



PROCEEDINGS OF GOVERNMENT OF KARNATAKA

Sub: State Policy for Special Economic Zones – 2009

Ref: Govt. Order No. CI 252 SPI 2001 dated 25.2.2002.

Preamble:

The Government of India have announced the concept of Special Economic Zones (SEZs) in the year 2000 through a revision in the EXIM Policy 1997-2002 with a view to providing an internationally competitive and hassle free environment for production of goods and services for exports. These SEZs are virtually deemed to be a foreign territory within the Country, free from all the rules and regulations governing the import and export. The SEZs are specifically treated as duty free enclaves for the purpose of industrial, service and trade operations with exemption from customs duties and a more liberal regime on levies, foreign investment and other transactions. The domestic regulations, restrictions and infrastructure inadequacies are sought to be removed for creating an investor and industry friendly environment. The SEZs would be islands of excellence and efficiency.

These SEZs may be for a specific sector meant exclusively for one or more products in a sector or one or more services in a sector. In the alternative a SEZ may be multi-product one, where the units may be set up for manufacture of two or more goods in a sector or goods falling in two or more sectors or for trading and warehousing or rendering of two or more services in a sector or rendering of services falling in two or more sectors.

As per the Government of India guidelines, SEZs can be developed in the public, private or joint sectors or by the State Governments or their agencies or through PPP basis. They are expected to promote establishment of large, self contained areas supported by world-class infrastructure oriented towards export production. Exploiting the full potential of the concept of SEZs would bring

large dividends to the State in terms of economic and industrial development and the generation of new employment opportunities. The SEZs are expected to be engines of new economic growth.

Government of India has enacted the Special Economic Zones Act, 2005 and notified Special Economic Zones Rules, 2006. The SEZ Act specifies powers of the State to grant following exemptions vide Sec. 50 of chapter VIII:

- a. Granting exemption from the State taxes, levies and duties to the Developer or the entrepreneur
- b. Delegating the powers conferred upon any person or authority under any State Act to the Development Commissioner in relation to the Developer or entrepreneur.

As per Rule 5 (5) of Chapter II of SEZ Rules 2006 regarding procedure for establishment of SEZ, the State Government also has been directed to endeavor that the following are made available in the State for the proposed SEZ units and developer before recommending any proposal for SEZ to Government of India for approval:

- a) exemption from the State and local taxes, levies and duties, including stamp duty, and taxes levied by local bodies on goods required for authorized operations by a unit or developer, and the goods sold by a unit in the domestic tariff area except the goods procured from domestic tariff area and sold as it is;
- b) Exemption from electricity duty or taxes on sale, of self generated or purchased electric power for use in the processing area of a SEZ
- c) Allow generation, transmission, and distribution of power within a SEZ as per the provisions of Electricity Act, 2003
- d) Providing water, electricity and such other services, as may be required by the developer be provided or caused to be provided;

- e) Delegation of power to the Development Commissioner under the Industrial Disputes Act, 1947 and other related Acts in relation to the unit; and the workmen employed by the developer;
- f) Declaration of the SEZ as a Public Utility Service under Industrial Disputes Act, 1947;
- g) Providing single point clearance system to the developer and unit under the State Acts and Rules.

There is a need for Policy pronouncement by the State Government to support and encourage development of SEZ by public, private or joint sectors or by the State Government, or its agencies in the State.

Hence this Policy and Order.

GOVERNMENT ORDER NO CI 114 SPI 2007 BANGALORE,

DATED 28-2-2009

In the circumstances explained in the preamble portion of the Order, Government is pleased to announce a State Policy for Special Economic Zones – 2009 as indicated in Annexure to this Government Order. This Policy shall come into force with immediate effect and shall govern the development, operation and management of Special Economic Zones and the SEZ units to be established therein.

