CHAPTER – 8

PACKAGE OF SUGGESTIONS -
A PRESCRIPTION
After dealing with the constraints of the IEPZs and the problems confronted by their constituent units, based on the survey, findings and personal observation, an earnest attempt is made in this Chapter to make suggestions to help alleviate the rigors and to remove the constraints of the IEPZs and to solve the problems of their constituent units.

A. SUGGESTIONS TO HELP ALLEVIATE THE RIGORS AND TO REMOVE THE CONSTRAINTS OF THE IEPZs ARE PRESENTED HEREUNDER

1. Betterment of infrastructural inadequacies: The EPZs at Kandla, Cochin, and Falta are constrained by the unsatisfactory development of road, rail, seaport and air-links. Further, consignments are to move along with other consignment causing abnormal delay in movement.

   Hence, removal of infrastructural inadequacies must get top-priority. The facilities offered in the IEPZs should compare very favourably with those offered in similar Zones in other co-developing countries. In addition to the developmental works going on in the IEPZs, direct road links to the EPZs at Cochin and Falta may be laid-down by calling tenders from public and private contractors. A hover-craft facility for transporting men and material to and from the FEPZ may be introduced in Hooghly river. Cochin airport may be upgraded as international airport to benefit the entire region including CEPZ. Kandla airport may be directly linked to New Delhi and Ahmedabad. By holding negotiations with the Ministry of Shipping and Civil Aviation, MoC can get an express-route for EPZ consignments at seaports and air-ports. Such steps will ensure low-cost, speedy and internationally competitive export production.

2. Improving the communication system: Sophisticated and highly advanced communication system has not developed to the expected level in the IEPZs. There are persistent delays in getting telephone and fax connections.

   It is suggested that all the IEPZs may be linked to satellite earth stations and E-mail facility may be installed in the Zones. Extra lines may be reserved in advance by Zone authorities to get quick-connections. The benefit of rebate on ISD calls during nights may be restored. Chief Executive Officers residential lines may be provided, as the international calls
are generally made during night hours from their residence. These steps will remove communication blocs to a large extent.

3. **Augmenting power and fuel resources** : Power breakdowns, load-sheddings, and low-voltage caused serious interruption in export production. POL products like diesel oil are not supplied to the IEPZs units at international prices.

One of the ways to improve the situation is to grant subsidy for installing captive power generation sets in the IEPZs. The POL companies should fix up an international price for diesel oil supplied to the IPZs units without insisting upon EPCG route, because such benefits are implied to EPZs units in LoA.

4. **Provision of adequate water supply** : There is acute water shortage in KAFTZ, MEPZ, and CEPZ due to the insufficient water supply systems, which obstruct export production and increase the overhead costs.

Until the water supply position improves with the current level of development works, the Zones authorities may hold discussions with water supply authorities to device a suitable incentive, which would bring down the cost of overheads in this area.

5. **Improving supportive infrastructure** : The IEPZs do not have important supportive infrastructure like off-shore banks, skill training centres, quality-testing cells etc. In addition, most of the IEPZs do not have petrol pumps, taxi-stands, clearing and forwarding agencies, and primary health services.

The IEPZs authorities may develop rapport with local ITIs for introducing such trades which would offer employment to persons in EPZ units in the areas of garment making, welding, chemical blending etc. Every EPZ may have quality control lab to suit the requirements of the units. Such trained work-force will not generate excessive scrap. Petrol pumps may be installed right in front of the Zones, which would ensure adequate supply of petrol to units, and the general public. Private contractors may be encouraged to construct taxi-stands near the Zones. Sufficient number of clearing and forwarding agencies may be set up in the Zones. EPZ industries associations, on their part, can start primary health centres on cost-sharing basis to cater to the medical needs of the work force in the IEPZs.
6. **Single Window Clearance - making a reality**: Inspite of the existence of single-window clearance, investors have to run from pillar to post to get some of the local clearances. This causes much more problems to foreign investors. The system of personal hearing and counselling the investor is not in existence at BoA meetings.

