

# Free Trade Warehousing Zone Explained

- FTWZs are Deemed Foreign Territories / Ports / Warehouse for Storage and Other value added activities under the Customs Law. FTWZ units are allowed to hold inventory on behalf of Foreign Suppliers/ Domestic Buyers.
- FTWZ law allows multiple transfers of ownership transactions without removal of the goods out of FTWZ, thus ensuring the trading chain to be as close as possible and as may be required, ensuring that there is no cascade of indirect taxes / compliance and avoids increase in transaction cost.

For Imports	For Exports	For Re-Exports
Flexibility towards end distribution in India	Products from India entering the FTWZ are treated as deemed export providing immediate benefits to suppliers	Service tax exemption on all activities conducted inside the FTWZ including rental & labor
Duty deferment benefits (freeing up working capital & increasing sales)	Local Tax Exemption (i.e.Zero Rated IGST) on designated activities like packaging material for VoS carried inside the Zone	Exemption from custom and stamp duty on products imported into FTWZ meant for re-export out of India
Quality control capability prior to duty-payment	Compliance to Export quotas of different categories. Supply into FTWZ being treated as deemed exports	Income tax rebate on profit earned through export transaction (where applicable)
Exemption of GST on purchases and on all services for FTWZ operations, including transportation	Increased efficiency through lowered reverse logistics through quality control before dispatch from India	Hassle-free re-export process
Availability of Temperature controlled area for medicines & other human consumption Products if required	Foreign exchange transactions capability	Permission of 100% FDI for the set-up of units
Reduced buffer stocks, lowered product costs, foreign exchange transaction capability	Increasing supply chain efficiencies (forward & reverse) while enhancing capital cash flow	Ability to leverage India's cost, skill & geographic positioning advantage as a hub for regional/global distribution post Value Optimizing Services

Units operating in the FTWZ enjoy the following benefits:

- They can import goods duty-free and warehouse it in the FTWZ; they can re-export these goods without paying duty. They can also procure goods free of excise duties from the Indian market. This facility is available for the goods the unit trades in, as well as for goods required for the development, operation and maintenance of the SEZ unit.

# Free Trade Warehousing Zone Explained

- Units enjoy 100% Income Tax exemption on export income under Section 10AA of the Income Tax Act, 1961 for the first 5 years of operation, 50% for the next 5 years and 50% of the ploughed back export profit for next 5 years.
- SEZ units can also have external commercial borrowing upto US \$ 500 million in a year without any maturity restriction, through recognized banking channels.
- FTWZ units are exempted from Central Sales Tax.
- They also enjoy exemption from Service Tax for all activities in the FTWZ (including labour, rentals, etc.).
- Products from India entering the FTWZ are treated as deemed export providing immediate benefits to suppliers
- Indian companies exporting into FTWZ are able to count the exports against their export quotas
- FTWZ units also have single window clearance for Central and State level approvals.
- There is also exemption from VAT for procurement from India.
- The shared warehousing and equipment in the FTWZ reduces expenses.
- The availability of onsite Customs means reduced time for Customs clearances.
- The improved logistics and connectivity lead to reduced delivery times.

Units can be set up in the FTWZ by foreign companies with 100% FDI under the automatic route.

Units in FTWZ are allowed to hold the goods on account of the foreign supplier for dispatches as per the owner's instructions and can trade with or without labelling, packing or re-packing without any processing. Such activities may include refrigeration for storage as well as assembly of Completely Knocked Down or Semi Knocked Down kits. The units can re-sell or re-invoice or re-export the goods imported by them.

All transactions in an FTWZ are only in convertible foreign currency.

Units in FTWZ can act as custodians of foreign entities and hold stock for them. This opens up a new world of opportunities in logistics in consonance with developments in international trade wherein manufacturers or traders in India or abroad can be serviced from FTWZ with goods being billed directly by the seller to the buyer and consideration also flowing directly from buyer to seller.

The mechanics of such functioning is that all Special Economic Zones/FTWZ are deemed to be port, airport or ICD and as such are eligible for a LoCode, which enables goods to be moved directly from gateway port/airport to such Zone without any documentation on the part of the importer and under a sub-manifest. Thereafter, if the goods are to be cleared to a DTA entity on orders of foreign client, the Bill of Entry for Home Consumption will be filed by such DTA entity as per Rule 48 of SEZ Rules, 2006 and duty paid thereon. Hence, goods do not need to have a bill of entry till dispatch to DTA entity if the goods are imported under Bill of Lading that identifies the FTWZ as the place of destination.

- The primary difference with existing warehouses wherein goods can be stored without payment of duty till time of clearance is that the Bill of Entry will have to be filed on entry into India for which Bill of Lading will have to be issued in favour of Indian importer and which automatically means release of payment. Nor would the supplier like to relinquish control of the goods without receiving payment.
- FTWZs would suit the financials of the buyer in India who may prefer to place orders as per fund availability.

# Free Trade Warehousing Zone Explained

- Further, goods stored in Customs bonded warehouses are liable to interest on duty so deferred while it is not a liability in the FTWZ based on “foreign territory” concept.
- Therefore, foreign suppliers would be able to hold their stocks as close to their markets as warehousing costs will permit and in the globalized system of trade and manufacturing, is a facility that blends well with its philosophy of “supply of quality demanded by market at least cost”.

The logistics solution innovations in an FTWZ are endless. Typically,

- For the big retail chains, FTWZ removes regulatory limitations of consolidating products from suppliers from different countries in South Asia. The processes for end-distribution of the items to world-wide stores, say in Europe and USA, can be done in the FTWZ in India, at lower costs. Since these processes are done closer to the supply sources, there would be more effective control on inventory and also quicker payments to the suppliers.
- An automobile manufacturer or an IT hardware manufacturer would be able to hold spares duty-free in the FTWZ and to supply it as per requirement, seamlessly, with low lead times, on duty-paid basis to the Indian market; spares could even be tested before actual supply and payment of duty also; surplus or defective spares can be re-exported without loss.
- A foreign rubber supplier could procure from Indonesia, Thailand or Malaysia and store it in an FTWZ during production season and supply to tyre manufacturers in India as per their production cycle requirements.
- Foreign exchange hedging and cost equalisation by resorting to forward trading makes such operations cost-effective. An international coffee trader could warehouse Indian coffee output in the FTWZ and dispatch it later on as per maturing of contracts abroad. There are similar possibilities for a bulk liquid cargo trading hub.
- Again, a foreign buyer could source seafood as and when available from India and store it under refrigeration in the FTWZ, for removal to overseas buyer’s location as per their requirements.
- FTWZ can be used to assemble even motor vehicle kits or IT hardware or mobile phones by sourcing different parts duty-free from different countries.