This order issues with the concurrence of the Finance Department vide U.O. Note No. FD/213/CSL/2008 dtd: 26.12.2008, Revenue Department vide U.O.Note ಸಂ: ಕಂಇ/342/ಮುನೋಮು/2008 ದಿನಾಂಕ: 16.1.2009, Energy Department vide U.O.Note No. ಇಎನ್/6470/ಸ್ವೀಮರ/2008 ದಿನಾಂಕ: 1.1.2009, Urban Development Department vide U.O.Note No. UDD/ 238/BMR/2008 dtd: 14.10.2008, Public Works, Ports & Inland Water Transport Department vide U.O.Note No. PWD/188/PSP/2008 dtd: 5.9.2008, Forest, Ecology & Environment U.O.Note No. FEE/91/SECY-ENV/2008 dtd: 26.8.2008, IT, BT & Science and Technology Department U.O.Note No. ITB/ 44/MDA/2008 dtd: 19.9.2008, Labour Department U.O.Note No. LD/281/ LET/ 2008 dtd: 8.9.2008 and Infrastructure Development Department No. ID/59/ITS/ 2008 dtd: 16.9.2008.

The State SEZ Policy announced vide GO No. CI 252 SPI 2001 dated 25-2-2002 stands withdrawn.

By Order and in the name of the
Governor of Karnataka

Sd/-
(Subir Hari Singh)
Principal Secretary to Government
Commerce & Industries Department

Annexure to Government Order No. CI 114 SPI 2007 dated 28.02.2009

State Policy for Special Economic Zones – 2009

I. Introduction

The State Government has a vision to achieve a GSDP of over 9% which in turn calls for industrial growth of 12%, focus on strengthening manufacturing industry in the State and to increase the share of GSDP from the present average of 16.7% to over 20%. It is also targeted to achieve an increased share of Karnataka's exports in National Export from the present 15% to 20%.

Among the strategies, the Policy emphasizes development of industrial infrastructure. Special Economic Zones (SEZs) with world-class infrastructure are expected to accelerate economic development. It is proposed to promote SEZs in addition to specialized industrial infrastructure for specific sectors.

The SEZ Act 2005, enunciated by the Government of India and the consequent SEZ Rules 2006 govern establishment of SEZs in the Country. As per this Act, the State Government is required to frame its own Policies and bring necessary amendments to the relevant State level Acts / Regulations.

Realising the potential of SEZs in driving industrial and economic growth, the State Government is committed to support and facilitate setting up of SEZs in Karnataka. This Policy will encourage healthy proliferation of SEZs.

II. Objectives

The prime objective of the Policy is to facilitate & expedite establishment of SEZs, at the same time safeguarding the environment and the interests of land owners. The Policy provides for a package of incentives, supportive measures besides clarity on procedural guidelines.

III. Policy Measures

1. Single Point Clearance

The State High Level Clearances Committee (SHLCC) constituted as per the Karnataka Industries (Facilitation) Act, 2002, will act as Single Point Clearance for the SEZ Developer/Co-developer, for consideration and approval of SEZ projects and recommendation to the Government of India, for approval.

For Single Point Clearance to SEZ units, the State Government will consider delegating the power of all its clearances to the Unit Approval Committee headed by the Development Commissioner, SEZ and the officers of the concerned departments will be deputed to the Development Commissioner's Office to function under the administrative supervision and control of the designated Development Commissioner of SEZs to accord necessary clearances and approvals to SEZ units..

2. Land for SEZs

Proponents of SEZs can utilize their own land including joint development/lease land or acquire the required land by one of the following procedures:

- (i) Purchase converted land from land owners, subject to the confirmation of land use in the approved master plan.
- (ii) Purchase land under Section 109 of the Karnataka Land Reforms Act with the approval of the SHLCC. The Revenue Department can facilitate purchase of land after due approvals of SHLCC and as per law.

- (iii) The State Government or its undertakings may allot land to the SEZ out of the land acquired by them for industrial purposes, with the approval of SHLCC. Such allotment of land is subject to Government of India guidelines issued from time to time.
- (iv) The State Government may acquire the required land for the SEZ, with the approval of SHLCC and would transfer such land to the Developer/Co-developer of SEZ concerned, as per the KIAD Act, 1966. Such acquisition of land is subject to the Government of India guidelines issued from time to time.
- (v) Acquisition / purchase of land are subject to the following:
 - a. SEZs can preferably be established in waste, karab, dry and single crop land. Use of agricultural land to be kept to the minimum. Utilization of agricultural land is subject to the Government of India guidelines issued from time to time.
 - b. SEZ Applications for the State High Level Clearance Committee will essentially include a Resettlement and Rehabilitation plan in line with the guidelines issued by the Government of India from time to time.