In view of this situation, post-approval pursuance, personal counselling and investor-grievance cells should be opened in DCs office. The DCs offices should liaison with State Government agencies in obtaining clearances. At the same time, a nodal agency may be designated by State Governments in the IEPZs to sort out issues relating to State Departments, and agencies. The single-window system can be further strengthened by providing automatic access to external commercial borrowing and by delegating specific powers of Collectors of Customs and Central Excise to AC-Customs in the IEPZs. Investors should have the satisfaction of obtaining all clearances through DCs Office only. A system of personal hearing may be evolved at BoA meeting at the time of granting approval.

7. **Fostering linkages with DTA**: Ancillary industries and consultancy firms in accounting, management consultancy etc., are not permitted in the IEPZs. DTA sale of gems and jewellery items is not allowed. Deemed exports are not treated on par with actual exports. Tax-incentives U/s 80 HHC are not offered to DTA suppliers. As a result, effective linkage with DTA units can not be maintained and fostered.

In order to foster linkage with DTA, Government policy on the IEPZs be so amended to allow ancillary units to be setup in the Zones. DTA sale of gems and jewelry may be permitted at 10 per cent to 15 per cent. Consultancy firms in the accounting, management consultancy and technology from local participation may be encouraged to open their offices in the Zones. Deemed exports may be treated on par with actual exports to enhance the value of exports from Zones. DTA suppliers may be given benefits under section 80 HHC. The IEPZs should promote research and development projects including the development of new and dynamic projects and industrial processes. Government should also provide assistance for industrial collaboration arrangements and joint ventures in the Zones. Fiscal and financial incentives may be given to local entrepreneurs participating in such joint ventures.
8. Stimulating FDI: The IEPZs could not mobilize FDI on a larger scale due to restrictive foreign investment policy in the past, insufficiently developed trade-related infrastructure, long-drawn procedures and ineffective promotional efforts.

For inducing foreign investment into the IEPZs, a worthwhile and competitive package of incentives like accelerated depreciation allowance and exemption of salaries and wages of foreigners may be included in the existing package. Government of India should actively evolve an investment-protection treaty with the Governments of Sri Lanka, Japan etc. In order to facilitate more convenience to foreign investor, a single link, sharp and short decision-making cluster may be attached to DCs offices in the IEPZs, where administration and services such as customs, banking, ministries concerned of Central and State Governments, airlines and railways, departments of electronics, communications, textiles etc., would decide the matters face-to-face speedily and finally within the broader framework of EPZ policy.

9. Public Utility Status: Absence of an industrial law and its application exclusively for export-sector of the country is coming in the way of appreciating public utility status in the IEPZs units.

The need of the hour, therefore, to solve the problems of lock-outs and lay-offs of units in the IEPZs, is to designate DC as an appropriate authority under Industrial Disputes Act. Even J.S.Gill panel to review policy and procedures applicable to EPZ units recommended such a mechanism. The IEPZs and all services connected with export-production like airlines, ports etc may be declared as areas under Essential Services Maintenance Act (ESMA). Though it is constitutionally difficult to enact a separate industrial / labour law for export sector alone, the existing labour laws may suitably be amended to incorporate an express machinery for the settlement of disputes in export activities. The provisions of such amendments will automatically apply to the IEPZs. Thus, Public Utility status can be strengthened.

10. Instant inter-ministerial decisions: Ministries other than MoC do not consider themselves equally responsible for the propagation of EPZ scheme. PL Tandon Committee rightly pointed out whether export promotion was the concern of MoC alone. Persistent delays, queries, long-drawn time and procedures in clearing the matters etc. caused serious
problems in the past. Moreover, State Governments are caused serious problems in the past. Moreover, state Governments are not evincing the desired interest in the EPZ in their states. As a result, benefits meant for the IEPZs do not properly reach them in time.

Hence, various ministries connected with EPZ scheme should shed their policy and procedural differences and sort out inter-ministerial issues quickly so that benefits will pass on to the IEPZs units without much delay. All kinds of clearances and notifications from MoC, MoF, Ministry of Communications, Ministry of Petroleum, Ministry of Shipping and Civil Aviation etc., should be issued at one-time to avoid confusing interpretations. In order to induce state Governments concerned in export promotion, Centre may consider evolving a formula whereby State Governments may get allocation in their plan outlays for the purpose of export promotion and growth from their states. On their part, States should have sustained interest in the development of export infrastructure. They can ponder over the issue of exempting sales tax, cess, and local levies. They should also standardise the supportive infrastructure in the IEPZs.

