

# 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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**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

**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.**

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