic Tariff Area (DTA) buyer or the free foreign exchange received for import. Hence spending the same for purchasing goods from SEZ would lead to saving of foreign exchange.

One of the aims of the SEZ scheme is earning of foreign exchange. Since those DTA units which are eligible to import goods for the purpose of export would otherwise have imported these goods resulting in outgo of foreign exchange, supplies being made to such units by SEZ units is logically to be included in the credit of the SEZ unit as it results in saving of foreign exchange. Further, any year's performance alone should not be looked at as NFE was calculated cumulatively for a period of 5 years from the commencement of production.

It is not appropriate to say that substantial portion of the production is cleared into DTA. A substantial portion of the total production of SEZ is being exported and very small portion is cleared into DTA.

Keeping in view of the above, the NFE criteria is being strictly adhered to as has been reiterated by the PAC in its recommendation. As the duty component of the total exports is not very significant, therefore, restricting this component in SEZ is not felt to be a favoured option”.

**7. The SEZ Act came into force from 10.2.2006 with an objective to establish Special Economic Zones for promotion of exports. The Committee, however, note that there is no mandatory requirement of undertaking exports in the SEZ Legislation. This has whittled down the primary objective of the Act. Since the units located in the SEZs enjoy considerable tax benefits and are expected to fuel economic growth, the Committee, recommend that the misuse of the Scheme must be prevented by revisiting the Scheme and by plugging the loopholes in its implementation.**

**B. Reappraisal of the SEZ Scheme for a level playing field for the DTA Units and SEZ Units**

**[Observation/Recommendation Para No. 3 of the 30th Report  
(15th Lok Sabha)]**

8. The Committee were given to understand that an Export Oriented Unit (EOU), which imports inputs and raw materials duty free, could clear its final products into DTA after paying the applicable Basic Customs Duty (BCD) and Countervailing Duty (CVD) as if the final products were imported. However, in cases where both the BCD and the CVD were 'nil' on certain products, the EOUs would not pay any duty on clearance of the final products in Domestic Tariff Area (DTA). A Unit in the DTA producing/clearing the same final product would also clear these goods at 'nil' rate of duty, but would have suffered duty on inputs used in the manufacture of these products which put the DTA units under a comparative disadvantage. Subsequently, this anomaly was removed as the EOUs were required to payback the duty foregone on inputs utilised for manufacture of such goods cleared into DTA *w.e.f.* 1st September, 2004. But no such protection to Units in DTA was provided under the SEZ Policy/Act. The Committee had noted that SEZ units could sell their goods, including by-products, and services in DTA on payment of applicable duty including at 'nil' rate with no requirement to payback the duty foregone on inputs used in the clearance of products (at nil rate of duty) into the DTA. This policy had put SEZ units at a distinctly advantageous position compared to similar Units in the DTA. The Committee, had strongly recommended that SEZ Scheme be thoroughly reappraised so as to provide a level playing field for the indigenous industry as well.

9. In its Action Taken Notes, the Ministry of Finance has stated as under:—

“The present SEZ policy does not require paying back the duty foregone on inputs utilized for manufacture of goods which are chargeable to NIL rate of duty in terms of Section 30 of the SEZ Act, 2005 on their clearances into DTA. DOR agrees that in such cases DTA units are placed at a disadvantageous position *vis-a-vis* SEZ units. This anomaly needs to be addressed. Such a provision has been made in the EOU scheme. Under this provision for EOUs, (prescribed under Notification No. 52/2003-Cus. and 22/2003-CE, both dated 31.03.2003) where finished goods cleared to the Domestic Tariff Area are either non-excisable or such finished goods. If imported, are leviable to nil rate of duty of customs and nil additional duty, read with exemption notification, if any, no exemption in respect of

inputs utilized for the purpose of manufacture of such finished goods is available under the said notification. A similar provision could be considered for incorporation in the SEZ scheme.”

10. The Ministry of Commerce in its Action Taken Notes has stated as under:—

“Units in EOU, DTA and those located in SEZ are regulated by different set of instructions. A number of advantages available to EOU and DTA units are not available to SEZ Units. Some of these are:

- (i) Number of benefits available under Foreign Trade Policy (FTP) Schemes like Export Promotion Capital Goods (EPCG), Vishesh Krishi and Gram Udyog Yojana (VKGUY) etc. are not available to SEZ units on the ground that they avail Income Tax exemptions on their export income.
- (ii) SEZ units are not allowed to sell their product/services into DTA on duty foregone basis. In terms of Section 30 of the SEZ Act, 2005, they have to pay all applicable duties including Countervailing Duty (CVD), antidumping duty, customs & safeguard duties under the Customs Tariff Act, 1975 where applicable, as leviable on such goods when imported.
- (iii) SEZ Units are not allowed Duty Entitlement Pass Book (DEPB) benefits on the value addition part. This benefit is allowed on imports. SEZ units are required to be NFE positive. There is no obligation on DTA units. They can clear all their produce into DTA in case of better opportunities in the domestic market.

As has been indicated above, the SEZ units are not entitled to a number of benefits which are available in the domestic industries. The recommendation of PAC in this regard may be seen in light of the fact that as products which has 0% import duty can easily be imported into DTA and therefore the threat to DTA unit is not really from a SEZ manufacturer. Further it may be reiterated that the objectives laid down for the SEZ units are distinct from those of DTA unit. As two schemes are not comparable, one principle in a particular scheme cannot be introduced into another scheme.”

**11. The Committee are surprised to note that the Action Taken Notes furnished by the Ministry of Finance and Ministry of Commerce are at variance. The Committee endorse the view of the Ministry of Finance that the units located in SEZs enjoy considerable tax benefits and therefore the SEZ units must be export oriented to further economic growth. The SEZ legislation or rules made thereunder must make it mandatory for SEZ units to prevent recurrences pointed by the Audit and ensure that atleast 51 per cent of the production of their goods and services are exported physically out of India. The Committee also recommend that a joint mechanism be established between both the Ministries with a view to ensuring unity of purpose and efficient execution of the SEZ Scheme and the Committee apprised of the outcome thereof.**

### **C. Stringent Monitoring Mechanism to Oversee SEZ**

#### **[Observation/Recommendation Para No. 4 of the 30th Report (15th Lok Sabha)]**

12. The Committee had noted that the monitoring mechanism for the functioning of SEZ units is based on the data provided by the SEZ units through Self-Certification in the form of Quarterly Performance Reports/Annual Performance Reports (QPR/APR). If the erring Units were to provide incorrect or incomplete data in their QPRs/APRs, there was no alternative and reliable method of procedure for correct monitoring of the Net Foreign Exchange Earnings (NFEs) data. The Committee had opined that the collection of such vital statistics relating to NFE cannot be based merely on self-certification of the SEZs units. The Committee had therefore recommended that the Government must put in place a suitable and reliable oversight mechanism for monitoring the actual NFEs and in cases of default, prompt and timely action must be taken to recover the duty foregone that was owing to concessions.

13. The Ministry of Finance in its Action Taken Notes has stated as under:—

“The SEZ scheme relies mainly on self-certification and does not require the quarterly/annual performance reports (QPR/APR) to be supported by other statutory documents like annual accounts, customs records, income tax (IT) returns, bank realization certificates (BRC) etc. As observed by CAG in its report No. 6 of 2008, this facilitated a few units to submit incorrect/inconsistent data in their APRs/QPRs. The NFEs derived on the basis of this inconsistent data cannot be relied upon. DOC has been informed that few cases have also come to notice of Department of Revenue where either export value has been shown inflated or no manufacturing process was undertaken. In view of the above, DOR supports the suggestion for putting in place a mechanism to restrict the possibility of misuse of SEZ Policy. There is no express requirement for export of certain proportion of production undertaken by a SEZ unit. The only requirement is that of achievement of NFE. Therefore, there may be a temptation for inflating export value and understating import value. This is further exacerbated by the fact that Rules 27(10) & 28(5) provide that assessment of imports shall be on the basis of self-declaration by Developers/units and shall not be subjected to routine examination. DOC Instruction No. 6 dated 3rd August, 2006 further reinforces this position which stipulates that the value declared by the units has to be accepted.

Therefore, there is a need of reliable oversight mechanism for monitoring actual NFE achievement, which could actually examine the veracity of import/export value declared and also the actual remittance of foreign exchange so that the NFE obligation is correctly met. In case of default, there should be a provision for prompt recovery of duty foregone.”

14. According to the Action Taken Notes furnished by the Ministry of Commerce it is stated:

"The SEZ units as well as developers are required to maintain complete accounts as prescribed under Rule 22 (2) of the SEZ Rules, 2006 which provides as follows:

(2) Every Unit and Developer shall maintain proper accounts, financial year-wise, and such accounts which should clearly indicate in value terms the goods imported or procured from Domestic Tariff Area, consumption or utilization of goods, production of goods, including by-products, waste or scrap or remnants, disposal of goods manufactured or produced, by way of exports, sales or supplies in the domestic tariff area or transfer to Special Economic Zone or Export Oriented Unit or Electronic Hardware Technology Park or Software Technology Park Units or Biotechnology Park Unit, as the case may be, and balance in stock; Provided that Unit and Developer shall maintain such records for a period of seven years from the end of relevant financial year:

Provided further that the Unit engaged in both trading and manufacturing activities shall maintain separate records for trading and manufacturing activities.