11. Promotional efforts: Resource-crunch is the main constraint in resorting to aggressive marketing and promotional campaigning for the IEPZs. This constraint prevents the IEPZs to resort to sophisticated promotional campaigns in India and abroad.

In view of this constraint, more funds may be released so that the IEPZs can resort to a sophisticated promotional campaign. A most promising export-enabling environment may be created embodying a concerted target-based campaign which is tightly focused onto a limited target group in India, NRIs, and world-class business leaders in potential export markets like UAE, ASEAN, Saudi Arabia, the USA, the UK, South Korea, Taiwan, Japan, France, Canada etc. EPZ promotion delegations consisting of officials from MoC, Customs, Central Excise, DCs, Presidents of EPZs industries associations, media consultants etc., may be sent to these countries.

Excitement may be created among the target-groups through ads in Asian Wall Street Journal, Fortune 500, Business World, Business India etc., followed by direct mailings, paper clippings, editorials, and personal letters/telex to target-groups. Once interest is shown by any of these groups, pursue the lead through a regular and time-bound system. Consultants may be
appointed to bring projects into the IEPZs on fees. A feeling must be created in the minds of the investors that the Zones Administrators are a modern sophisticated team to do business.

12. Redressel of rental overdues: Arrears of lease rent is accumulating in the IEPZs resulting in mounting overdues year after year. This is mainly due to laxity on the part of some of the exporters to pay rent or sometimes, it may be due to financial problems. This causes delay in amortisation of capital expenditure.

In order to solve the problem of mounting rental arrears, the IEPZs property may be marketed on the principles of marketing. Commercial profitable standards should serve as guidelines in the management of the IEPZs property. Instead of leasing the developed plots/SDF buildings/industrial sheds, it is better to sell them to investors at market rates so that the IEPZs can own property over the years. At the time of debonding, the property can be sold to another investor through DCs office, so that buyer and seller will get benefit out of such transactions. Banks also feel more secure because the first charge is created on the owner of the property but not on MoC. The FIEPZsIA also made similar recommendation to MoC. Such a step will ensure quick amortisation of capital expenditure. So long as the Zones capital is kept at reasonable Return on Investment (RoI) and so long as the Zone is attracting enough industry, employment, and making good exports, Government can follow a more liberal approach in capital expenditure.

13. Provision of adequate manpower resources: Shortage of manpower at various levels in DCs offices is causing enormous delay in solving the problems of investors and running day-to-day administration.

Therefore, necessary steps must be taken to see that DCs offices are optimally staffed. Frequent transfers to and from parent departments may be dispensed with. Wherever there is shortage of staff, extra work shall not be put on the existing employees. DCs may be permitted to hire locally-skilled manpower in administration on adhoc basis without going through the elaborate process of selection through the Staff Selection Commission. Top positions should be filled up expeditiously.

14. Long-term operating policy - a necessity: The IEPZs were conceived to achieve multiple objectives, which were not only complementary sometimes but also mutually-
contradicting 1. Such objectives-attainment overshadowed the primary objectives of earning the foreign exchange and generating employment besides attracting foreign technology and investment. This clearly indicated the absence of suitable long-term operating policy for the existing EPZs.

For the existing EPZs, a uniform VA based on NFE earnings shall be fixed at 35 per cent for all activities on a year-to-year basis without considering capital goods. Such a step would focus on the primary objective of earning the foreign exchange. The formula suggested is \((X-Y) / Y\) where in \(X=\text{NFE}\) earned by the unit for the year, \(Y=\text{c,i,f}\), value of imported raw materials and consumable used by the units. Even the Bombay Chamber of Commerce advocated for this. A long-term policy at least for 5 years should be spelt out so that investors can integrate such a policy into their corporate plans. Commercial Zones specialising in trading by way of imports of finished and partly finished goods can be established (see Annexure No. 9).

Export enabling and expediting environment can be created and improved in the existing private/joint sector EPZs, if the policy is implemented with a spirit of enterprise rather than with the world of law. These Zones can concentrate on selected products like mushrooms, shrimps, cuttlefish, cut-flowers, essential-oil-plants etc., which have growing international demand. Suitable locations may be offered to the investors to develop their own raw materials. Development costs can be subsidised up to 50 per cent and attractive benefits may be offered to investors.

