

FTWZS

**CRITICAL TO
INDIA'S ECONOMIC
GROWTH**



A new dawn of opportunities has arrived for the logistics industry in India. The current government is strongly focusing on boosting the infrastructure of the country, and in line with this vision, the logistics industry has been granted 'Infrastructure Status'. This has directed both domestic and foreign investors towards Free Trade Warehousing Zones (FTWZs), and they are expected to multiply in the times to come, thus boosting trade.

Upamanyu Borah

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Free Trade Zone (FTZ) or Export Processing Zone (EPZ), also called Foreign-Trade Zone, formerly free port, is an area within a country in which goods may be landed, handled, manufactured or reconfigured, and re-exported without the intervention of the customs authorities. Only when the goods are moved to consumers within the country in which the zone is located, they become subject to the prevailing customs duties.

Free Trade Warehousing Zone (FTWZ), a special category of Special Economic Zones (SEZs), offer services such as speedy delivery of cargo, one-stop for customs clearance capability; integrated solutions, such as packing management, sorting, inspection, re-invoicing, strapping and kitting, assembly of complete and semi-knocked down kits, and taxation benefits. Basically, FTWZs are a special category of Special Economic Zones with a focus on trading and warehousing.

FTWZs are mega trading hubs that comprise of excellent, state-of-the-art storage and warehousing infrastructure, Container Freight Stations (CFS), rail connectivity, offices, banks, insurance corporations, and residential complexes for the workforce that is employed therein.

Typically, FTWZs provide employment opportunities to approximately 15,000 to 30,000 people.

Genesis

In India, Free Trade and Warehousing Zone was introduced in the EXIM Policy, also known as the Foreign Trade Policy, with the objective to facilitate import and export of goods and services. Each zone was considered to have ₹100 crores outlay and 5 lakh sq mt built-up area. Government of India introduced the FTWZ Policy as a part of Foreign Trade Policy (FTP) 2004-2009 governed by the SEZs ACT, 2005 and SEZs Rules, 2006, to leverage India's strategic geographical location and cost and skill arbitrage.

According to the SEZs Act of 2005, FTWZs are considered foreign territory within India. Two vital objectives of the SEZ concept are to generate employment and earn foreign exchange by attracting Foreign Direct Investment (FDI) in the manufacturing and services sector. Storing products in FTWZs is generally very beneficial for foreign companies that export products to India and have to store them on-site in India before delivering them to the end-customer.

There are only 3 operational Free Trade Warehousing Zones in India covering 375 acre land area. The largest FTWZ is in Khurja, close to the National Capital Region of Delhi. The other two are located near Mumbai and in Sricity, nearby Chennai.

For development and establishment of FTWZs, the government has permitted 100 per cent Foreign Direct Investment (FDI).

Status

In the backdrop of a rapid infrastructural development along with significant initiatives like 'Make in India' and creation of smart cities, Tier II & III cities are witnessing a promising potential for logistics and ancillary services, including FTWZs in all probability. The Indian logistics industry is evolving from traditional unorganised players to full-fledged logistics service providers offering complete supply chain services, thus making the current scenario potent for increasing trade.

According to Debashis Dutta, Director, Industrial Services, JLL India, "The reason behind logistics and ancillary facilities and services gaining importance in Tier II & III cities since the last few years is primarily because all service providers are striving to attain customer base of the Tier II & III cities. According to BCG-CII report, it was predicted that by 2025, tier II and III towns will account for 45 per cent of India's consumption and will add 30 per cent of affluent households. As a result, beyond

major and explored urban centres, organised business line is spreading their wings to these areas. And, the interest of organised players will escalate its footprint with their standards and specifications."

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DEBASHIS DUTTA
 Director,
 Industrial Services,
 JLL India

A FTWZ facility could help in optimising the product supply chain in terms of its storage location and customer proximity without any hindrance of country boundary. A suitable policy can be the driving factor for identifying a location for FTWZ destination, which India already has. On the other side, port connectivity with larger vessel handling capability escalates the site feasibility significantly.

“While the metros have led the initial charge, opportunities now extend to Tier II & III cities which constitute majority of country’s population. Development of airports, shift of manufacturing base to these cities, growth in demand for consumption and industrial use and development of road networks are factors that provide huge potential for growth of logistics and FTWZs in these cities,” says Vikas Yadav, Director, Future Warehousing Solutions Pvt Ltd.