Based on the records maintained by the Units/developers, Unit is required to give Annual Performance Report (APR) in Form 1, as prescribed by Rule 22(3) and the developer is required to give a quarterly Performance Report (QPR) in Form E as prescribed in Rule 22(4) to the Development Commissioner and the Development Commissioner in turn is required to place the same before the Unit Approval Committee (UAC). Information given in the APR is required to be authenticated by the authorized signatory of the Unit and is required to be certified by the Chartered Accountant. Therefore, it is felt that the mechanism prescribed is sufficient and in case Approval Committee has any doubt in respect of any information submitted by the Unit or by a Developer, it can always call for the records which the Unit or Developer is required to maintain under rule 22(2) of the SEZ Rules, 2006. It is practically not advisable that every APR/QPR should be accompanied by statutory documents like annual accounts, custom records, income tax returns, bank realization certificates etc. as suggested by Comptroller and Auditor General (CAG). This will merely create additional paper work and it will certainly not be possible for UAC to go through all these documents in respect of all the QPRs and the APRs. In fact it will be practically impossible to handle all these documents in respect of all APRs/QPRs by UAC.

It must be emphasized that the emphasis of the SEZ Scheme is on simplification of procedures as they are operating in bonded premises. Rule 75 of the SEZ Rules, 2006 has specifically emphasized on the operation of these units based on self-declaration. While simplifying the procedure enough care has been taken to ensure that there is no revenue leakage.

Sale from SEZ to DTA has been prescribed on payment of full duty, whereas earlier such sales from Export Processing Zones were on payment of 50% duty. Exemption from income tax has also been given only on physical exports and no income tax exemption is given on profits derived from sale in the DTA or even sale within SEZ.

Hence the present procedure prescribed in respect of APR/QPR coupled with monitoring guidelines as given in Rule 54 read with Form 1 of the SEZ Rules 2006 is a sufficient mechanism for monitoring the export performance by the Unit Approval Committee.

The Approval Committees under the Development Commissioners constituted for all Zones, which comprise of representatives from Customs, Income-tax, State Governments etc. have been directed to constantly monitor the performance of the SEZ Units.

Further, the Ministry of Commerce & Industry have issued instructions on 4.12.2008 in terms of which random check of minimum 5% of APRs of Unit is to be carried out by the Development Commissioners to ensure that there is no mismatch of data furnished by the Chartered Accountant (CA). Besides introduction of SEZ Online System has facilitated this verification of the reporting in the APR. Hence, the Committee's apprehension about non-verified data has thus been addressed.

It is reiterated that following mechanism are already in place for monitoring the functioning of SEZ units:

- (i) Procedure for check by Development Commissioners as per provision of SEZ rules, 2006;
- (ii) Monitoring by inter-departmental approval committee;
- (iii) Random check of minimum 5% of APRs of Unit to be carried out by DC in terms of Ministry of Commerce & Industry instruction dated 04.12.2008; and
- (iv) Introduction of on-line system.

Further, defaulting units in addition to recovery of duties foregone are imposed with penalties under the Foreign Trade (Development & Regulations) Act 1992, as per rule 25 of the SEZ rules, 2006."

**15. Having taken note of the replies submitted by the Ministry of Finance and the Ministry of Commerce, the Committee find that the SEZ Scheme relies mainly on self-certification of the SEZ units for NFEs and there is no institutional mechanism in place to assure that there is no misuse of SEZ policy. Apparently, the instant mechanism is far from sound to safeguard the interest of public revenue. The Committee, therefore, recommend that the Government need to establish an effective and reliable oversight mechanism for monitoring actual NFE achievement for prompt recovery of duty foregone/evaded and also to provide deterrent penal provision for wilful default.**

## **CHAPTER II**

### **OBSERVATIONS/RECOMMENDATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT**

#### **Action Taken Notes on 30th Report (15th Lok Sabha) of the Public Accounts Committee relating to "Special Economic Zones (SEZs)" Ministry of Commerce and Industry, (Department of Commerce)**

##### **Observations/Recommendations**

The Special Economic Zone (SEZ) Scheme was introduced by the Government with effect from 1st April, 2000 in order to overcome the shortcomings experienced on account of multiplicity of controls and clearances, absence of world-class infrastructure, an unstable fiscal regime and also to attract larger foreign investments in India. The SEZ policy intended to make SEZs an engine for economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with minimum possible regulations. The exemptions included Customs duties, Central Excise duties and Service Tax for the authorized operations. Also there were exemptions from Income Tax, Minimum Alternate Tax (MAT) etc., alongwith exemptions from Divided Distribution Tax for the developer and all these fiscal incentives were implemented by the Development Commissioner. All the export benefits including drawback for supplies to SEZ developer/unit were given to them within SEZ by the specified officers in the SEZs. The import/export operations of the SEZ units were on self-certification basis. The Units in the zones were required to be the Net Foreign Exchange (NFE) earners, calculated cumulatively for a period of five years from the commencement of production. These Units were to execute a legal undertaking with the Development Commissioner to achieve the positive NFE. The performance of the Units was required to be monitored quarterly by the Approval Committee constituted for each SEZ based on the reports received in the prescribed format. In short, a Special Economic Zone was deemed to be a territory outside the Customs territory of India. Bringing goods or services into the SEZ from the Domestic Tariff Area (DTA) was treated as export. The goods could be cleared from SEZ to DTA on payment of duties of Customs including Anti-dumping, Countervailing and Safeguard duties under the Customs Tariff Act, where applicable, as leviable on such goods when imported. While the Development Commissioner was overall in-charge of the SEZ, officials from the Customs Department deputed to the Zone under the administrative control of the Development Commissioner attended to the day-to-day operations of these Units.

The detailed examination of the SEZ scheme has revealed a number of deficiencies which include system as well as compliance weaknesses relating to policy and procedures governing the management and functioning of SEZ units.

Besides, as highlighted by the Audit, revenue implication to the tune of Rs. 246.72 crore and an additional amount of Rs. 1724.67 crore was foregone or could not be recovered in the absence of enabling provisions. The detailed examination of these deficiencies and the findings of the Committee are dealt with in-detail in the ensuing paragraphs.

[Sl. No. 1, Para No. 1 of the part II of the Report]

#### **Action taken by Ministry of Finance**

Observations/recommendations are noted and comments of Department of Revenue on specific observations/recommendations are given in the ensuing paragraphs.

#### **Action taken by Department of Commerce**

It needs to be informed that export benefits available to units are drawback, benefits under Duty Entitlement Pass Book (DEPB) (since discontinued) and drawback to exporters when goods are supplied to Special Economic Zones (SEZs) units against payment from Exchange Earners Foreign Currency (EEFC) account of the SEZ unit under Section 75 of Customs Act, 1962 made available to SEZ units by the Specified Officer of the SEZ. When such supplies are made to SEZ Developers who do not have EEFC accounts, the DEPB scrips or drawback in such cases is made available by the Development Commissioner or the Regional Joint DGFT. The performance of the units is monitored every year by the Approval Committee as per Rule 54 of the Special Economic Zones Rules, 2006 and *Annexure I*.

#### **Further Reply**

No comments.

#### **Audit Comment**

Introductory para. No comments.

#### **Observations/Recommendations**

One of the main objectives of the Scheme was augmentation of exports so as to boost Foreign Exchange Earnings. The Committee in the course of examination found that out of an overall export of Rs. 7,149.23 crore made by 22 SEZ units, the actual export content was only Rs. 1,999.27 crore (28 per cent) and the remaining Rs. 5,149.96 crore (72 per cent) related to Domestic Tariff Area (DTA) earnings. Though the Committee were apprised that the percentage of deemed exports and the DTA sales were minimal, they find that the actual physical export which augments the foreign exchange earnings was quite dismal. The Committee, therefore, recommend that the Ministry consider to restrict reckoning of deemed exports by an appropriate scale for the purpose of calculating Net Foreign Exchange Earnings with a view to reduce the misuse of the Scheme.

[Sl. No. 2, Para No. 2 of the part II of the Report]



### **Action taken by Ministry of Finance**

The statement of objects and reasons of the SEZ Act placed before the Parliament mentions that the objective of the Act is to provide for establishment of the Special Economic Zones for the promotion of Exports. Section 5 of the SEZ Act also provides that promotion of export of goods and services will be one of the guiding factors for notifying an SEZ.

In view of the above and also because the units located in the SEZs enjoy considerable tax benefits, it is felt that SEZ units must be export-oriented to further economic growth. The existing rules are not sufficient in this regard. The units located in SEZ are required to have a positive net foreign exchange earning over a period of 5 years in terms of Rule 53 of SEZ Rules, 2006. However, there is no mandatory requirement of undertaking exports in the SEZ legislation. For example, a unit which does not import any raw material or capital goods will be under no obligation to export. As a result, the primary objective of the SEZ Act has been considerably diluted. DOR's views thus are as under:

- At least 51% of the production of goods and services by a unit in an SEZ be physically exported out of India. Value of inputs and services provided to SEZs from unit in Domestic Tariff Area (DTA) against export promotion scheme/drawback/fulfilment of export obligation be considered as import into SEZ.
- Only those supplies from SEZ to DTA be treated as export which are at par with deemed export provisions for general exporters and EOUs in Foreign Trade Policy.