3. Infrastructural Facilities

With a view to create world-class infrastructural facilities for export oriented production / operations, the Developer or Co-developer is encouraged to develop, construct, install, operate, manage and maintain any or all of the following infrastructure facilities, amenities and services in the SEZ in accordance with the guidelines/orders of Government of India and Government of Karnataka in this regard:

- (i) Provision of roads and bridges;
- (ii) Generation, transmission and distribution of electricity;
- (iii) Water extraction, treatment, transmission and distribution;
- (iv) Provision of minor port and related services;
- (v) Provision of gas distribution network;
- (vi) Provision for communication and data network transmission;
- (vii) Waste water treatment and solid waste management; and
- (viii) Any other services essential for smooth operations of SEZ units.

The Developer or Co-developer may collect reasonable user charges for the facilities created.

(i) Provision of roads and bridges

The Developer/Co-developer or his agent may develop, operate and maintain the road network, bridges, transportation services and any transportation system within the Zone and to levy toll or fee for providing such facility.

The State will facilitate reliable road connectivity from main highways up to the SEZ either through its own agency or through PPP or permit the Developer/Co-developer to do so and in such a case the Developer/Co-developer will be permitted to set, collect and retain toll, as may be approved by the Government.

(ii) Generation, Transmission and Distribution of electricity

The generation, transmission and distribution of electricity in the SEZ will be facilitated as follows:

The Developer/Co-developer or his agent, for the SEZ shall be deemed to have license to supply electricity to their respective areas and develop the distribution network for the same.

The Developer /Co-developer or his agent shall be deemed to be a licensee under section 14 of Electricity Act, 2003

The Developer/ Co-developer or his agent as the case may be, will have an option to purchase electricity for the SEZ and activities therein or its consumption from any State Electricity Company or Corporation and any other generator of electricity including Central Power Supply Undertakings (CPUs). Such purchaser shall be deemed to have an approval to use the transmission and distribution system of the transmission and distribution agency under the Electricity Act 2003, subject to payment of appropriate wheeling charges and availability of transmission capacity.

Any sale of electricity to the SEZ or units therein shall be exempted from payment of Electricity Duty or Taxes on the electricity consumed.

(iii) Water extraction, treatment, transmission and distribution

The Developer/ Co-developer or his agent will be permitted to setup systems and facilities for water extraction, treatment, transmission and distribution of water within the SEZ, provided the applicable service standards, as approved are met.

The Developer/ Co-developer or his agent in SEZ or the authority or its agent in designated area as the case may be, will be permitted to setup systems and facilities for waste water treatment and solid waste management.

Provided that, the applicable service standards, as approved by the relevant authority under its regulations for such systems and facilities are met.

(iv) Minor Ports and related services

Subject to the Policy laid down by the Government regarding ports, the Developer/ Co-developer or his agent may develop, operate and maintain a minor port within the Zone, for landing of goods for use in the Zone and for the shipping of goods from the Zone.

The Developer/ Co-developer or his agent will manage for landing of other cargoes (not meant for the Zone) as per terms and conditions prescribed by the regulations of the State Government.

The Developer/ Co-developer or his agent may fix and collect tariff from the vessels entering in the minor port within the Zone and on the goods landed and shipped at the port in accordance with the directions of the State Government

(v) Provision of gas distribution network

The Developer/ Co-developer or the Township Authority may, subject to the policy laid down in this regard by Central Government, and the State Government, setup and maintain gas distribution system in the SEZ.

(vi) Provision for communication and data network transmission

The Developer/ Co-developer or the Township Authority may, subject to the policy laid down in this regard by Central Government, and the State Government, setup and maintain communication and data network transmission in the SEZ.

