

# Tamil Nadu New Industrial Policy - 2003

## 1. Preamble

1.1 Prior to the initiation of economic reforms in 1991, the regulatory maze of licensing and controls inhibited the growth potential of States. The New Industrial Policy announced by the Government of Tamil Nadu in 1992 provided the broad policy framework for change. Many developments have occurred over the decade, with the economy going through the pangs of improving cost competitiveness and some core sectors rising to meet the challenges. In the wake of the Policy enunciated in 1992, Tamil Nadu emerged as one of the most important investment destinations by attracting a large number of projects.

Globalization with unequal pricing of resources, which drives growth, and the skewed distribution of the factors of production among countries have brought in their wake both general and specific unanticipated shear effects. Recession became a feature of global economy in the late nineties and innovative management practices, particularly in the sourcing of manpower, materials and finance to cut costs are being taken recourse to. Under these circumstances, it is important that the State accords due weightage to the basic strengths that are part of natural endowments, or have been built over time in the shape of human resource availability and skills, and lays infrastructure foundations of various forms. In summary, the role of the State has to necessarily transform into one that facilitates industry to increase its skills, optimize its resources and raise its competitive power in a balanced deregulated environment.

## 2. Major Strengths of Tamil Nadu

2.1 Tamil Nadu is the third largest economy in India with a State Domestic product of Rs.1,53,000 crores (Rs.1530 billion) at current prices (2002-03).

### a. General Economic Fundamentals:

The State is currently ranked by studies within the first three places in the country in:

- ▶ Industrial output
- ▶ Value addition
- ▶ Number of factories
- ▶ Total work force employed in factories
- ▶ Foreign Direct Investments

## **b. General infrastructure**

Salient general infrastructure features are:-

**Transportation:** Tamil Nadu has three major ports at Chennai, Tuticorin and Ennore. Chennai Port container terminal has now attained a turnaround time of less than a day. Tamil Nadu has a high road density network with over 1.50 lakh Km of surfaced roads and a rail network of about 4180 Km. It has three international airports with good connectivity to USA, Europe, Middle East and South East Asia.

**Power:** Tamil Nadu has about 8250 MW of installed generating capacity to supply quality power at competitive tariff rates.

**Telecommunications (Including Information Technology):** Tamil Nadu has excellent communication facilities with a 100% digital exchange network in telecommunications; internet connectivity of 4.0 lakh connections, a bandwidth of 8.4 terra bits per second (tbps) increasing to 13 tbps - one of the largest in the world.

**Banking and Financial Services:** Chennai is the financial hub of South India and has a strong presence of major Indian financial institutions and foreign banks. Several banks including the World Bank, ABN-AMRO Bank and Standard Chartered Bank have their back offices in Chennai.

**Human Resources:** Tamil Nadu has abundant availability of skilled manpower and has an annual turnout of about 77,500 engineers graduating from 252 engineering colleges & 50,300 Diploma holders from 202 Polytechnics. Besides, Chennai city has reputed international schools including an American International School to provide quality education for children of expatriates.

**Medicare:** Chennai is the healthcare capital of India with world-class hospitals and speciality clinics to provide excellent health care facilities.

## **c. Manufacturing**

According to CMIE, at the end of July 2003, Tamil Nadu leads in attracting new investments into the manufacturing sector in India. Over the years, many industries have been facilitated to mature, thereby engendering a very diversified industrial base. Tamil Nadu's share of the industrial output is around 11 to 12% of the country's output and 15% of the country's exports excluding Software exports. Tamil Nadu accounts for about 17% of India's software exports.

2.2 The State enjoys a predominant position in respect of the following industries:

**Leather:** Tamil Nadu accounts for 70% of leather tanning capacity in India and 38% of leather footwear & components. The exports from Tamil Nadu are about US \$ 762 million, which account for 42% of Indian leather exports.

**Automobile Ancillaries:** Tamil Nadu accounts for about 21% of passenger cars, 33% of commercial vehicles and 35% of automobile components produced in India. Exports from Tamil Nadu are about US \$ 240 million, constituting 27.5% of exports from India. Chennai, the "Detroit of India" is emerging

as a major export hub for cars in South East Asia. Major automobile manufacturers like Ford, Hyundai, HM-Mitsubishi, Ashok Leyland, TAFE, etc. have their manufacturing base in Tamil Nadu.

**Textiles and Garments:** Tamil Nadu has a large cotton textile industry cluster which accounts for about 39% of India's capacity. Textiles & Garment exports are about US \$ 3 Billion. Opportunities exist to increase exports after removal of export quota restrictions under WTO.

