

Government of India  
Ministry of Commerce & Industry  
Directorate General of Foreign Trade  
Udyog Bhawan, New Delhi -110011

F.No. 01/92/171/02/AM 19/ PC-VI/46.47 Date of Order: 29.12.2020  
Date of Dispatch: 29.12.2020

Name of the Appellant: Kandla Polyplast (India) Private Limited,  
Shed Nos.318 & 319, A-II, Marshalling Yard,  
Kandla Special Economic Zone,  
Gandhidham - 370230

IEC Number 3797000090

Order appealed against: Order-in-Original No. KASEZ/104/2017-18 dated  
18.01.2018 passed by the Development  
Commissioner, Kandla, Special Economic Zone,  
Gandhidham.

Order-in-Appeal passed by: Amit Yadav, DGFT

Order-in-Appeal

Kandla Polyplast Private Limited, (hereinafter referred to as "the Appellant"), filed an appeal on 13.03.2018 against Order-in-Original No. KASEZ/104/2017-18 dated 18.01.2018 issued from File No. KASEZ/IA/1665/96/Vol.I/10939 passed by the Development Commissioner, Kandla Special Economic Zone (hereinafter referred to as 'the DC') imposing a penalty of Rs. 12,00,000/- under section 11(2) of the Foreign Trade (Development & Regulation) Act, 1992, as amended..



2.0 Vide Notification No. 101 (RE-2013)/2009-2014, dated the 5<sup>th</sup> December 2014, the Central Government has authorized the Director General of Foreign Trade aided by one Addl. DGFT in the Directorate General of Foreign Trade to function as Appellate Authority against the orders passed by the Development Commissioner, Special Economic Zones as Adjudicating Authorities. Hence, the present Appeal.

### 3.0 Brief facts of the case:

3.1 The Appellant was issued a Letter of Approval (LoA) vide File No. KFTZ/IA/1665(A)/96/11340 dated 12.02.1997, as amended and extended from time to time, to set up a Unit in Kandla SEZ for manufacturing of (i) Plastic Polymer Granules (ii) Flakes lumps/Powder / Grinding / Pallets / Bars / Agglomerates and all other such forms garbage / carry bags, polyester / pet grinding / drip irrigation pipes etc. made from raw materials obtained from (i) above, with annual capacity of 7000 Mts. After implementation of the SEZ Act in 2005, the said LoA continued to be valid under the SEZ scheme. The Appellant executed a Bond undertaking to fulfill conditions of the LoA and other related acts/rules.

3.2 Rule 18(4)(b) of SEZ Rules, 2006 states that '*No proposal shall be considered for enhancement of the approved import quantum of plastic waste and scrap beyond the average annual import quantum of the unit since its commencement of operation to the existing units*'. Further, as per Rule 53 of the SEZ Rules and terms & conditions of the renewal letter dated 12.12.2013, if a unit fails to abide by any of the terms and conditions of the LoA or Bond-cum-Legal Undertaking, penal action can be taken against it under the provisions of the FT(D&R) Act, 1992 and its LoA can be cancelled as per provisions of the SEZ Act.

3.3 It was noticed by the DC that the Appellant had exceeded the annual import quantum of plastic waste and scrap by 1528.62 Mts. in 2013-14 and 1189.51 Mts. in 2015-16 in contravention of Rule 18(4) of SEZ Rules, 2006.



3.4 Accordingly, a notice dated 24.04.2017 was issued to Appellant by the DC to show cause as to why its authorized operations should not be cancelled u/s 16 of the SEZ Act, 2005 and penalty should not be imposed on it u/s 11 of FT(D&R) Act, 1992, as amended, (as made applicable under Rule 54(2) of SEZ Rules, 2006) for the above said violation.