4. Labour related issues

The power of the Labour Commissioner, Government of Karnataka shall be delegated to the designated Development Commissioner or other Authority under the Industrial Dispute Act, 1947 and other related acts in respect of the unit and workmen employed by the Developer/ Co-developer. Officer from the Labour Department will be deputed to function under the administrative supervision and control of the designated Development Commissioner of the SEZs to accord all necessary clearances and approval relating to various labour laws.

All industrial units and other establishments in the SEZs will be declared Public Utility Service under the provisions of the Industrial Dispute Act, 1947.

The procedure for submission of returns under various labour laws will be streamlined, and the Developer/Co-developer or the units in the Zone may furnish the consolidated annual report in the prescribed form to the Development Commissioner instead of periodical returns under the following Acts:

- (i) The Workmen's Compensation Act, 1923
- (ii) The Payment & Wages Act, 1936
- (iii) The Factories Act, 1948

- (iv) The Minimum Wages Act, 1948
- (v) The Maternity Benefit Act, 1961
- (vi) The Payment of Bonus Act, 1965
- (vii) The Contract Labour (Regulation and Abolition) Act, 1970 and
- (viii) The Karnataka Shops and Commercial Establishment Act 1961
- (ix) Such other Acts as the State Government may, by notification in the Official Gazette specify

When any other Act made by the Parliament is to be specified by the State Government, it shall be specified with prior approval of the Government of India.

5. Fiscal Benefits

Following fiscal benefits will be offered to Developer, Co-developer and Units operating in the SEZ:

(i) For SEZ developers and Co-developers:

- (a) All purchases excluding purchase of petroleum products from domestic tariff area for authorized operations of entire area in SEZs shall be exempted from State and local body taxes or levies or cess such as Sales Tax, VAT, Entry Tax, Special Entry Tax. This exemption will not be available for the goods sold in the domestic tariff area with or without value addition.
- (b) Exemption of Stamp Duty and Registration fees for Registration of Land and Loan/Credit Documents.

Provided that exemptions in respect of stamp duty and registration fee relating to transaction of land for development of the SEZ between the Developer/Co-developer and the land owners and between the Developer and Co-developer would be available for the first transaction only. For KIADB acquired and allotted land, exemption of Stamp Duty and Registration fees shall be available both at the time of execution of lease deed / lease cum-sale deed and absolute sale deeds.

- (c) Exemption of Electricity Duty or Taxes on sale, of self generated or purchased electric power for use in the processing area of SEZ.
- (d) Exemption of 1% Labour Welfare Cess on construction cost incurred by the developer / co-developer.
- (e) One time capital subsidy up to 50% of the cost incurred for setting up Common Effluent Treatment Plant subject to a ceiling of Rs. 100 lakhs per CETP / SEZ.
- (f) Exemption from any other State taxes, cess, duties or levies as may be notified by the State Government, from time to time for SEZs.

(ii) For SEZ Units:

- (a) All purchases excluding purchase of petroleum products by SEZ units located in the processing areas from domestic tariff area or SEZ area for its set up, operation or maintenance or for use in manufacture, trading, production, processing, assembling, repairing, reconditioning, re-engineering or packing shall be exempted from State and local body taxes or levies or cess such as Sales Tax, VAT, Entry Tax and special Entry Tax. This exemption will not be available for the goods sold in the domestic tariff area with or without value addition, if sold, applicable State taxes are levied.
- (b) 50% Exemption of Stamp Duty and Registration fees for Registration of lease deeds/sub-lease deeds in respect of industrial land/built-up space and Loan/Credit Documents in the processing area.

Provided that exemptions in respect of stamp duty and registration fee relating to transaction of industrial land / built up space between the SEZ Developer / Co-developer & the Units would be available for the first transaction only.

- (c) Exemption of Electricity Duty or Taxes on sale, of self generated or purchased electric power for use in the processing area of SEZ.
- (d) Exemption of 1% Labour Welfare Cess on construction cost incurred by the Unit.
- (e) Exemption from any other State taxes, cess, duties or levies as may be notified by the State Government, from time to time.