### **Action taken by Department of Commerce**

As per the then Foreign Trade Policy (prior to 10.2.2006), an SEZ unit had to be a positive Net Foreign Exchange (NFE) earner. NFE was calculated cumulatively for a period of 5 years from the commencement of production according to the formula given in Chapter 7 of the Hand Book of Procedures. As per Chapter 7 of the Hand Book, all Deemed Exports are taken into consideration for calculation of NFE. After the SEZ Act came into force *w.e.f.* 10.2.2006, NFE is calculated as per Rule 53 of SEZ Rules, 2006. Rule 53 of SEZ Rules, 2006 deals with modalities for calculation of positive NFE. Under this rules, following categories of supplies from SEZ have been permitted for reckoning towards positive NFE:—

- (i) Supply of goods to such entities which are, in any case, entitled for import of goods without payment of duty. This includes supply of goods against advance licence, Export Promotion Capital Goods (EPCG) licence, project financed by multilateral/bilateral agencies under competitive bidding, supply of goods to any project in respect of which Ministry of Finance permits import of goods at zero customs duty, supply to projects funded by United Nations Agencies, supply against Special entitlement of duty free import of goods, supply of goods to Export Oriented Unit (EOU)/SEZ etc.

- (ii) Supply of ITA-1 items which are in any case permitted to be imported at zero duty. There again since these can be imported at zero duty, manufacturing of these goods in the SEZs would lead to generation of additional economic activity and creation of manufacturing capabilities in the SEZs.
- (iii) Third category of the supplies includes supply against foreign exchange earned from the EEFC account of the Domestic Tariff Area (DTA) buyer or the free foreign exchange received for import. Hence spending the same for purchasing goods from SEZ would lead to saving of foreign exchange.

2. One of the aims of the SEZ scheme is earning of foreign exchange. Since those DTA units which are eligible to import goods for the purpose of export would otherwise have imported these goods resulting in outgo of foreign exchange, supplies being made to such units by SEZ units is logically to be included in the credit of the SEZ unit as it results in saving of foreign exchange. Further, any year's performance alone should not be looked at as NFE was calculated cumulatively for a period of 5 years from the commencement of production.

3. It is not appropriate to say that substantial portion of the production is cleared into DTA. It may be appreciated from the table given below that a substantial portion of the total production of SEZ is being exported and very small portion is cleared into DTA:—

#### **Details of Physical Exports and DTA Sales**

<b>2006-07</b>	<b>Rs. in crores</b>	
Physical Exports	34,615	(84.5% of total turnover)
DTA Sale (supplies counted for positive NFE)	5,543	(13.5% of total turnover)
DTA Sale (not counted for positive NFE)	827	(2% of total turnover)
<b>Total turnover</b>	<b>40,985</b>	
<hr/>		
<b>2007-08</b>		
Physical Exports	66,638	(84.4% of total turnover)
DTA Sale (supplies counted for positive NFE)	8,560.86	(10.76% of total turnover)
DTA Sale (not counted for positive NFE)	3,842.615	(4.84% of total turnover)
<b>Total turnover</b>	<b>79,537.875</b>	
<hr/>		
<b>2008-09</b>		
Physical Exports	99,688.87	(85% of total turnover)
DTA Sale (supplies counted for positive NFE)	13,708.67	(12% of total turnover)
DTA Sale (not counted for positive NFE)	3,472.556	(3% of total turnover)
<b>Total turnover</b>	<b>1,16,870.096</b>	

	<b>Rs. in crores</b>	
<b>2009-10</b>		
Physical Exports	2,20,711.39	(86.95% of total turnover)
DTA Sale (supplies counted for positive NFE)	13,937.04	(5.49% of total turnover)
DTA Sale (not counted for positive NFE)	19,200.92	(7.57% of total turnover)
<b>Total turnover</b>	<b>2,53,849.35</b>	
<b>2010-11</b>		
Physical Exports	3,15,867.85	(88.02% of total turnover)
DTA Sale (supplies counted for positive NFE)	29,093.05	(8.11% of total turnover)
DTA Sale (not counted for positive NFE)	13,881.20	(3.87% of total turnover)
<b>Total turnover</b>	<b>3,58,876.07</b>	

#### **Further Reply**

Keeping in view above, the NFE criteria is being strictly adhered to as has been reiterated by the PAC in its recommendation. As indicated a substantial portion of the total production from SEZ is being exported with a very small portion being shown in DTA. As the duty component of the total exports is not very significant, therefore, restricting of this component in SEZ is not felt to be a favoured option.

#### **Audit Comment**

No comments.

#### **Comments of the Committee**

Please see Para No. 7 of Chapter-I.

#### **Observations/Recommendations**

The Committee while examining the issue of achievement of positive Net Foreign Exchange Earnings (NFE) found that duty to the tune of Rs. 107 crore was recoverable as there had been a shortfall in achieving positive NFE. As pointed out in audit, the shortfall had occurred owing to the fact that broad-banding of dissimilar goods had been allowed. When the Committee sought an explanation from the Ministry in this regard, they were informed that the interpretation of "broad-banding/diversification" was not clear, leading to inclusion of items which were dissimilar in nature from those granted in the original Letter of Permission. Further, the Committee were informed that the provisions of SEZ Act, 2005 and the Rules made thereunder have done away with the limitation of allowing broad-banding only to similar goods. The Committee would, therefore, like to know the effect of this amendment and the impact it has had on the foreign exchange earnings of the country.

[Sl. No. 5, Para No. 5 of the part II of the Report]

### **Action taken by Ministry of Finance**

The prime objective of SEZ Act is to provide an internationally competitive environment for boosting exports of goods and services from the country. In pursuance of this objective, the SEZ scheme has been devised which entails exemptions from direct and indirect taxes, not only for the SEZ units but also for the SEZ Developers. The units are allowed to import and procure duty free capital goods, raw material and consumables so that export goods and services can be manufactured or provided in a cost effective manner. For EOUs, the FTP provide that, other than gems and jewellery units, they may sell goods upto 50% of FOB value of exports subject to fulfilment of positive NFE on payment of Concessional duties. However, within entitlement of DTA sale, unit may sell in DTA its products similar to goods which are exported or expected to be exported from units. Similar provision should be there for SEZ units. The basic objective of the SEZ policy would be defeated, if unrelated/dissimilar goods are allowed to be exported and counted towards achievement of NFE. DOR is thus of the view that the goods manufactured from capital goods and materials obtained duty free only should be exported and counted towards NFE.

### **Action taken by Department of Commerce**

The inference by the Committee that there is impropriety in allowing such broadbanding and consequent impact on foreign exchange needs to be based on an appreciation of the current import-export scenario. In the pre-SEZ Act regime, there was a restriction on broadbanding since DTA clearances were permitted on payment of concessional duty by EOU and SEZ units, under the relevant exemption notifications issued under the Central Excise Act and there would be a tendency among such units to export one or few items at a high value and utilize the quota of concessional clearance for non-related goods which could have a good market in India. By restricting the clearance to related goods and by allowing Letters of Permission to be amended only to include goods which involve use of existing machinery, forward or backward integration, the scope for misuse was sought to be minimized. The action taken in the cases cited by Audit which occurred prior to 2006 was thus appropriate. With the requirement that full duties (Basic+countervailing) be leviable on domestic clearances, the scope for such misuse was eliminated and hence the need for restriction on broadbanding is not relevant. Manufacturing units would not be able to have dissimilar goods included in their Letters of Approval without additional manufacturing lines and hence this does not arise from intention to misuse; any such broadbanding to include dissimilar goods would also lead to additional exports and earning of foreign exchange. It is only when a manufacturing unit that faces the possibility of being NFE negative chooses to incorporate trading activities in its sphere of operations to thrust itself into the positive side of the balance sheet that any apprehension need arise. It is clarified that such a route may be adopted if the SEZ unit can source the traded goods from the domestic tariff area for export. Procurement of

goods from abroad for export after inclusion of trading in Letter of Approval issued originally for manufacturing will also compensate negative NFE only to the extent of marginal value addition available in international trading. The benefit will accrue only if such a manufacturing, entity is able to procure goods from the DTA and export the same thus realizing the full value as net foreign exchange to compensate for negative NFE on manufacturing. Such an activity does not derive benefits of direct tax exemption and is not illegal. Hence, the Committee's apprehension about inclusion of dissimilar goods in Letter of Approval leading to misuse or distortion is not a possibility.

#### **Further Reply**

Due care is taken to ensure that unrelated/dissimilar goods are not permitted under broadbanding.

#### **Audit Comment**

No comments.