Mega EPZs, on the line of EPZ in Mauritius can be set up in Lakshadweep islands. They are near Middle East and European markets. Adequate operational flexibility can be ensured because of separation from mainland. A comprehensive policy should be evolved to trading, warehousing, break-bulk, ship repairing, dry-docking and other usual assembly operations. Mega EPZs shall permit exports only to GCA with a lower VA of 15 per cent.

1. The objective of developing backward regions would not permit the Zones to maximise the backward linkages due to high content of imported inputs. Again, the objectives of expanding unskilled employment and facilitating technology transfer may also be in conflict with each other. Simple assemble operations for expanding unskilled employment cannot be expected to help technology transfer and advancement.
15. Constituting an autonomous National level EPZs Corporation with over-riding powers: The present three-tier administrative set-up failed to ensure smooth flow of communication and delegation of wholesome discretionary powers to the DCs. Due to absence of autonomous Authority with over-riding powers, the system led to bureaucratic delays and investors and exporters faced operational problems.

In view of this, a new organisation structure is proposed to give a corporate image to the IEPZs. An Act of Parliament called “Indian EPZs (Administration and Control) Act” may be enacted to set up National EPZ Corporation of India (NEPZCI) at national level. Each EPZ may be named as an autonomous EPZ Corporation with affiliation to NEPZCI. NEPZCI Board consists of senior officials. It is headed by a Chairman and Managing Director who will report directly to Commerce Minister. He will grant wholesome and full discretionary authority and powers to Directors and other key personnel in NEPZCI.

Each EPZ corporation shall be managed by a General Manager (GM) with a proven track record in international business and EPZ matters. General manager is assisted by AC-Customs with full discretionary powers in customs and central excise matters. AC-Customs will report directly to Director-Finance. General manager shall exercise absolute discretionary powers over approvals, deemed exports, scrap disposal matters, DTA sales, sub-contracting, revival of sick units and other pertinent but simple transparent transactions. He will have different managers assisting him. At the front-line administration of an EPZ, there will be administration assistants to look after secretarial work. (see Chart 8.1)

The proposed organisation structure is based on functional classification. The unique feature of this structure is adequate and smooth flow of authority, responsibility, and accountability with no communication-blocs. Each EPZ corporation adopts a long-term plan for atleast 5 years ahead and then breaks it into short-term plans with annual periodicity. GM will be responsible for the achievement of the annual plans of EPZ, GM should interact with the members of NEPZCI Board and Chairman for policy formulation only. Achievement-linked remuneration shall be offered to every officer and administration assistant. It is hoped that this type of corporate image with professional-touch, will ensure operational flexibility and it will transform single-window clearance into a reality.
CHART 8.1
PROPOSED ORGANISATIONAL STRUCTURE FOR THE IEPZs
AT NATIONAL LEVEL
IEPZs (ADMINISTRATION & CONTROL) ACT

National EPZs Corporation of India (NEPZCI)

NEPZCI Board consisting of

- Commerce Secretary
- Finance Secretary
- Chairman FIPB
- Chairman SIA
- Chairman Railway Board
- Secretary Shipping
- Secretary Civil Aviation
- Chairman FIEPZs IA

NEPZCI BOARD
headed by
Chairman and Managing Director
reporting to
Commerce Minister and in-charge of

Activity One: Finance entrusted to Director
Activities:
- Drawing up and execution of financial plan
- Revenue and Expenditure matters of the IEPZs

Activity Two: Marketing entrusted to Director
Activities:
- Drawing up a long term marketing strategy
- Promotional campaign
- Advertisement measures
- Visits to potential markets

Activity Three: Investment entrusted to Director
Activities:
- Project evaluation
- Weeding out unviable applications
- Monitoring of post approval clearances
- Technical matters

Activity Four: HRD entrusted to Director
Activities:
- Staffing the IEPZs offices and training and development
- Drawing up a long term human resources budget
- Employee welfare measures

Activity Five: Data Bank entrusted to Systems Analyst
Activities:
- Collection, Compilation, storing, interpretation and dissemination of data on IEPZs