**Chemicals and Petro-chemicals:** The State enjoys a strong presence in chemical industry. Tamil Nadu has chemical clusters at Chennai (Manali), Cuddalore, Panangudi (Nagapattinam) and Tuticorin. Tamil Nadu has vast vistas of opportunities to become an export hub.

**Agro and Food Processing:** Tamil Nadu has diverse agro-climatic conditions and is endowed with rich agro resources. Tamil Nadu is one of the top three producers of a variety of fruits and vegetables in India that offers substantial potential for value addition. Its long coastline (1000 Km) offers opportunities for marine products based industry. Export of marine products from Tamil Nadu are about US \$ 450 million.

**2.3 Industries in Tamil Nadu operate in a peaceful industrial environment.**

**2.4 The Industrial Policy of 2003 aims to build on these strengths.**

### **3. Industrial Policy 2003**

#### **3.1. Objectives**

The objectives of the Industrial Policy of 2003 would be primarily to:

- ▶ **Target a growth rate of the order of 8 percent over the Tenth Plan period.**
  
- ▶ **Government will reorient its strategy to facilitate new manufacturing capacity building based on improved competitiveness. The state will promote Foreign Direct Investment in to new manufacturing capacity.**
  
- ▶ **Assist the existing industrial base to consolidate its gains and promote its efficient growth in the highly competitive domestic and export markets.**
  
- ▶ **Engender private public partnerships and create an environment which enables the flow of substantial domestic and foreign capital for infrastructure building.**

3.2 It is planned to move towards these objectives by undertaking second generation reforms which would have as pivots, strengthening of infrastructure including availability of quality energy, labour reforms, fiscal reforms and business deregulation.

## **A. Infrastructure strengthening**

### **a. General**

Recognizing the need to generate adequate investments and involve viable private sector participation, Government will enact an Infrastructure Development Enabling Act together with the setting up of an Infrastructure Development Board. This Act will spell out clearly the policy and procedure for the involvement of private sector investment in various areas of infrastructure development, either in collaboration with a Government agency or by itself. An Infrastructure Fund with an initial corpus of Rs.200 crores will be created.

### **b. Transportation infrastructure**

Upgradation of Chennai International airport to world class status will be aimed at in consultation with Government of India. Efforts for the early upgradation of the airports at Trichy, Madurai and Coimbatore will also be taken. Feeder services to other towns and growth poles will be facilitated.

Upgradation of the capabilities of sea ports at Chennai and Ennore, will be pursued with Government of India and the State will take steps to increase the facilities at Colachel, Cuddalore and Nagapattinam.

Major traffic corridors having high density will be widened. Quality upgradation of the road links between Chennai, Salem, Coimbatore, Trichy, Madurai and Tuticorin will provide the base for the growth of traditional industries, software & agro based food industry and also promote heritage tourism. A six lane IT corridor will be created linking Chennai city to the Siruseri IT Park and the planned IT Bay Area. These initiatives, along with the State Road Sector Project undertaken with World Bank funding and the Golden Quadrilateral and North South Corridor projects of Government of India, will ensure a holistic development of this sector.

### **c. Power**

Existing generation capacity is 8250 MW. TNEB is planning to create an additional capacity of about 30% by March 2007. Power of good quality and adequate quantity will be made available on tap.

Co-generation and non-conventional energy sourcing will be encouraged.

### **d. Water supply**

The demand for industry will be met by the Chennai Metro Water in the Chennai metropolitan area, TWAD or the local body concerned elsewhere. Bulk requirements will be met by the designated agency at cost.

Setting up of captive desalination plants based on sea water or ground water subject to availability to serve one or more industrial units in an industrial park will be encouraged.

#### **e. Industrial Parks**

Upgradation of infrastructure and improvement of services in the industrial parks of the State will be facilitated with the participation of user industries by appropriate notifications. A system of sharing of property tax linked revenue streams with the concerned local bodies will also be put in place.

Private parks conforming to specifications prescribed by government will be treated on par with parks promoted by Government agencies in respect of stamp duty and registration for transfer (by sale or lease) of the land or units developed by them.

#### **B. Labour law reforms**

In today's competitive environment, there is a need to review existing labour laws like those pertaining to layoff, retrenchment, engagement of contract labour and flexibility of timings of work. The Government will bear in mind the recommendations of the Second National Labour Commission and take steps to amend existing labour laws, where necessary, with the concurrence of Government of India. The aim will be to implement reforms with a human face bearing in mind the need to provide a harmonious competitive working environment where productivity is rewarded and adequate flexibility available to use the income earning skills developed especially by women.

#### **C. Fiscal Reforms:**

Implementation of fiscal reforms will be done based on the recommendations of the Dr. Raja Chelliah Committee.

The State Financial Corporation (TIC) will be recapitalized to finance technology upgradation of industries.