#### **Observations/Recommendations**

The Committee are concerned to note that 41 SEZ units had functioned in violation of the conditions that were stipulated in the Letter of Permission (LoP) leading to considerable loss of revenue. The violations included carrying out trading activity though the LoP was for manufacture; manufacturing in a premises not mentioned in the LoP; excess trading than what was permitted in the LoP; operating without a valid LoP and clearing all goods in the Domestic Tariff Area (DTA) against the strict stipulation that the goods shall be exported to the General Currency Area (GCA) countries. The Committee noted that the functioning of SEZs was reviewed by the Audit between July 2006 and May 2007. When asked during evidence whether defaulting Units had been identified, the witness submitted that "the details of the defaulting Units will be furnished in due course". This is unfortunate, to say the least. The Committee would like to be furnished the details of the defaulting Units, the action taken to recover the revenue forgone, to award deterrent punishment to them and the action taken to prevent such recurrences alongwith the reasons for delay in compiling the details of the defaulting Units.

[Sl. No. 6, Para No.6 of the part II of the Report]

#### **Action taken by Ministry of Finance**

The issue pertains to identification of units functioning in SEZs, wherein violations of conditions of LoP resulting in loss of revenue have occurred. Department of Commerce, being the administration Department can reply to it.

However, it is added that there is no specific provision for recovery of irregularly availed exemptions/benefits, duty not paid etc. in the SEZ laws. This deficiency needs to be corrected, and a provision on the lines of Section 142 of the Customs Act needs to be introduced.

**Action taken by Department of Commerce**

There were Fifteen cases in SEEPZ, SEZ, where validity of LoP was renewed with retrospective effect after a gap of time. It is stated that during the intervening period, import/export activity of these units continued. The units had generated a total of employment 3776 and a total NEF of Rs. 100141.00 Lakhs (on cumulative basis) at the time of grant of renewal. The details are at *Annexure-I*. The intervening period was regularized by taking the actual imports and exports as projections for the same period. Similarly, there was only one case (M/s Univac Corporation) within Kandla SEZ similar to that as mentioned by the Audit and necessary action has already been taken and matter is settled after its judicial recourse.

It may be mentioned that SEZ Online System has been introduced which will ensure that unauthorized trading activity cannot occur, excess trading is not possible, units function only with valid Letter of Permission (LoPs) and the NFE is properly monitored.

**Further Reply**

In respect of one case of M/s Univac Corporation, Kandla SEZ has informed that Show Cause Notice (SCN) for not applying for extension of validity of LoP in time and non-submission of APR in time for the financial years 2005-06, 2006-07 and 2007-08, was issued to the unit *vide* letter dated 24.08.2008 and the Show Cause Notice has been adjudicated *vide* OIO dated 11.05.2011 and penalty of Rs. 25000/- for the default has been imposed. The said penalty has been paid by the unit *vide* challan dated 18.07.2011. The delay in adjudication was due to non-attendance for personal hearing (in order to extend natural justice) by the unit. The unit has also achieved positive NFE during the five year block of 2005-06 to 2009-10. The LoP of the unit has since been renewed after recovering the rental dues and penalty. At present the unit is dormant and not working since 2010-11 due to financial crunch. The updated position in respect of 15 cases of SEEPZ, SEZ is at *Annexure-A*.

**Audit Comment**

No comments.

ANNEXURE I

Sl. No.	Name of the unit	LOA expiry	Renewal of LOA issued on	Block Period	Export (Rs. in Lakhs)					NFE on Cumulative basis	Employment as on date of Renewal
					6	7	8	9	10		
1	2	3	4	5	6	7	8	9	10	11	12
1.	Diastar Jewellery	31.03.2002	02.07.2004	2002-03 to 2006-07	2002-03	2003-04	2004-05	2005-06	2006-07		
					5370.42	4807.39	3976.71	4041.04	4418.26	9596.88	332
2.	KGK Jewellery Pvt. Ltd.	31.03.1999	30.05.2000	1999-00 to 2003-04	1999-00	2000-01	2001-02	2002-03	2003-04		
					2148.91	3218.09	2279.4	2960.32	3472.05	7960.74	309
3.	Uni-Design Jewellery Pvt. Ltd. (Unit-1)	31.03.2003	24.06.2005	2003-04 to 2007-08	2003-04	2004-05	2005-06	2006-07	2007-08		
					1221.89	2028.8	1153.86	3466.57	2004.47	5802.9	247
4.	MFR Electronics Component Pvt. Ltd.	31.03.1999	12.04.2002	1999-00 to 2003-04	1990-00	2000-01	2001-02	2002-03	2003-04		
					70.33	75.37	57.96	49.22	43.46	189.71	41
5.	SB&T International Ltd.	31.03.2004	14.06.2005	2004-05 to 2008-09	2004-05	2005-06	2006-07	2007-08	2008-09		
					6211.24	3940.12	570.37	2299.88	40.64	8133.63	389
6.	Patni Computer Systems Ltd. SDF-II	31.03.2004	26.06.2007	2004-05 to 2008-09	2004-05	2005-06	2006-07	2007-08	2008-09		
					4594.05	2562	2494.05	1000.36	223.72	9210.1	581
7.	Patni Computer systems Ltd. SDF-VII	31.03.2005	03.07.2007	2005-06 to 2009-10	2005-06	2006-07	2007-08	2008-09	2009-10		
					6417.22	5264	5096	5279	5114	20614.99	680
8.	Systems & Software	31.03.2002	20.01.2003	2003-04 to 2007-08	2003-04	2004-05	2005-06	2006-07	2007-08		
					105.23	188.67	228.29	277.82	303.59	796.91	32
9.	Tata Consultancy Services Ltd., SDF-II	31.03.2002	11.07.2003	2002-03 to 2006-07	2002-03	2003-04	2004-05	2005-06	2006-07		
					3269.5	3436.87	1493.38	3766.43	9561	20529.81	571

1	2	3	4	5	6	7	8	9	10	11	12
10. Transasia Bio-Medicals Ltd.	31.03.2005	09.08.2006	2005-06 to 2009-10	2005-06	2006-07	2007-08	2008-09	2009-10			
				2726	2673	2029	2929	3041	8139.91	145	
11. Neogem India Ltd.	31.03.2003	18.02.2005	2003-04 to 2007-08	2003-04	2004-05	2005-06	2006-07	2007-08			
				4106.87	4807.68	4788.46	6556.89	4475.33	2804.89	271	
12. Atos Origin India Pvt. Ltd.	31.03.2000	10.2.2004	2000-01 to 2004-05	2000-01	2001-02	2002-03	2003-04	2004-05			
				779.47	1269.11	1226.84	1354.69	1277.54	6136.34	80	
13. Nexgenix India Pvt. Ltd.	31.03.2004	28.06.2005	2004-05 to 2008-09	2004-05	2005-06	2006-07	2007-08	2008-09			
				197.63	66.1	34.26	0	0	224.36	98	
14. Interjewels International Pvt. Ltd.	31.03.1994	M/s. Inter Classik Jewellery India Pvt. Ltd. was issued LOA on 24.08.1993 with condition that LOA shall be valid for a period of one year subsequently, the proposal was revised and revised LOA was issued on 07.04.1994. The unit requested for extension of validity of LOA. The validity was extended upto 31.08.1995 by the DC under delegated powers. Subsequently, the unit <i>vide</i> letter dated 21.07.1995 requested for extension of validity period as the repair renovation is in progress. The proposal was placed before the Board of Approval in its meeting held on 30.08.1995 the BOA extended the validity period upto 31.03.1996. The unit <i>vide</i> letter dated 08.03.1996 requested extension for a further period of three months as they are in the process of obtaining occupation certificate from BMC. The unit from time to time brought the issue of non-issuance of occupation certificate by BMC. The issue of extension of validity of LOA was submitted before the BOA indicating the factual position, in its meeting held on 25.07.1996. The BOA extended the validity period upto 30.07.1996. The proposal of extension of validity was again placed before the BOA in its meeting held on 23.10.1996 based on the request of the unit. The BOA extended the validity upto 31.10.1996. The unit commenced export activity during October, 1996 <i>i.e.</i> within the validity period of LOA.									
15. KMG Jewellery	01.08.1994	The unit was further granted extension upto 30.06.1994 subsequently the unit was again granted extension of validity period of LOP upto 31.12.1994. The unit <i>vide</i> letter dated 29.12.1994 intimated that they have achieved their first export of jewellery on 28.12.1994 and also submitted copy of export invoice and shipping bill. The unit <i>vide</i> letter dated 27.05.1998 intimated that though the first export was only by way of imported mounting used for setting the diamonds and exporting the jewellery products the unit went on its real manufacturing activity and commenced commercial export from 01.06.1995. The unit commenced trial export production from 28.12.1994 and commercial export started from June, 1995.									