“Tier II & III locations with foreign trade access point like Thoothukudi, Kochin, Vizhinjam, Karaikal, Kakinada, Mangalore, Mundra, Vizag, Dhamra, Paradeep, etc. have an inherent potential for developing a FTWZ destination. The above exhibit ports of different size and scale which can serve as probable locations for port-based FTWZs in India, provided the right demand cords are hit and analysed for its feasibility,” says Dutta.

However, from the regulatory point of view, Nitin Chandra, Associate Director, CBRE South Asia Pvt Ltd informs that to establish a FTWZ, minimum land area of 40 ha, i.e. 98.84 acres is required to be registered. Tier II cities don’t provide the scale to rationalise development of FTWZ.

Advantages

As per the existing policies, FTWZs come with a host of benefits. These include duty deferment benefits and faster customs clearances, packaging, allowance of re-packaging and re-export, customised warehousing, break bulk, containerised and dry cargo storage. These benefits can be

availed by importers, exporters and re-exporters.

Although the list is endless, Yadav says that FTWZs typically benefit big retail chain, automobile manufacturers, IT hardware and electronic companies including mobile handset companies.

Yadav jots down the financial, operational and infrastructural benefits that FTWZ provide:

Financial

- Ease of starting EXIM business by foreign entities,
- Flexibility of transactions in any free convertible currency,
- Permission of 100 per cent FDI.

Operational

- On site custom clearance,
- Value added services viz. labelling, packaging testing, etc.

Infrastructure

- State-of-art containers and yards,
- Robust road network,
- Commercial office space,
- Water, power and communication & connectivity.

Here, Dutta expresses that the concept of FTWZ is such a facility which helps to keep cargo without direct intervention of country’s statutory and regulatory framework. As a result, the facility could help in optimising the product supply chain in terms of its storage location and customer proximity without any hindrance of country boundary. A suitable policy can be the driving factor for identifying a location for FTWZ destination, which India already has. On

the other side, port connectivity with larger vessel handling capability escalates the site feasibility significantly.

Now, customer’s perception shall be the driver for marketability of the FTWZ facility, believes Dutta. In the Indian context, Computer Hardware, Computer Peripherals, Consumer Electronics, Electronics Components, Electronics and Telecom Instruments primarily imported from China and South

East Asia are the key products which have potential to use FTWZ facility. Dutta says that the benefits accrued to the cargo shall be under the following heads:

- Very high supply reliability (including spares) to Domestic Customers
- Quality control on imported spares, parts and component prior to duty-payment
- Value Added Services after SKU level break bulking + CKD Assembly
- Bring down lead time of equipment and spare parts for end-customer delivery
- Deferment of import duty till the date of supply to domestic customers
- Warehouse/ Storage hub in India comparable to origin countries

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SANDEEP CHADHA
 Founder & CEO,
 Warehouse Capital
 Advisors India Pvt Ltd

We have seen large global strategic players/FTWZ operators like DP World taking a long term call on FTWZ format in India in the recent past. In partnership with long term infrastructure capital providers like National Investment and Infrastructure Fund (NIIF), these players will create assets that will cater to expected growth in industrialisation and trade.

Benefits for imports, exports and re-exports

On the imports, exports and re-exports scale, there are big positives for FTWZs. Yadav says, “To begin with, reduced buffer stocks, lowered product costs and foreign exchange transaction capability make them an attractive option. Besides this, there’s flexibility towards end distribution in India and duty deferment benefits and quality control capability prior to duty-payment.”

“On the issue of export benefits, products from India entering the FTWZs are treated as deemed export providing immediate benefits to the suppliers, and other benefits include increased efficiency through lowered reverse logistics through quality control before dispatch from India. The other benefits include increasing supply

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chain efficiencies (forward and reverse) while enhancing capital cash flow,” Yadav continues.

“For re-exports, there’s 100 per cent FDI for setting up the units, besides exemption from custom and import duties on products imported into FTWZ meant for re-export out of the country. Other advantages include income tax rebate on profit earned through export transaction, and Goods and Service Tax (GST) exemption on all activities conducted inside the FTWZ including rental and labour,” Yadav adds.

Demand Drivers

The last few years have witnessed some significant changes that are propelling this sector forward. These include growth in industrialisation and trade, increased containerisation and standardisation. Other factors like increased focus on PPP projects and entry of multiple foreign logistics players coupled with Private Equity (PE) investments have also had a long-term impact.