Entry tax will not be charged on imports from abroad for manufacturing units in Tamil Nadu

#### **D. Business Deregulation:**

An Industrial Promotion and Business Deregulation Statute will be enacted to provide for Single Window Approvals at State and District level and for simplification of application forms, returns, inspection and certification routines.

#### **E. Land and Environment**

Government will streamline the procedures in respect of land use reclassification and bring in an amendment to existing statutes to enable speedy acquisition of lands for industrial purposes.

Land is a scarce resource. Allocation of Government land will be done on the basis of overall advantages offered by such investments to the production capacity and employment generation in the State.

Automatic conversion of land use will be enabled when the Government approves creation of industrial park / estate or acquires and allots land for large industrial projects.

With growing environmental concerns across the world, a clean pollution free green environment promotes competitive advantage. The Government will attach significant importance to green canopies and belts in industrial areas. A practical approach will be adopted in benchmarking environmental standards with best practices.

#### **4. Public Sector restructuring**

Steps will be taken to ensure PSUs are not a drain on the Public Exchequer. PSUs will focus mainly on promotional work.

PSUs will exit from manufacturing through disinvestment decisions. Privatization of manufacturing co-operative sector units will be undertaken.

#### **5. Incentives:**

5.1 Considering that the focus is on investments to promote infrastructure and common facilities, incentives and subsidies will be restructured as below:

Government will at its discretion offer specific packages to single investments exceeding Rs. 300 crores made in eligible fixed assets within a period of not more than three years from the date of project approval.

Incentives for new units investing in eligible fixed assets will be restricted to the following:

Rs 50 crores and above and below Rs 100 crores would be eligible for a capital subsidy of Rs 25 lakhs and exemption from electricity tax for the first three years of commercial production.

Rs 100 crores and above and below Rs 200 crores would be eligible for a subsidy of Rs 50 lakhs and exemption from electricity tax for the first four years of commercial production.

Rs 200 crores and above would be eligible for a subsidy of Rs 100 lakhs and exemption from electricity tax for the first five years of commercial production.

This subsidy will be payable after commencement of commercial operations. Location in a Government promoted Industrial Park will entitle new units to 150% of the above standard capital subsidy.

One time reimbursement for patent registration after 1.1.2004 up to 50% of expenses or Rs 1.00 lakh (whichever is lower) to any production unit in Tamil Nadu.

Critical infrastructure subsidy of 25% of capital cost or Rs 25 lakhs (whichever is lower) for setting up Effluent Treatment Plants / Waste Disposal Sites.

For approved private industrial parks irrespective of location, a back-ended subsidy claim of 10% of the investment subject to a maximum of Rs 1 crore will be entertained subject to the location of 50 units or more and provision of employment to at least 2500 persons.

5.2 For assisting SMEs, a Centre in collaboration with and managed by industry will be set up to focus attention on resource based technology promotion, technology commercialization, waste management technologies, technical problem solving, technology upgradation (unit level and sectoral), promoting innovation, IPR protection facilitation and IPR awareness / training. Government will provide a one-time Corpus and reimburse a part of the running costs of such a Centre for three years. A total allocation of Rs 1.50 crores will be made in the budget over three years for this purpose.

#### **6. Stamp Duty and Registration:**

Stamp Duty inclusive of surcharge at 6% will be levied in respect of land lease / purchase documents in respect of units in all Government / Government agency Industrial Parks and approved private parks irrespective of location. There will be no stamp duty levied in respect of transfer of lands acquired by Government or alienated by Government to State Agencies or to SPVs established by them for promotion of industrial parks.

Stamp duty and Registration charges will be at the actual cost indicated by the agency at transfer for both Government and approved private sector parks.

#### **7. Assistance to closed and sick units:**

In SIPCOT and TIIC, a One-Time Settlement (OTS) scheme will operate in respect of eligible units.

#### **8. Export Promotion:**

Steps will be taken to promote Apparel Parks, Agri Export Zones and Special Parks.

The State has already formulated a SEZ Policy. A SEZ Act for the State will be enacted.

Based on the feed back obtained from consultations with export oriented industries, necessary initiatives will be taken to assist exporters to seek rationalization of policy and procedural issues and strengthen common infrastructure.

**9. Mechanism for Consultation and Policy Review:**

9.1 Standing Consultative Working Groups will be set up involving Industry Federations, Financial Institutions and Government Agencies on (i) WTO and Import-Export Issues; (ii) Industry, Labour, Laws and Procedural Issues and (iii) Infrastructure

9.2 An Advisory Industrial Council under the Chairmanship of the Hon' ble Chief Minister will be constituted to act as a Think Tank for industrial initiatives and periodic policy review.

\*\*\*