## ANNEXURE - A

Sl. No.	Name of the unit	LOA expiry	Renewal of LOA issued on	Block Period	Export (Rs. in lakhs)					NFE on Cumulative basis	Employment as on date of Renewal	Remarks
					6	7	8	9	10			
1	2	3	4	5	6	7	8	9	10	11	12	13
1.	Diastar Jewellery	31.03.2002	02.07.2004	2002-03 to 2006-07	2002-03	2003-04	2004-05	2005-06	2006-07	9596.88	156	LOA valid working unit
					5370.42	4807.39	3936.71	4041.04	4418.26			
				2007-08 to 2011-12	2007-08	2008-09	2009-10	2010-2011				
					4370	2493	—	—		2888.59		
2.	KGK Jewellery Pvt. Ltd.	31.03.1999	30.05.2000	1999-00 to 2003-04	1999-00	2001-01	2001-02	2002-03	2003-04	7960.74	34	LOA valid working unit
					2148.91	3218.09	2279.4	2960.32	3472.05			
				2004-05 to 2008-09	2004-05	2005-06	2006-07	2007-08	2008-09			
					3417	3722	3459	1219	152	10608.14		
				2009-10 to 2013-14	2009-10	2010-11	2011-12	2012-13	2013-14			
					22.44	—	—	—	—	10608.14		
3.	Uni-Design Jewellery Pvt. Ltd. (Unit-I)	31.03.2003	24.06.2005	2003-04 to 2007-08	2003-04	2004-05	2005-06	2006-07	2007-08	5802.9	128	LOA valid working unit
					1221.89	2028.8	1153.86	3466.57	2004.47			
				2008-09 to 2012-13	2008-09	2009-10	2010-11	2011-12	2012-13			
					1207	326	2968	—	—	2079.97		
4.	MFR Electronics Component Pvt. Ltd.	31.03.1999	12.04.2002	1999-00 to 2003-04	1999-00	2000-01	2001-02	2002-03	2003-04	189.71	46	LOA valid working unit
					70.33	75.37	57.96	49.22	43.46			
				2004-05 to 2008-09	2004-05	2005-06	2006-07	2007-08	2008-09			
					34.27	19.1	80.77	91.15	119.73	118.98		
				2009-10 to 2013-14	2009-10	2010-11	2011-12	2012-13	2013-14			
					181	135	—	—	—	102.76		

1	2	3	4	5	6	7	8	9	10	11	12	13
5.	S B & T International Ltd.	31.03.2004	14.06.2005	2004-05 to 2008-09	2004-05	2005-06	2006-07	2007-08	2008-09			
					6211.24	3940.12	570.37	2299.88	40.64	8133.63	45	LOA valid working unit
				2009-10 to 2013-14	2009-10	2010-11	2011-12	2012-13	2013-14			
					0	0	—	—	—	-9.47		
6.	Patni Computer Systems Ltd. SDF-II	31.03.2004	26.06.2007	2009-10 to 2013-14	2009-10	2010-11	2011-12	2012-13	2013-14		425	LOA valid working unit
					140.91	—	—	—	—	112.78		
7.	Patni Computer systems Ltd. SDF-VII	31.03.2005	03.07.2007	2005-06 to 2009-10	2005-06	2006-07	2007-08	2008-09	2009-10			
					6417.22	5264	5096	5279	5114	20614.99	680	LOA valid working unit
8.	Systems & Software	31.03.2002	20.01.2003	2003-04 to 2007-08	2003-04	2004-05	2005-06	2006-07	2007-08			
					105.23	188.67	228.29	277.82	303.59	796.91	26	LOA valid working unit
				2008-09 to 2012-13	2008-09	2009-10	2010-11	2011-12	2012-13			
					377.51	201	189	—	—	669.2		
9.	Tata Consultancy Services Ltd., SDF-II	31.03.2002	11.07.2003	2002-03 to 2006-07	2002-03	2003-04	2004-05	2005-06	2006-07			
					3269.5	3436.87	1493.38	3766.43	9561	20529.81		
				2007-08 to 2011-12	2007-08	2008-09	2009-10	2010-2011	2011-12		290	LOA valid working unit
					7719	7861	888	—	—	13807.2		

10. Transasia Bio-Medicals Ltd.	31.03.2005	09.08.2006	2005-06 to 2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	2726	2673	2029	2929	3041	8139.91	98	LOA valid working unit
11. Neogem India Ltd.	31.03.2003	18.02.2005	2003-04 to 2007-08	2003-04	2004-05	2005-06	2006-07	2007-08	4106.87	4807.68	4788.46	6556.89	4475.33	2804.89	83	LOA valid working unit
			2008-09 to 2012-13	2008-09	2009-10	2010-11	2011-12	2012-13	1015	2185	—	—	—	549.02		
12. Atos Origin India Pvt. Ltd.	31.03.2000	10.2.2004	2000-01 to 2004-05	2000-01	2001-02	2002-03	2003-04	2004-05	779.47	1269.11	1226.84	1354.69	1277.54	6136.34		
			2005-06 to 2009-10	2005-06	2006-07	2007-08	2008-09	2009-10	1159	1272	2412	2043	482	7164.72	72	LOA valid working unit
			2010-11 to 2014-15	2010-11	2011-12	2012-13	2013-14	2014-15	210.16	—	—	—	—	210.16		
13. Nexgenix India Pvt. Ltd.	31.03.2004	28.06.2005	2004-05 to 2008-09	2004-05	2005-06	2006-07	2007-08	2008-09	197.63	66.1	34.26	0	0	224.36	98	LOA valid Upto 31.3.2009

1	2	3	4	5	6	7	8	9	10	11	12	13	
14.	Interjewels International Pvt. Ltd.	31.03.1994	M/s. Inter Classik Jewellery India Pvt. Ltd. was issued LOA on 24.08.1993 with condition that LOA shall be valid for a period of one year subsequently, the proposal was revised and revised LOA was issued on 07.04.1994. The unit requested for extension of validity of LOA. The validity was extended upto 31.08.1995 by the DC under delegated powers. Subsequently, the unit <i>vide</i> letter dated 21.07.1995 requested for extension of validity period as the repair renovation is in progress. The proposal was placed before the Board of Approval in its meeting held on 30.08.1995 the BOA extended the validity period upto 31.03.1996. The unit <i>vide</i> letter dated 08.03.1996 requested extension for a further period of three months as they are in the process of obtaining occupation certificate from BMC. The unit from time to time brought the issue of non-issuance of occupation certificate by BMC. The issue of extension of validity of LOA was submitted before the BOA indicating the factual position, in its meeting held on 25.07.1996. The BOA extended the validity period upto 30.07.1996. The proposal of extension of validity was again placed before the BOA in its meeting held on 23.10.1996 based on the request of the unit. The BOA extended the validity upto 31.10.1996. The unit commenced export activity during October, 1996 <i>i.e.</i> within the validity period of LOA. The unit is in the process of de-bonding of the project.									The Unit is under the process of de-bonding	
15.	KMG Jewellery	01.08.1994	The unit was further granted extension upto 30.06.1994 subsequently the unit was again granted extension of validity period of LOP upto 31.12.1994. The unit <i>vide</i> letter dated 29.12.1994 intimated that they have achieved their first export of jewellery on 28.12.1994 and also submitted copy of export invoice and shipping bill. The unit <i>vide</i> letter dated 27.05.1998 intimated that though the first export was only by way of imported mounting used for setting the diamonds and exporting the jewellery products the unit went on its real manufacturing activity and commenced commercial export from 01.06.1995. The unit commenced trial export production from 28.12.1994 and commercial export started from June, 1995.								Unit de-bonded on 29.04.2009		

### **Observations/Recommendations**

With respect to the accounting of goods removed for inter-unit transfer/job work, the Committee note that when goods were transferred from one SEZ, unit to another SEZ unit or to a 100 per cent EOU, the supplying Unit had to submit the re-warehousing certificate to the proper officer within 45 days from the date of clearance, failing which the proper officer had to initiate action for recovery of duty from the receiving Unit through the jurisdictional officer of the receiving Unit. Goods sent for jobwork were to be returned to the Unit within a period of 90 days from the date of removal and failure to do so attracted recovery of the applicable Customs Duty. When queried about the procedure that was in vogue to monitor the goods, the Committee were informed that detailed procedure for inter-unit transfer of goods was laid down and in cases of failure to submit re-warehousing certificate, action was initiated for recovery of duty. However, the Committee found that there were cases where re-warehousing certificates were not furnished and the Ministry had failed to take prompt action against them. Concerned over such glaring lapses, the Committee recommend that the monitoring mechanism must be strengthened and the defaulting Units inflicted deterrent punishment.

[Sl. No. 7, Para No. 7 of the part II of the Report]

### **Action Taken by Ministry of Finance**

The Administrative control of units in SEZ in with the Department of Commerce. Department of Revenue has always felt the need of having a robust compliance verification mechanism in the SEZs. A review of the SEZ scheme was conducted by CAG for verifying whether the units in the SEZ had complied with the applicable Customs Act, Rules, notification etc. and had functioned appropriately under the provisions of Exim Policy. Accordingly, the report under PA 6 of 2008 was laid in the Parliament on 11th March, 2008. The review has brought out various compliance weaknesses relating to policy and procedures governing the management and functioning of SEZ units.

Presently, C&AG audits the SEZs. However, the extent of such audit is minimal. The need is thus to have a mechanism which ensures complete audit coverage of developers/units over a few years cycle. It is mentioned that Department of Revenue is having a robust Audit/monitoring mechanism for audit of Central Excise & Service Tax assesses. The department insures effective monitoring of such assesseees through a scientifically designed system (EA 2000) under which periodical onsite audit of units is undertaken to enforce compliance with the taxation laws and to encourage a greater voluntary compliance. The units are selected on the basis of Risk Assessment so to enhance the efficiency of the exiting manpower. Since the department has the expertise, wherewithal and the knowledge to carry out such a task efficiently, it is felt that SEZ developer/co-developer/units should be subjected to such audits by the jurisdictional Central Excise Commissionerates.