Activity Six: Performance Review entrusted to Chief Evaluator
Activities:
- Drawing up an overall long term EPZ policy and plan, laying down planning premises, identifying key-factors, formulating policy blue-prints and convening meetings. Performance review against targets, VA, NFEE, commodity composition and directional pattern of exports. Identifying shortfall and prescribing a course of action.
II. AT ZONE LEVEL

EPZ Corporation
( an autonomous body )
headed by a
General Manager,
assisted by AC-Customs
and reporting to Director -Finance
with full powers in respect of
Granting approvals
Exercising the powers of JCCI & E
Sanctioning incentives
Fixing up scrap norms and disposal
Permitting the removal of imports / excisable goods from the EPZ
Permitting DTA sales
Permitting sub-contracting
Revival of sick units
executed through
Manager Funds
Manager Marketing
Manager Estate Management and Exporters cell
Manager Projects
Manager Data systems
Manager Employee matters
Manager Liaisoning
Manager Performance review
Administration Assistants
The course of action as outlined above would remove the physical and policy constraints of the IEPZs to a larger extent. In turn, it would facilitate much more convenience to exporters in the Zones to concentrate on export production.

(B) SUGGESTIONS TO HELP ALLEVIATE THE RIGORS AND TO SOLVE THE OPERATIONAL, FINANCIAL, MARKETING, AND INFRASTRUCTURAL PROBLEMS OF THE UNITS CONSTITUTING THE IEPZs ARE PRESENTED HEREUNDER

I. Suggestions to solve the problems of operational inflexibility of units constituting the IEPZs

Problems of export units in the IEPZs on account of inflexibility due to Government policy are many. Some of the problems and suitable suggestions are presented hereunder:

1. Reducing the rigors of bureaucratic rules and regulation

The extent of devolution of powers to DCs is limited which makes them inevitably to interpret the rules of MoC in many operational issues. As a result, units cannot perform better due to procedural bottlenecks inspite of free regime.

The need of the hour, therefore, is to remove procedural bottlenecks. Many of the bottlenecks can be removed by wholesome delegation of authority and more liberal devolution of powers to DCs. For instance, power of blanket permission for destructing the waste/scrap may be delegated to DCs. Valuation of scrap/waste may be taken at a value and rate settled between buyers and sellers. Wherever there are differences between the values, customs may take the views of the IEPZs industries into consideration. DCs should also be given powers to insist upon the units to adhere strictly to the provisions of labour laws and to introduce standardised working conditions.

2. Achieving stipulated VA norms

Confusion prevailed for a long time due to various VA norms for different products. Some of the unit failed to achieve VA stipulation because of inbuilt difficulties in calculation of VA.
For solving this problem, VA norms adopted in duty exemption scheme may be adopted in EPZ scheme. Foreign exchange earnings can be maximised with a uniform VA of 20 per cent for all products at 20 per cent as suggested by Jayantoroy committee. At the sametime, units which have exceeded the VA percentage may be given advance licenses, SILs etc.

3. **Tax-holiday incentive:** The tax-holiday incentive does not give full-benefit to the IEPZs exporters. Normally, each unit takes three/four years to generate profits after it commenced production. As a result, tax-holiday incentive is available for less number of years. Thus, it is a half-baked incentive.

In view of this situation, tax-holiday incentive may be made perpetual. Various forums including FIEPZsIA, CEPZIA, KAFTZIA, and CEU pleaded for perpetual tax-holiday incentive. Gill panel also recommended that tax-holiday incentive to an EPZ unit should be extended so long as the unit continues to operate in the Zone. Further, EPZ units may be allowed to pay 30-35 per cent of the salary of their employees in foreign exchange so as to retain skilled manpower.

4. **Provision of adequate SILs:** Computer peripherals, steams, and electronics items are not covered by SILs. Denial of SILs may reduce their profit margins.

In view of the fairly-larger number of computer software and hardware and electronics units in five out of the seven IEPZs, it would be better, if SILs are given to them to operate effectively and to compete in the international markets. This is particularly a felt need in the light of high technological obsolescence of the products of these units. In addition, grant of SILs would help them to operate on a high margin of safety.