In its latest report, the World Bank projected that India’s GDP growth is expected to accelerate moderately to 7.5 per cent in Fiscal Year 19-20, driven by continued investment strengthening, particularly private-improved export performance and resilient consumption. This, along with the ingress of foreign players and multinational companies, entry of multiple small and medium size logistics service providers have upped the ante for higher services levels in logistic operations.

“Any standardisation effort will lead to increase in interest of foreign investment due to its compliance pre-condition. Accordingly, India’s current economic scenario has empowered visibility of PE investments, particularly in the warehousing and logistics sector. The sector is currently passing through a transformation process, where isolated godowns are consolidating as logistics hubs and centres. Industrial development and private investments are willing to fol-

IMPORTS	EXPORTS	RE-EXPORTS
<ul style="list-style-type: none"> Flexibility towards end distribution in India Freeing up of working capital because of Duty deferment Quality control capability prior to duty payment Exemption of GST on purchase and on all services for FTWZs Reduced buffer stocks, lowered product costs and foreign exchange transaction capability 	<ul style="list-style-type: none"> Products from India entering FTWZs are treated as deemed export providing immediate benefits to suppliers Foreign exchange transactions capability Local Tax Exemption (i.e. Zero Rated IGST) on designated activities like packaging material for VoS carried inside the zone Increased efficiency through lowered reverse logistics through quality control before dispatch from India 	<ul style="list-style-type: none"> Service tax exemption on all activities inside FTWZs including rental and labour Income tax rebate on profit earned through export transaction (wherever applicable) Exemption from custom and stamp duty on products imported into FTWZs meant for re-export out of India Permission of 100 per cent FDI for the set-up of units Ability to leverage India’s geographic positioning advantage as a hub for regional and global distribution, and cost and skill arbitrage

low organised operational platforms triggering the importance of organised warehouse space along with structured supply chain line,” observes Dutta.

In all these supply chain dynamics, significant increase can foresee where larger volume of cargo is going to enter Indian Territory at a single point of time. This volume of cargo definitely requires its medium to long term holding station either at its consumption point or at port station, including CFS locations. “FTWZs shall be the futuristic location where these cargos can be stationed without paying requisite duty on its entry to India’s jurisdiction. Additionally, improved connectivity with South East Asia, acceptability of coastal shipping and trans-shipment opportunities enhances the importance of cargo movement through FTWZs as impermanent storage destination,” adds Dutta.

According to JLL study, with some standard assumptions, it appears that in a container full (1 TEU) of Telecomm and Electronics components, close to around ₹1 million per container can be saved in the product supply chain through using FTWZ facility in India as compared to storage in any standard warehouse.

“We have seen large global strategic players/FTWZ operators like DP World taking a long term call on FTWZ format in India in the recent past. In partnership with long term infrastructure capital providers like National Investment and Infrastructure Fund (NIIF), these players will create assets that will cater to expected growth in industrialisation and trade,” mentions Sandeep Chadha, Founder & CEO, Warehouse Capital Advisors India Pvt Ltd.



VIKAS YADAV
Director,
Future Warehousing
Solutions Pvt Ltd

On the issue of export benefits, products from India entering the FTWZs are treated as deemed export providing immediate benefits to the suppliers, and other benefits include increased efficiency through lowered reverse logistics through quality control before dispatch from India. The other benefits include increasing supply chain efficiencies (forward and reverse) while enhancing capital cash flow.

The Deterrents

Experts point out that FTWZs are critical to India’s future roadmap. While there have been a series of developments in this sector, the way supply chains are executed will change over the next decade. Also, a lot depends on what the duty structure is going to be.

Dutta says that prevailing duty structure related to



stored cargo is definitely a key success factor for a FTWZ facility, as it exhibits substantial impact on cash flow related to duty payment likes of customs duty, anti-dumping duty, etc. and its time of imposition. However, this is not all. For any cargo under international trade, the importer has significant cash flow impacts for the following heads:

- Stamp Duty and Handling cost
- Transportation to/from Port to CFS/FTWZ
- Empty container handling
- Storage cost
- Working Capital cost on Duty
- Working Capital cost on Cargo

A FTWZ, however, helps in optimising some of the above mentioned costs through use of policy/regulatory flexibility, deferment of time of cargo ownership and consolidation of cargo for handling and storage. "For most of the cases, supplier entity with foreign origin can establish its storage location with minimum hurdle within FTWZs on its own and store its product under their ownership which can be used for reliable supply of its products to any consumer, either domestic or any other foreign destination," adds Dutta.