### **Action Taken by Department of Commerce**

The mandatory provisions relating to filing of re-warehousing data within the stipulated time is in built in the SEZ Rules, 2006. If any Unit violates the stipulated conditions the duty foregone thereof should be demanded invariably. Further, the SEZ Online System introduced will ensure rigorous monitoring of removal of goods from SEZ to DTA for job-work and their return. It is also pointed out that inter-unit transfer within SEZs are not required to be subject to such monitoring as goods remain within the zone with its attendant export obligation on the transferee unit. Currently in Falta SEZ re-warehousing certificates for 2 consignments in respect of M/s. Carbide Cutting Tools Pvt. Ltd. are still pending. Concerned Customs authorities have already been requested by Falta SEZ to take action. However, observations/recommendations of the Committee are noted for stricter compliance.

### **Further Reply**

Falta SEZ has informed that re-warehousing certificate in respect of the receiving 2 consignments of M/s Carbide Cutting Tools Pvt. Ltd. have received from concerned Superintendent/Appraiser of Surat SEZ and there is no outstanding receipt of re-warehousing Certificate.

### **Audit Comment**

No comments.

### **Observations/Recommendations**

The Committee were apprised that an SEZ unit had the option to opt out of the Scheme with the approval of the Development Commissioner. However, such an exit from the Scheme was subject to payment of applicable Customs and Central Excise duties on the imported and indigenous capital goods, raw materials and finished goods lying in stock. When asked about the short levy of duty in respect of a few de-bonded Units which had opted out of the SEZ Scheme, the Committee were assured that duty would be collected as per rules and procedures. The Committee would like to know the recoveries that have been effected in this regard. Further, the Committee be apprised of the measures taken by the Government to ensure that such lapses do not recur.

[Sl. No. 8, Para No. 8 of the part II of the Report]

### **Action Taken by the Ministry of Finance**

This observation seeks details of recovery of duties in the case of specific SEZ units, which have opted out of the SEZ scheme and measures taken to prevent such lapse. Since these units function under the administrative control of DOC, this is for DOC to answer. However, there is no specific provision either in SEZ Act or in SEZ Rules, 2006 for the recovery of Tax/Duty benefits irregularly availed or duty not paid/short paid. Department of Revenue is thus of the view that there should be a provision similar to Section 142 of the Customs Act to enforce recovery of sums due to Government.

### **Action Taken by Department of Commerce**

Rule 74 of SEZ Rules, 2006 permits a SEZ Unit to opt out of the SEZ Scheme subject to approval by the Development Commissioner. Such exit is a conditional one with reference to discharge of all applicable duties on the imported or indigenous capital goods, raw materials, components, consumables, spares and finished goods in stock. Further, the Unit ought to have achieved positive NFE. If not, action under the Foreign Trade (Development and regulation), Act, 1992 could be initiated by imposing penalty. Once the unit has cleared all its dues thus calculated, the final debonding order is issued along with cancellation of Letter of Approval. These provisions were strictly followed.

### **Further Reply**

VSEZ has informed that M/s. Dia Labs filed DTA Bill of Entry for clearance of computer server equipment along with the other accessories *vide* B.E. No. DTA/978/09 dated 30.10.2009. The unit paid duty *vide* their TR-6 Challan No. 321/09-10 dated 30.10.2009 for Rs. 21,805/-. No dues are pending for recovery from the said Unit.

### **Audit Comment**

No comments.

### **Observations/Recommendations**

On their concern over poor monitoring of SEZ units, the Committee were apprised that the Unit Approval Committee (UAC) were assigned the specific task of periodically monitoring the performance of SEZ units. The performance of the SEZ units was to be monitored quarterly on the basis of reports received from the Units in the prescribed format. Based on the review, the Development Commissioner (DC) was to prepare a report for the information of the Department of Commerce and the Central Board of Excise and Customs (CBEC) and suggest corrective measures to enable the defaulting Units to fulfil their export obligations. The monitoring of SEZ units was also to be done by the jurisdictional Customs Authority through participation in the respective Unit Approval Committee. The Committee are constrained to observe that there was considerable delay in constitution of the Unit Approval Committees charged with the onerous responsibility of overseeing the functioning of these SEZ units. The Committee, therefore, reiterate the need for strengthening the monitoring mechanism for concurrent and effective appraisal of the functional of the SEZ units. Since the Monitoring Committee involves members from different departments, the Committee hope that there would be effective and regular Inter-Ministerial Co-ordination between Ministries for timely resolution of differences and removal of handicaps so to facilitate effective functioning of the SEZ scheme. In view of the persistent complaints that the SEZ had degenerated into a Scheme to garner land at advantageous prices and obviate taxes without expected multiplier benefits the Committee are of the considered opinion that the continuation of the Scheme in its present form needs serious reconsideration.

[Sl. No. 9, Para No. 9 of the part II of the Report]

### **Action Taken by Ministry of Finance**

In this recommendation the Committee has reiterated the need for strengthening the monitoring system for effective appraisal of the functioning of SEZ units. As far as CBEC is concerned, the jurisdictional Commissioner of Central Excise/Customs is a member of Unit Approval Committee. Circulars have been issued to the field formations, advising them to ensure attendance in UAC at a sufficiently high level with a view to safeguarding the revenue interest.

It is however mentioned that all the revenue issues do not come to the Unit Approval Committee. The revenue matters are dealt with by the Authorized Officer/Specified Officer who report administratively to the Development Commissioner. Thus the supervisory control over the officers, exercising revenue function is with the Development Commissioner.

As regards reconsideration of the SEZ scheme, it is for Department of Commerce, being the administrative department, to reply.

### **Action Taken by Department of Commerce**

Unit Approval Committee has been constituted for all the notified SEZs. Now the Approval Committees are constituted along with the notification of the Zone. It has been functioning in the intended manner and has been responding to any situation that could point to misuse. The annual monitoring system is closely scrutinised and action initiated promptly. Besides, the monitoring mechanism has further strengthened through software programme developed for the purpose. SEZs have resulted in fresh investment, employment and foreign exchange earnings for the country.

In short span of about five years since SEZs Act and Rules were notified in February, 2006, formal approval have been granted for setting up of 584 SEZs (as on 19.04.2011) out of which 377 have been notified. Out of the total employment provided to 6,76,608 persons in SEZs (as on 31.03.2011) as a whole 5,41,904 persons is incremental employment generated after February, 2006 when the SEZ Act has come into force. This is apart from millions of man days of employment created by the developers for infrastructure activities. Physical exports from the SEZs has increased from Rs. 2,20,711.39 crore in 2009-10 to Rs. 3,15,867.85 crore in 2010-11, registering a growth of 43.11%. There has been overall growth of export of 2180% over past eight years (2003-04 to 2010-11). The total investment in SEZs till 31st March, 2011 is Rs. 2,02,809.54 crore approximately, including Rs. 1,98,774.03 crore in the newly notified zones. 100% Foreign Direct Investment (FDI) is allowed in SEZs through automatic route.



Export from the functioning SEZs during the last five years are as under:—

Year	Value of exports (Rs. in Crore)	Growth over previous year
2005-2006	22,840	25%
2006-2007	34,615	52%
2007-2008	66,638	93%
2008-2009	99,689	50%
2009-2010	2,20,711	121%
2010-2011	3,15,867.85	46.11%

A total of 133 SEZs (as on 31.03.2011) are making exports. Out of this 76 are IT/ITES, 17 Multi-product and 40 other sector specific SEZs. The total number of units in these SEZs is 3,290.

#### **Impact of the Scheme**

The overwhelming response to the SEZ scheme is evident from the flow of investment and creation of additional employment in the country. The SEZ scheme has generated tremendous response amongst the investors, both in India and abroad. In addition to earning of foreign exchange and development of infrastructure, SEZs have also created a significant local area impact in terms of direct as well as indirect employment, emergence of new activities, changes in consumption pattern and social life, human development facilities such as education, healthcare, etc.

In view of the above, discontinuation of the scheme is not desirable.

#### **Further Reply**

The strengthening of the monitoring system has already been addressed in paragraph 4 above. However, the concern of PAC in monitoring of SEZ units and better inter-ministrial coordination has been noted and all the relevant Government agencies under UAC headed by DC, SEZ would be urged to cooperate fully in this regard.

#### **Audit Comment**

No comments.