5. **Simplifying the procedures on sub-contracting:** Suspicion, strict input-output norms, and objections from customs are coming in the way of sub-contracting a part of production in DTA. As a result, many units are not able to take advantage of sub-contracting facility outside the EPZs. There is urgent need to simplify the procedures on subcontracting. While devising simplified procedures with transparency, suitable safeguards should be provided in sub-contracting to prevent the leakage of duty-free imports of inputs into DTA.
6. **Reducing the rigors of rules on DTA sales** : The main concern of the IEPZs units in making DTA sales is about the duty-structure and procedural hurdles. The duty payable is calculated on the value of finished goods. While permitting the DTA sales of importable items after use, a lot of time is spent in obtaining clearance from customs.

Hence, it is recommended to impose the applicable excise duty on raw material at the time of import, so that the IEPZs exporters can fix a reasonable price to find suitable buyers. Further, customs can expedite the process of giving clearances so that the IEPZs exporters can easily sell the imported items after use. DTA sale of spares may be permitted to the extent of 15 per cent. Indian importers may be allowed to purchase items manufactured by the IEPZs units which they would otherwise have to import by spending valuable foreign exchange. Similar policy initiatives may be adopted for sale of by-products in DTA.

7. **Sale of scrap/waste** : Duty payable on the sale of scrap/waste inflates the selling price, at which rate, it is difficult to find buyers. As a result, heaps of scrap are found the units causing fire-hazards, high inventory costs and ecological problems. Further, restrictions on the quantity of scrap generated also make sale of scrap/waste difficult.

It is, therefore, suggested that no duty should be levied, so long as scrap/waste is under stipulated percentage. If scrap generated is more than the stipulated percentage, applicable excise duty may be levied.

8. **Replacement of defective goods** : The present policy of replacement of defective goods by overseas customers does not foster patronage with them. This is because of duties on such goods by customs, which burden is passed on the customers by the EPZ exporters.

In order to see that the IEPZs units can have sound and long-standing business-ties with their local / foreign customers, they may be allowed to freely replace the defective goods without delay and with no incidence of duty on such replacement.

9. **Provision of IPRS benefit for purchase of RM from DTA** : The benefit of IPRS is not extended for purchases of RM from DTA. In the absence of this facility, the IEPZs units are liberally spending valuable foreign exchange by way of imports.
It is suggested that the benefit of IPRS is also extended on purchases of RM from DTA which would save foreign exchange outgo. Further, the IEPZs exporters may be allowed to borrow raw material from DTA for temporary adjustment and to restore and return them to DTA units when the import is received.

10. **Minimising manpower problems**: The interference of outside trade unions creates labour unrest. Public utility status cannot totally prevent the workers from resorting to strikes. As a result, flash strikes cause interruption in export production. Contract labour system in certain IEPZs (KAFTZ) comes in the way of mutual exchange of opinions between factory-owners and workers for the speedy and amicable settlement of disputes.

Such problems can be minimised, if labour cells are opened in the IEPZs with the Assistant Labour Commissioner (ALC) assuming a major role in liaising among DC, EPZ units, workers, and internal trade unions. Instead of the present infrequent visits to the Zones, the ALC may frequently visit the Zone factories. Whenever there are disputes between workers and factory-owners, problems must be settled quickly so that interruptions in export production will be avoided and peaceful industrial relations prevail in the IEPZs.

11. **Sick units**: The long drawn procedures and enormous time of six months to one year spent in the revival of sick units by BIFR/DGFT has been creating problems of threat to exporters from banks side for recoveries and problems to authorities in evacuating the units.

In this context, it is suggested that an affiliate “Body” to BIFR may be formed with the DC as nodal officer to probe into problems of sick units and possibilities for their revival. Such a body can settle the issues of sick units within a span of two or three months or even earlier. In case the sick unit can not be revived, the “Body” can facilitate handing over the unit to the entrepreneurs interested in such revival.

12. **Debonding / exit**: At the time of debonding, depreciation is allowed at 70 per cent of the cost of the capital goods. Units have to refund all the benefits claimed earlier to Zone authorities and removals are to be used by actual user. These stipulations are restrictive which make debonding more difficult.
Such problems can be mitigated by allowing full depreciation in mature and premature debonding as well as disposal of obsolete capital goods. For mature debonding, duty on imported capital goods should be at the depreciated value calculated at the exchange rate prevailing at the time of import but at the rate of duty prevalent at the time of debonding. In the case of premature debonding, both the rate of duty and the exchange rate shall be reckoned at the time of import so as to reduce the instances of premature debonding.