3.5 The Appellant in its reply dated 06.06.2017 stated that an LoA dated 12.02.1997, was issued to it with a production capacity of 2650 Mts. per year, subject to the maximum utilization of the plant and machinery. Thereafter, vide order dated 26.02.2015, the DC enhanced the annual capacity from 2650 MTs to 7000 Mts. with effect from 23.10.1997. It was permitted to manufacture a quantity of 7000 M.Ts. per year. It has never exceeded the permitted quantity of production in any year.

3.6 On examination of the reply dated 13.06.2017 of the appellant, the DC found that:

- (i) Appellant's production capacity was enhanced from 2650 MTS to 7000 MTS w.e.f. 23.10.1997 vide O-i-O No. 02/2014-15 dated 26.02.2015.
- (ii) As per Rule 18(4)(b) of SEZ Rules, 2006 it is clear that no existing plastic reprocessing unit is allowed to enhance its approved annual import quantum more than average approved annual quantum since its commencement of operation till the SEZ Rules came into force i.e. 10.02.2006. No correspondence, order or decision exists on records to indicate whether any such quantum has been fixed except their annual production capacity has been mentioned. However, a co-relation can be established between annual import quantity and annual production capacity.
- (iii) The Appellant did not give any specific data to justify that in order to utilize their maximum permissible annual capacity, how much raw materials in the form of plastic waste & scrap are required to be imported. Its main product is Plastic Agglomerates wherein the main process of production involves conversion of



segregated plastic waste and scrap into plastic agglomerates. The material on record does not indicate any specific loss during manufacturing process. The percentage loss is also not specified in Standard Input Output Norms (SION) as published by the DGFT. Hence, by taking 2% production loss, the annual quantum of import should be 7000 MT against the annual production capacity of 7140 MT.

- (iv) Taking into consideration the actual imports and 2% production loss, the excess quantity of import comes out to 1389 Mts. in 2013-14 and 1050 Mts. in 2015-16.

3.7 The DC found the Appellant violating excess import in contravention of the provisions of Rule 18(4)(b) and proceeded to adjudicate the matter. The DC vide Order-in-Original dated 18.01.2018 imposed a penalty of Rs. 12,00,000/- on the Appellant.

4.0 Aggrieved by the Order-in-Original dated 18.01.2018; the Appellant has filed the present appeal. The personal hearing was held on 20/02/2020. The Appellant, in its oral and written submissions, stated that:

- (i) Provisions of Rule 18(4) of the Rules are not applicable as it has never applied for enhancement of annual import quantum nor was it fixed/approved by any authority. Even, annual import quantum was not fixed in the LOA or subsequent renewals.
- (ii) Neither the LOA nor any other communication/extension prescribed the Annual average import quantum for the Appellant. The only restriction imposed was in respect of annual output capacity, which was to be used for completing the export obligation.
- (iii) The LOA and the undertaking executed by the Appellant provided for the condition of maintaining annual production capacity and positive Net Foreign Exchange. As the requirement of maintaining average annual import quantum



was nowhere mentioned there was no violation of the terms of the LOA or the undertaking warranting imposition of penalty.

- (iv) The DC has gone beyond the scope of SCN by attempting to fix the deemed annual import quantum by considering a maximum of 2% production loss.
- (v) The DC should have determined excess imports, if any, after comparing cumulative net imports made with the cumulative approved import entitlement, from the date of commencement of operation of the unit. In the O-i-O, the determination has been made for the period 2006-07 till 2014-15, seemingly for the reason that SEZ Rules, 2006 came into effect from 2006 onwards. However, Rule 18(4)(b) itself provides for examining average annual import quantum of the unit with effect from its "commencement of operation" while considering proposals for enhancement of approved import quantum.
- (vi) A loss of 2% is inordinately low for this industry because it is difficult to predict the quantity of relevant material that could be recovered from scrap. Average wastage in this industry is higher as compared to others. Wastage of 5% has been allowed to Precision Polyplast Pvt. Ltd. (a unit engaged in similar activity), in its renewal letter by Falta SEZ.
- (vii) While calculating the import entitlement, the DC has included 'Intra-zone Purchases' whereas 'Intra-zone sales' have not been excluded.
- (viii) If any quantum is calculated by considering exports made since 1997 by allowing wastage of 2% or 5%, net import made is less than the quantum of imports allowed.