Sd/-  
(Anup Wadhawan)  
Joint Secretary to the Govt. of India  
Department of Commerce  
Telephone No. 23061818

[Ministry of Commerce and Industry (Department of Commerce)  
O.M. No. I.2(2)/2011-SEZ dated 12.06.2012]

**CHAPTER III**

OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO  
NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED  
FROM THE GOVERNMENT

—NIL—

## CHAPTER IV

### OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

#### Observations/Recommendations

The Committee find that an Export Oriented Unit (EOU), which imported inputs and raw materials duty free, could clear its final products into DTA after paying the applicable Basic Customs Duty (BCD) and Countervailing Duty (CVD) as if the final products were imported. However, in cases where both the BCD and the CVD were 'nil' on certain products, the EOUs would not pay any duty on clearance of the final products in Domestic Tariff Area (DTA). A unit in the DTA producing/clearing the same final product would also clear these goods at 'nil' rate of duty, but would have suffered duty on inputs used in the manufacture of these products. This had put the DTA units under a comparative disadvantage. Subsequently, this anomaly was removed as the EOUs were required to payback the duty foregone on inputs utilised for manufacture of such goods cleared into DTA w.e.f. 1st September, 2004. However, no such protection to units in DTA was provided under the SEZ Policy/Act. Surprisingly, SEZ units can sell their goods, including by-products, and services in DTA on payment of applicable duty including at 'nil' rate with no requirement to payback the duty foregone on inputs used in the clearance of products (at nil rate of duty) into the DTA. The Committee deplore such a discriminatory policy which puts SEZ units at a distinctly advantageous position compared with similar units in the DTA. Such a discrimination was also noticed by the Committee on Commerce and they, in their 83rd Report (relating to 'The Functioning of SEZs'), had recommended that a level playing field should be provided to the domestic industry *vis-a-vis* SEZs. The Committee, therefore strongly recommend that SEZ scheme needs a thorough reappraisal with a view to provide a level playing field for the indigenous industry as well.

[S.I. No. 3, Para No. 3 of the Part II of the Report]

#### Action Taken by Ministry of Finance

The present SEZ policy does not require paying back the duty foregone on inputs utilized for manufacture of goods which are chargeable to NIL, rate of duty in terms of Section 30 of the SEZ Act, on their clearances into DTA.

DOR agrees that in such cases DTA units are placed at a disadvantageous position *vis-a-vis* SEZ units. This anomaly needs to be addressed. Such a provision has been made in the EOU scheme. Under this provision for EOUs, (prescribed under Notification No. 52/2003-Cus. and 22/2003-CE, both dated 31.03.2003) where finished goods cleared to the Domestic Tariff Area are either non-excisable or such finished goods, if imported, are leviable to nil rate of duty of customs and

nil additional duty, read with exemption notification, if any, no exemption in respect of inputs utilized for the purpose of manufacture of such finished goods is available under the said notification. A similar provision could be considered for incorporation in the SEZ scheme.

#### **Action taken by Department of Commerce**

Units in EOU, DTA and those located in SEZ are regulated by different set of instructions. A number of advantages available to EOU and DTA units are not available to SEZ units. Some of these are:—

- (i) Number of benefits available under Foreign Trade Policy (FTP) Schemes like Export Promotion Capital Goods (EPCG), Vishesh Krishi and Gram Udyog Yojana (VKGUY), etc. are not available to SEZ units on the ground that they avail Income Tax Exemptions on their export income.
- (ii) SEZ units are not allowed to sell their products/services into DTA on duty foregone basis. In terms of Section 30 of the SEZ Act, 2005, they have to pay all applicable duties including Countervailing Duty (CVD), anti-dumping duty, customs and safeguard duties under the Customs Tariff Act, 1975 where applicable as leviable on such goods when imported.
- (iii) SEZ units are not allowed Duty Entitlement Pass Book (DEPB) benefits on the value addition part. This benefit is allowed on imports. SEZ units are required to be NFE positive. There is no obligation on DTA units. They can clear all their produce into DTA in case of better opportunities in the domestic market.

#### **Further Reply**

As has been indicated above, the SEZ units are not entitled to a number of benefits which are available in the domestic industries. The recommendation of PAC in this regard may be seen in light of the fact that as products which has 0% import duty can easily be imported into DTA and therefore the threat to DTA unit is not really from a SEZ manufacturer. Further it may be reiterated that the objectives laid down for the SEZ units are distinct from those of DTA unit. As two schemes are not comparable, one principle in a particular scheme cannot be introduced into another scheme.

#### **Audit Comment**

It is recommended that MOC may introduce some provisions in the SEZ Rule to prevent SEZ units from getting undue advantage over the DTA units for the kind of cases pointed out by audit.

#### **Comments of the Committee**

Please *see* Para No. 11 of Chapter I.

#### **Observations/Recommendations**

The Committee find that the mechanism for monitoring the functioning of SEZ units is based on the data provided by the SEZ units through Self-Certification

in the form of Quarterly Performance Reports/Annual Performance Reports (QPR/APR). If the erring Units provide incorrect or incomplete data in their QPRs/APRs, there is no alternative and reliable method or procedure for correct monitoring of the Net Foreign Exchange Earnings (NFEs) data. The Committee feel that the collection of such vital statistics relating to NFE cannot be based merely on self-certification of the SEZs units. The Government must put in place a suitable and reliable oversight mechanism for monitoring the actual NFEs. Further, the Committee recommend that in cases of default, prompt and timely action must be taken to recover the duty foregone owing to concessions.

[Sl. No. 4, Para No. 4 of the Part II of the Report]

#### **Action Taken by the Ministry of Finance**

The SEZ scheme relies mainly on self-certification and does not require the 'Quarterly/Annual Performance Reports (QPR/APR) to be supported by other statutory documents like annual accounts, customs records, Income Tax (IT) returns, Bank Realization Certificates (BRC) etc. As observed by CAG in its report No. 6 of 2008, this facilitated a few units to submit incorrect/inconsistent data in their APRs/QPRs. The NFEs derived on the basis of this inconsistent data cannot be relied upon. DOC has been informed that few cases have also come to notice of Department of Revenue where either export value has been shown inflated or no manufacturing process was undertaken. In view of the above. DOR supports the suggestion for putting in places a mechanism to restrict the possibility of misuse of SEZ Policy. There is no express requirement for export of certain proportion of production undertaken by a SEZ unit. The only requirement is that of achievement of NFE. Therefore, there may be a temptation for inflating export value and understating import value. This is further exacerbated by the fact that Rules 27(10) and 28(5) provide that assessment of imports shall be on the basis of self-declaration by Developers/units and shall not be subjected to routine examination. DOC Instruction No. 6 dated 3rd August, 2006 further reinforces this position which stipulates that the value declared by the units has to be accepted.

Therefore, there is a need of reliable oversight mechanism for monitoring actual NFE achievement, which could actually examine the veracity of import/export value declared and also the actual remittance of foreign exchange so that the NFE obligation is correctly met. In case of default, there should be a provision for prompt recovery of duty foregone.

#### **Action Taken by Department of Commerce**

The SEZ units as well as developers are required to maintain complete accounts as prescribed under Rule 22 (2) of the SEZ Rules, 2006 which provides as follows:—

"(2) Every Unit and Developer shall maintain proper accounts, financial year-wise, and such accounts which should clearly indicate in value terms the goods imported or procured from Domestic Tariff Area, consumption or utilization of goods, production of goods, including by-products, waste

or scrap or remnants, disposal of goods manufactured or produced, by way of exports' sales or supplies in the domestic tariff area or transfer to Special Economic Zone or Export Oriented Unit or Electronic Hardware Technology Park or Software Technology Park Units or Biotechnology Park Unit, as the case may be, and balance in stock; Provided that Unit and Developer shall maintain such records for a period of seven years from the end of relevant financial year:

Provided further that the Unit engaged in both trading and manufacturing activities shall maintain separate records for trading and manufacturing activities."

Based on the records maintained by the Units/developers, Unit is required to give Annual Performance Report (APR) in Form 1, as prescribed by Rule 22(3) and the developer is required to give a Quarterly Performance Report (QPR) in Form E as prescribed in Rule 22(4) to the Development Commissioner and the Development Commissioner in turn is required to place the same before the Unit Approval Committee (UAC). Information given in the APR is required to be authenticated by the authorized signatory of the Unit and is required to be certified by the Chartered Accountant. Therefore, it is felt that the mechanism prescribed is sufficient and in case Approval Committee has any doubt in respect of any information submitted by the Unit or by a Developer, it can always call for the records which the Unit or Developer is required to maintain under rule 22(2) of the SEZ Rules, 2006. It is practically not advisable that every APR/QPR should be accompanied by statutory documents like annual accounts, custom records, income tax returns, bank realization certificates etc. as suggested by Comptroller and Auditor General (CAG). This will merely create additional paper work and it will certainly not be possible for UAC to go through all these documents in respect of all the QPRs and the APRs. In fact, it will be practically impossible to handle all these documents in respect of all APRs/QPRs by UAC.

It must be emphasized that the emphasis of the SEZ Scheme is on simplification of procedures as they are operating in bonded premises. Rule 75 of the SEZ Rules, 2006 has specifically emphasized on the operation of these units based on self-declaration. While simplifying the procedure enough care has been taken to ensure that there is no revenue leakage. Sale from SEZ to DTA has been prescribed on payment of full duty, whereas earlier such sales from Export Processing Zones were on payment of 50% duty. Exemption from income tax has also been given only on physical exports and no income tax exemption is given on profits derived from sale in the DTA or even sale within SEZ.

Hence the present procedure prescribed in respect of APR/QPR coupled with monitoring guidelines as given in Rule 54 read with Form 1 of the SEZ Rules 2006 is a sufficient mechanism for monitoring the export performance by the Unit Approval Committee.