6. Registration of MSMEs and IT / BT units

The power to accept Entrepreneurs' Memorandum from Micro, Small and Medium Enterprises (MSME), Letter of Approval and Registration of Information Technology / Biotechnology units, will be delegated to the Development Commissioner or other designated authority in respect of units in the SEZs.

7. Law and Order

The State Government will make appropriate and exclusive arrangements within the SEZs for maintenance of law and order.

8. Inspections

An authority / representative of any department / agency of Government of Karnataka will carry out any physical inspection with the prior approval of the Development Commissioner of SEZ specifying the purpose of inspection in the processing area.

9. Development Commissioner

All matters pertaining to SEZs in the State will be coordinated by "Development Commissioner(s)" or other authorities appointed by Government of India for the SEZ under section 11 of the SEZ Act, 2005.

10. SEZs as Industrial Townships

SEZs will be declared as Industrial Townships under the Karnataka Municipalities (Third) Amendment Act, 2002 to enable the SEZs to function as self governing and autonomous municipal bodies.

11. Terms and Conditions

SHLCC shall approve the SEZ projects on the following terms and conditions.

- (i) SEZ developer / Co-developer / SEZ units need to prepare a Human Resource Development plan to train the land losers / local persons and organize training for such people and provide employment to those persons.
- (ii) SEZ developer / Co-developer / SEZ units need to provide a minimum 80% job to local people on overall basis.
- (iii) SEZ developer /Co-developer / SEZ units, wherever there is a scope for Vendor Development shall prepare a Vendor Development Plan and provide Entrepreneurship Development Training to the local persons and facilitate setting up of service / manufacturing vendor enterprises.
- (iv) SEZ developer shall prepare a plan for adequate social infrastructure and public amenities for the affected persons and such facilities should include educational institutions, hospitals, water supply schemes, road, etc. and implement the plans as per schedule.
- (v) Amenities created by SEZ developers / Co-developer_/ SEZ units in the non-processing area of the SEZ like schools, colleges, hospitals etc. shall be accessible to the affected persons.
- (vi) Developer /Co-developer after the approval of SHLCC, who availed stamp duty and registration fees exemption for registration of land which was acquired as mentioned in Clause III (2), shall be liable to pay back the amount of stamp duty and

registration fees exemption to the Government, in case the land acquired by them has not been notified as an SEZ from Government of India within two years from the date of approval of SHLCC.

- (vii) Developer/Co-developer/SEZ unit shall be liable to pay back all the fiscal benefits availed under this policy to the Government in case the Developer/Co-developer/SEZ unit does not implement the SEZ or opt out of SEZ.

IV. Monitoring & Review Committee

A Committee shall be constituted under the Chairmanship of the Chief Secretary to Government, to ensure smooth operation, monitoring and review of implementation of SEZs with following composition:

- | | |
|--|------------------|
| a. Chief Secretary to Government, | Chairman |
| b. Principal Secretary to Government, C&I Dept | Member |
| c. Principal Secretary to Government , Finance Dept. | Member |
| d. Principal Secretary to Government, Energy Dept. | Member |
| e. Pr Sec/Secretary to Govt, IT & BT Department | Member |
| f. Pr Sec/ Secretary to Government, Revenue Dept. | Member |
| g. Pr Sec/Secretary to Government, FEE Dept. | Member |
| h. Pr Sec/Secretary to Government, PWD Dept. | Member |
| i. Pr Sec/Secretary to Government, UDD | Member |
| j. Pr Sec/Secretary to Government, Labour Dept | Member |
| k. Pr Sec/Secretary to Government, Inf Devpt. Dept. | Member |
| l. Secretary to Government (SSI), C & I Dept. | Member |
| m. Secretary to Government, Water Resource Dept. | Member |
| n. Commissioner for Commercial Taxes | Member |
| o. CEO and EM, KIADB | Member |
| p. Development Commissioner of SEZs | Member |
| q. Member Secretary, KSPCB | Member |
| r. Commissioner for Industrial Development | Member Secretary |

The Committee can invite any other members if necessary as special invitee.

Separate guidelines for administration of the policy will be issued by this committee for the guidance of the concerned agencies and officers. Interpretation of this Government Order / Policy and the decision thereon of this committee shall be final.