From the policy point of view, FTWZs face few challenges which are deterrent in acceptance of it as a concept, informs Chandra. "First, minimum area required to establish a FTWZ doesn't justify current demand levels, thus most of the current FTWZs are operational with less than 25-30 per cent of the regulated capacity. Second, due to limited development of FTWZs in the country, there is lack of knowledge and understanding across different central and state departments with respect to interpretation of



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FTWZ policy. Third, owing to lack of consolidated policy, the interpretation of the law is dependent on understanding of the office in charge," says Chandra.

Further, 'SEZ Online' enables electronic filling of FTWZs related transactions. This portal is quite slow and is not linked to electronic data exchange of Indian customs, i.e. IceGate. In addition, there are only a few Custom Housing Agents

(CHAs) who are familiar with the regulations of clearance through FTWZs. These challenges impact the overall potentialities of FTWZs, observes Chandra.

Requisites

FTWZ is not a new concept in India but acceptability of such facility is not at a desired standard. Dutta believes there are a few perceptions which affect its acceptability. One such perception is the cost of storage that is much higher than conventional warehousing. JLL study finds a significant cost saving factor for users considering multiple cost heads, both direct and indirect.

Dutta states, "Consolidation of imported and re-exportable cargo can minimise logistics costs through use of efficient multimodal transport, improved material handling facility and transparency in the entire handling system. Conventionally, FTWZ is a facility for all re-exportable and trans-shipped cargo. Hence, marketing strategy needs significant improvement to attract users from its cargo supply chain perspective, from conventional connectivity-based storage location."

Chadha sternly feels that government is another key stakeholder in promoting FTWZ facility. "Continued government support and ease of operations along with transparent processes will be the key determinants," says Chadha. However, to support development, approval and operational efficiency, relevant policy shall be essential. "Government of India, in the last few years, has taken up several measures in its foreign trade policy for efficiency enhancement in international trade. The prevailing SEZ policy, under the purview of which comes FTWZ, is undergoing review and recommendations received for alternation for increasing its acceptability to the developer, user and other stakeholders. Providing infrastructure status for SEZ development, ensuring multimodal connectivity, extension of a sunset clause, separate rules and compliance for service sector facility, are a few of them," informs Dutta.



NITIN CHANDRA
Associate Director,
CBRE South Asia Pvt Ltd

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“Upon receipt of notification of the aforementioned factors, it is expected that international trade will become more efficient and cost-effective and that concepts like FTWZ will flourish. In addition, government support shall also be needed by way of fiscal benefits and aggressive promotion to global manufacturers to consider India as their trans-shipment destination for their traded cargo,” expresses Dutta.

Road Ahead

Yadav explains that FTWZ are a key component of efficient logistics network, but the future growth in the segment shall require the following:

- **A consolidated policy document on FTWZs** that clearly mentions which services these zones can or cannot offer. It is also important to ensure that the developers are aware of the incentives they get when they establish a FTWZ.
- **Clarification and making the concept of FTWZs understandable to state governments.** Common understanding across ministries and departments at both centre and state levels.
- **Location** – FTWZs must be developed at strategic location points on the economic corridors. Proximity and connectivity to major ports and airports will be a key facilitator.

With the ingress of foreign players and multinational companies, entry of multiple small and medium size logistics service providers have upped the ante for higher services levels in logistic operations.

Outlining the example of the FTWZ at JNPT SEZ, which once operational can be expected to become a model FTWZ, Chandra observes that ‘Integrated Development’ concepts are expected to drive growth in FTWZs, wherein, FTWZs are either part of multi-product SEZs or has proximity to any port. Such integrated development concepts are expected to ensure cargo as well multi-utilisation of FTWZs.

Going ahead, there are several key growth drivers of FTWZs that have to be taken into consideration. FTWZs do have a huge potential to boost the import and export trade in India. A modernised and efficient supply chain not only improves the ease of doing business, but also cuts down the costs of manufacturing. It also

acts as a catalyst in ensuring that urban and rural consumption growth is definitely better owing for a better access to the market.

There is no doubt that FTWZs certainly carry big potential for import and export trade, in terms of both revenues and volumes. Eventually, value addition and last-mile customisation will be the concepts driving the growth in the FTWZ segment in the future and pave the way ahead. CC



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