The Approval Committees under the Development Commissioner constituted for all Zones, which comprise of representatives from Customs, Income-tax, State Governments etc. have been directed to constantly monitor the performance of the SEZ Units.

Further, the Ministry of Commerce and Industry have issued instructions on 4.12.2008 in terms of which random check of minimum 5% of APRs of unit is to be carried out by the Development Commissioners to ensure that there is no mismatch of data furnished by the Chartered Accountant (CA). Besides, introduction of SEZ Online System has facilitated this verification of the reporting in the APR. Hence, the Committee's apprehension about non-verified data has thus been addressed.

#### **Further Reply**

It is reiterated that following mechanism are already in place for monitoring the functioning of SEZ units:—

- (i) Procedure for check by Development Commissioners as per provision of SEZ rules 2006;
- (ii) Monitoring by inter-departmental approval Committee;
- (iii) Random check of minimum 5% of APRs of unit to be carried out by DC in terms of Ministry of Commerce and Industry instruction dated 04.12.2008;
- (iv) Introduction of on-line system.

Further, defaulting units in addition to recovery of duties foregone are imposed with penalties under the Foreign Trade (Development and Regulations) Act, 1992, as per rule 25 of the SEZ rules 2006.

#### **Audit Comment**

No comments.

#### **Comments of the Committee**

Please *see* Para No. 15 of Chapter 1.

**CHAPTER V**

**OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH  
GOVERNMENT HAVE FURNISHED INTERIM REPLIES**

—NIL—

NEW DELHI;  
28 August, 2012  

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06 Bhadrapada, 1934 (Saka)

DR. MURLI MANOHAR JOSHI  
*Chairman,*  
*Public Accounts Committee.*



**APPENDIX I**

**MINUTES OF THE TENTH SITTING OF THE PUBLIC ACCOUNTS  
COMMITTEE (2012-13) HELD ON 23RD AUGUST, 2012**

The Public Accounts Committee sat on Thursday, the 23rd August, 2012 from 1500 hrs. to 1600 hrs. in Room No. '51' (Chairman's Chamber), Parliament House, New Delhi.

**PRESENT**

Dr. Murlī Manohar Joshi — *Chairman*

**MEMBERS**

*Lok Sabha*

2. Dr. Baliram
3. Shri Sandeep Dikshit
4. Shri Anant Kumar Hegde
5. Shri Bhartruhari Mahtab
6. Shri Sanjay Nirupam
7. Shri Shripad Yesso Naik
8. Dr. Shashi Tharoor
9. Shri Dharmendra Yadav

*Rajya Sabha*

10. Shri Prasanta Chatterjee
11. Shri Prakash Javadekar
12. Shri Sukhendu Sekhar Roy
13. Shri N.K. Singh
14. Prof. Saif-ud-Din Soz

**SECRETARIAT**

1. Shri Devender Singh — *Joint Secretary*
2. Shri Abhijit Kumar — *Director*
3. Shri D.R. Mohanty — *Deputy Secretary*
4. Smt. A. Jyothirmayi — *Deputy Secretary*
5. Ms. Miranda Ingudam — *Under Secretary*
6. Shri A.K. Yadav — *Under Secretary*

**Representatives of the Office of the Comptroller and Auditor General of India**

- |       |   |   |                                       |
|-------|---|---|---------------------------------------|
| 1.    | Ms. Shubha Kumar  | — | Director General (Report Central)     |
| 2.    | Ms. Geetali Tare  | — | Pr. Director (Scientific Departments) |
| 2.    | ***   |   | ***                                   |
| 3.    | ***   |   | ***                                   |
| 4.    | The Committee then took-up the following Draft Reports for consideration:   |   |                                       |
| (i)   | ***   |   | ***                                   |
| (ii)  | ***   |   | ***                                   |
| (iii) | Draft Report on Action Taken by the Government on the Observations/<br>Recommendations of the Committee contained in their Thirtieth Report<br>(Fifteenth Lok Sabha) on ' <i>Special Economic Zones (SEZs)</i> '; and |   |                                       |
| (iv)  | ***   |   | ***                                   |

5. After some discussions, the Committee adopted the Draft Reports and authorized the Chairman to finalise the four Reports adopted by them, in light of their suggestions and the factual verifications received from the Audit and present the same to the House on a date convenient to him.

6. The Chairman thanked the Members for their valuable suggestions on the consideration of the Draft Reports and selection of additional subjects.

*The Committee then adjourned.*

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\*\*\*Matters not related to this Report.

## APPENDIX II

(Vide para 5 of Introduction)

### ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE OBSERVATIONS/RECOMMENDATIONS OF THE PUBLIC ACCOUNTS COMMITTEE CONTAINED IN THEIR THIRTIETH REPORT (FIFTEENTH LOK SABHA)

- |  |                                 |
|--|---------------------------------|
| (i) Total No. of Observations/Recommendations  | — 09                            |
| (ii) Observations/Recommendations of the Committee which have been accepted by the Government:   | — Total: 7<br>Percentage—78.78% |
| Sl. Nos. 1-2 and 5-9   |                                 |
| (iii) Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from the Government:                | — Total: 0<br>Percentage—0%     |
| -NIL-  |                                 |
| (iv) Observations/Recommendations in respect of which replies of Government have not been accepted by the Committee and which require reiteration: | — Total: 2<br>Percentage—22.22% |
| Sl. Nos. 3 and 4   |                                 |
| (v) Observations/Recommendations in respect of which Government have furnished interim replies   | — Total: 0<br>Percentage—0%     |
| -NIL-  |                                 |

**PARLIAMENTARY PUBLICATIONS CAN ALSO BE OBTAINED FROM THE FOLLOWING AUTHORISED AGENTS:—**

<b>Sl.No.</b>	<b>Name of Agent</b>	<b>Sl.No.</b>	<b>Name of Agent</b>
	<b>ANDHRA PRADESH</b>	13.	M/s. Jayna Book Depot, Chowk Chhapparwala, Bank Street, Karol Bagh, New Delhi-110005.
1.	M/s. Ashok Book Centre, Benz Circle, Vasavya Nagar, Vijaywada-520006. (A.P)	14.	M/s. Standard Book Co., 125, Municipal Market, Connaught Place, P.B. No. 708, New Delhi-110001. (T. No. 23411919)
	<b>BIHAR</b>	15.	M/s. D.K. Agencies (P) Ltd. A/15-17, Mohan Garden, Najafgarh Road, New Delhi-110059.
2.	M/s. Progressive Book Centre, Zila School, Pani Tanki Chowk, Ramna, Muzaffarpur-842002. (Bihar)	16.	M/s. Vijay Book Service C-D/123/C, Pitam Pura, New Delhi-110034.
	<b>DELHI</b>		<b>MADHYA PRADESH</b>
3.	M/s. Jain Book Agency, C-9, Prem House, Connaught Place, P.B. No. 1113, New Delhi-110001.	17.	M/s. Suvidha Law House, 28 Malviya Nagar, Roshanpura, Bhopal-462003.
4.	M/s. Bookwell, 2/72, Sant Nirankari Colony, Kingsway Camp, Delhi-110009.		<b>MAHARASHTRA</b>
5.	M/s. Rajendra Book Agency, IV-D-50, Lajpat Nagar, Old Double Storey, New Delhi-110024. (T. Nos. 26412362 & 26412131)	18.	M/s. Usha Book Depot, 585/A, Chitra Bazar, Khan House, P.B. No. 2671, Mumbai-400002.
6.	M/s. Central News Agency Pvt. Ltd., P-23, Connaught Circus, New Delhi-110001.	19.	M/s. Jaina Book Agency (India), 649-A, Girgaum Road, Opp. 2nd Dhobi Talao Lane, Mumbai-400002.
7.	The Manager, M/s. Books India Corporation, Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110052.		<b>PUDUCHERRY</b>
8.	M/s. Sangam Book Depot, LG-3, Akarshan Bhawan, 23, Ansari Road, Darya Ganj, New Delhi-110002.	20.	Editor of Debates, Legislative Assembly Department, Puducherry-605001.
9.	M/s. Biblia Impex Pvt. Ltd., 2/18, Ansari Road, New Delhi-110002. (T.No. 23262515)		<b>TAMILNADU</b>
10.	M/s. Universal Book Traders, 80, Gokhale Market, Opp. New Courts, Delhi-110054. (T. No. 23911966)	21.	M/s. M.M. Subscription Agencies, 123, Third Street, Tatabad, Coimbatore-641012.
11.	M/s. Seth & Co. Room No. 31 D, Block-B, Delhi High Court, Sher Shah Road, New Delhi-110003.	22.	M/s. C. Sitaraman & Co., 73/37, Royappettah High Road, Chennai-600014.
12.	M/s. Dhanwantra Medical & Law House, 592, Lajpat Rai Market, Delhi-110006. (T. No. 23866768)		<b>UTTAR PRADESH</b>
		23.	M/s. Law Publishers, Sardar Patel Marg, P.B. No. 1077, Allahabad (U.P)
		24.	M/s. Ram Advani Bookseller, Mayfair Building Hazrat Ganj, GPO Box No. 154, Lucknow-226001.