13. Insulating EPZ scheme from the ongoing liberalisation process: The liberalisation measures adopted in DTA in the form of reduced customs duties, procedures on subcontracting and destruction of waste/scrap, full convertibility of rupee on trade account, flexibility in changing the product - mix, 100 per cent CCS incentive, duty free exemption scheme (see Annexure No. 10), EPCG scheme (see Annexure No. 11), more liberalised gems and jewellery policy etc., have narrowed down the differences between DTA units and EPZ units. This led to a situation where export promotion schemes in DTA turned out to be more attractive than the EPZs due to similar yet more liberalised policy for DTA units. As a consequence of these liberalised measures, the IEPZs have lost their distinctive advantage, export documentation in the IEPZs has become relatively complicated. In the light of this situation, EPZs exporters feel that the scheme has not properly been insulated from the ongoing process of liberalisation.

In order to insulate properly the EPZ scheme from the on-going process of liberalisation, export procedures can be simplified further by cutting down the number of commercial and regulatory documents. The end use certificate by customes at ports is not necessary because EPZ units operate under customs-bond. A suitable notification may be issued to permit import of equipment for software units on loan/hire basis without the payment of duty. A single bond may be introduced to cover central excise matters. Sufficient operational flexibility with transparency in issuing guidelines may be introduced for trading activities. Private Bonded Warehouses (PBWs) may be brought under the preview of DTA sales to foster linkage with DTA. There is every possibility for simplifying the procedures on sub-contracting and destruction of scrap/waste, which must be implemented in the right earnest. Flexibility should be injected in switching over / diversifying from the approved line of manufacturing without fresh approvals. The limit of CCS should be raised to 100 per cent.
The stringent condition that MMTC gold must not be mixed with imported gold may be dispensed with. MMTC and its outlets/affiliates may also supply other precious metals and stones to EPZ units. The arrangement of import of gold free of cost against the export order of gold jewellery may be extended to EPZ units. Notification for participation in exhibitions may be given well in advance for gems and jewellery units.

14. Suggestions for solving miscellaneous problems of operational inflexibility:

Miscellaneous problems of operational inflexibility include delay in issuing conversion proceedings in case an EPZ unit wants to convert itself into an EPCG unit, non-transparent monitoring systems, and levy of duties for DTA supplies to EPZ units. These problems do not ensure operational flexibility to the IEPZs units.

Therefore, policy may suitably be amended to permit conversion of an EPZ unit into EPCG scheme expeditiously after vacating the Zone premises and after surrendering all the benefits to the Zone authorities. Delay in conversion proceedings is no more beneficial. The system of monitoring of the performance of the units may be made known to all the concerned so that the unit can furnish the required information in time. System of monitoring should be on the basis of NFE earnings of the unit. A formal appraisal system should be laid down to conduct a periodic evaluation of the EPZ and the units operating in it to study the total and individual promise, performance, cost, and benefits.

Further, self-certification of cargo and stuffed containers may be permitted. Where an EPZ unit takes capital goods on lease from the domestic company, export obligation/VA may be placed on EPZ unit. At the time of debonding, customs duty may be paid jointly by EPZ unit and leasing company.

Those units which have already completed export obligation may be allowed to remove their capital goods or replacements in the manner they wish. Those units which have not completed their export obligation must give an export obligation of five times the c.i.f. value of capital goods for a period of five years. Whenever any EPZ unit exceeds the prescribed percentage of NFE, special licences may be given to the extra portion of NFE.
Transport subsidy and sales tax benefits originally granted may be restored. Though it is constitutionally difficult for exempting CST, the system of reimbursement may be further streamlined. Furniture and office equipment may also be exempted from CED. Similarly, cement, iron, and steel, and electrical fittings in the construction of EPZ factories may be exempted from Central Excise Duty.