5.0 Comments on the appeal were obtained from the office of the DC, KASEZ. The DC, vide letter dated 25.04.2019 and 04.09.2020, inter alia, stated as under: -

- (i) Annual capacity for manufacturing specified items as indicated in the LoA, was taken to calculate permissible annual import.



- (ii) Since, the SEZ Rules, 2006 came into effect from 10.02.2006, the period from 2006-07 was only taken to determine excess annual imports.
- (iii) No SION has been specified in the instant matter. There were no significant losses in the manufacturing process and accordingly the percentage loss was taken to be 2%.
- (iv) Since, the Appellant violated the conditions of Rule 18(4)(b) of the SEZ Rules, 2006 by exceeding the annual approved capacity, the DC imposed penalty on it under the provisions of Rule 54 of the SEZ Rules, 2006 read with provisions of Foreign Trade (Development and Regulation) Act, 1992.

6.0 I have considered the Order-in-Original dated 18.01.2018 passed by the DC, KASEZ, appeal preferred by the Unit, oral/written submissions made by the Appellant, comments given by the DC on the appeal and all other aspects relevant to the case. It is noted that:

- (i) Penalty has been imposed on the Appellant for exceeding the permissible annual import quantum in violation of the conditions of Rule 18(4)(b) of the SEZ Rules, 2006 read with condition No. 22 of the LoA and condition No. 8 of the undertaking. However, it is noted that in the O-i-O dated 18.01.2018, it has been mentioned that any approved import quantum was not specifically mentioned in the LoA, instead only its annual production capacity was mentioned. Further no correspondence, order or decision exists on records to indicate whether any such quantum has been fixed for the unit. Hence, annual import quantum of the unit was not fixed in the LOA or its subsequent renewals.
- (ii) In the O-in-O, it is mentioned that the percentage loss is not specified in the SION for the manufacturing process adopted by the Appellant. Hence, it is not clear as to under which Rule, 2% production loss has been arrived at while determining the annual import quantum.

- (iii) It is also not specified as to under which provision of SEZ Act/Rules or orders made there under, provisions of EOU policy regarding wastage or SION notified by DGFT are applicable on the units in the SEZs.
- (iv) As per Rule 18(4)(b) of SEZ Rules 2006, as amended, the average annual import quantum should have been determined by taking the import figures from commencement of operation and fixed accordingly. However, it appears that the same has not been done by the office of Development Commissioner, KASEZ.
- (v) It is also not explained as to why "intra zone sales" have not been excluded when the 'Intra-zone purchases' have been included.

Hence, it would not be justifiable to penalize the Appellant if the grounds having legal bearing on the case are not considered in the light of applicable policy/procedure provisions.

7.0 In view of the above, in exercise of the powers vested in me under Section 15 of the Foreign Trade (Development & Regulation) Act, 1992 (as amended in 2010) read with Notification No. 101 (RE-2013)/2009-2014, dated the 5<sup>th</sup> December 2014, I pass the following order:

Order

F.No. 01/92/171/02/AM 19/ PC-VI

Dated: 29.12. 2020

Order-in-Original dated 18-01-2018 is set aside and the matter is remanded back to the Adjudicating Authority for *de-novo* consideration.



(Amit Yadav)

Director General of Foreign Trade

Copy To:

- 1) Kandla Polyplast Private Limited, Shed Nos.318&319, A-II, Marshalling Yard, Kandla Special Economic Zone, Gandhidham – 370230
- 2) Development Commissioner, SEZ, Kandla.
- 3) Addl. Secretary (SEZ Division), DoC, New Delhi.
- 4) DGFT's website.

  
(Shobhit Gupta)

Dy. Director General of Foreign Trade