II. Suggestions to solve financial problems of the IEPZs units

Due to shortage of working capital requirements, some of the units could not commence production and some of them have become defunct. In addition to their own meagre financial resources, untimely credit; the pressure for recoveries from banks etc., added fuel to the fire. The IEPZs units do not enjoy any special privileges in getting credit from banks. Due to absence of any exclusive guidelines from RBI, banks cannot go out of the general policy laid down by RBI. All India level and state level financial institutions also do not have any special mechanism in processing the applications of the IEPZs units. State Government agencies take inordinate time and delay in granting subsidies and in releasing incentives.

Thus, there is an urgent need to evolve a special and more refined credit-policy dispensation for export sector. Banks in the Zones may be instructed to give top-priority to the credit needs of the IEPZs units. To the extent SLR is reduced, this should be diverted to finance the IEPZs units. Foreign banks may be advised to finance small and medium units in the IEPZs. Packing credit rate may be brought on parity with international lending rate at 6 or 7 percent. Pre and post shipment credit, which is denominated in foreign currencies, should be extended to EPZ sector. Banks may be asked to charge interest only for period of advance, rather than on the usance, say 90 or 180 days. The branches of commercial banks in the IEPZs may be linked to Society for Worldwide Interbank Financial Telecommunication (SWIFT) network to enable exporters in the Zones to realise their proceeds within a short period. Banks may be made to increase their credit to units in the IEPZs in tune with the projected rise in exports from the IEPZs.

The practice of charging the IEPZs units again with ECGC premium should be dispensed with. ECGC coverage may be extended upto 100 per cent Banks may support
revival plans of such units which have not performed well due to unfavourable international market conditions. They may liberally sanction credit. Where confirmed LoC are available, banks may go beyond sanctioned limits for credit for raw materials or for purchasing foreign usance bills.

A special channel for speedy processing of loan application by national level and state level financial institutions such as state industrial development corporations, IDBI, ICICI, IFCI, and SFC may be devised for the IEPZs. State Governments should release the incentives expeditiously.

The recommendations of RBI to MoF to retain 70 per cent of the earning of EPZs in the foreign exchange may be implemented in the right earnest. This would help the exporters in the Zone to withstand fluctuations in exchange rates and meet the export commitments in time.

III. Suggestions to solve the marketing problems of export-units in the IEPZs

Many exporters in domestically-owned units are not effective global-players. They are constrained in exploring new export-markets either for want of money or for want of ready-data on commodities and customer countries. As a result, products from the IEPZs, in some cases, lack price and quality edge. These exporters are not able to withstand keen competition from competing countries in potential export-markets due to their in-built deficiencies. They are ill-equipped to gauge the dimension of ever-changing international demand and supply and competitive tendencies.

It is high time that marketing assistance in locating potential markets, suppliers and buyers, and products, should be enhanced on the objective basis. Export marketing strategies of EPZs in different parts of the country are based on the type of products exported from the Zone and the characteristic features of customer-countries of that EPZ. Hence suitable strategies may be developed for products with high export potentiality in potential markets in consultation with IIFT, ITPO, CEU, FIEO, FIEPSIA and the EPZ Industries Association in the respective EPZ. Locally available marketing consultants' expertise may be utilised for this purpose.
In every EPZ, the Zone authorities and EPZ Industries Association can jointly organise Entrepreneurial Development Programmes with the help of local management consultants, international resource persons, managers of MNCs and management institutes. The cost of such programmes can be shared by participating units also.

Every EPZ may set up an Export Commodity / Market Information Centre which is run by EPZ industries and authorities on a cost-sharing basis. Such a Centre should monitor the international trade scenario, collect data on markets and products, conduct market and product surveys abroad and pass on the information to exporters in that Zone. There should be complete and free exchange of data among such information Centres in all the seven EPZs.

Due to high cost, none of the EPZs is able to obtain floppies from WEPZA. Such cost can be partly financed by EPZ authorities and EPZs industries association. This will enlighten and educate the exporters on suppliers, buyers, products, countries, and external policy factors in different countries and the factors affecting the export demand and supply conditions.

Regarding the suggestions for solving the infrastructural problems of the units, once the suggestions in this regard, as outlined in Part A of this Chapter are implemented, the infrastructural problems of the units are solved to a greater extent.

It is earnestly hoped that the above suggestions, if carried out, would strengthen, and revitalise and improve the export performance of the IEPZs and their constituent units to a great extent.

The summary and concluding observations are dealt with in the next and the last Chapter.