

January 08, 2007

To,
All Category - I Authorised Dealer Banks
Madam / Sir,

Liberalisations in Project and Service Exports

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to Regulation 18 of Foreign Exchange Management (Export of Goods and Services) Regulations, 2000 notified vide Notification No. FEMA 23/2000-RB dated 3rd May 2000, as amended from time to time and the Memorandum of Instructions on Project & Service Exports (PEM) of October 2003 issued vide A. P. (DIR Series) Circular No. 32 dated October 28, 2003.

2. With a view to simplifying the procedures and providing greater flexibility to project exporters and exporters of services in conducting their overseas transactions, the guidelines stipulated vide paragraphs B.10 (i) (f), D.1 (i), D.3 and D.4(iv) of the PEM have been modified as set out below :

(i) Inter-Project Transfer of Machinery

At present, exporters executing turnkey / construction contracts abroad are required to dispose off the equipment, machinery, vehicles, etc., purchased abroad and / or to arrange their import into India after completion of the contracts. In case, the machinery, etc., is to be used for another overseas project, the market value (not less than book value) should be recovered from the project to which equipment / machinery has been transferred.

On a review, the stipulation regarding recovery of market value (not less than book value) of the machinery, etc., from the transferee project is withdrawn with immediate effect. Further, exporters may use the machinery / equipment for performing any other contract secured by them in any country subject to the satisfaction of the sponsoring AD Category - I bank(s) / Exim Bank / Working Group. The reporting requirement for transfer of machinery / equipment will continue as hitherto, and would be monitored by the AD Category - I bank(s) / Exim Bank / Working Group.

(ii) Inter-Project Transfer of Funds

At present, Project / Service exporters, as specified in the PEM, may maintain a single foreign currency account for more than one project being executed in the same country subject to the conditions as may be stipulated by the AD Category - I bank(s) / Exim Bank / Working Group. Further, the facility of temporary inter-project transfer of funds to meet cash flow deficits is available subject to approval from and reporting to the exporter's banker monitoring the project and with condition of re-transfer of the fund to the lending project as soon as possible.

It has now been decided that, henceforth, AD Category - I bank(s) / Exim Bank / Working Group may permit exporters to open, maintain and operate one or more foreign

currency account/s in a currency/currencies of their choice with inter-project transferability of funds in any currency or country. The Inter-project transfer of funds will be monitored by the AD Category - I bank(s) / Exim Bank / Working Group.

3. **Deployment of Temporary Cash Surpluses**

At present, Project / Service exporters are required to approach the Reserve Bank for overseas deployment of their temporary cash surpluses. It has now been decided that, henceforth, Project / Service exporters may deploy their temporary cash surpluses, generated outside India, in the following instruments / products, subject to monitoring by the AD Category - I bank(s) / Exim Bank / Working Group :

- (a) investments in short-term paper abroad including treasury bills and other monetary instruments with a maturity or remaining maturity of one year or less and the rating of which should be at least A-1/AAA by Standard & Poor or P-1/Aaa by Moody's or F1/AAA by Fitch IBCA etc. ,
- (b) deposits with branches / subsidiaries outside India of an AD Category - I bank in India.

4. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

5. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(M. Sebastian)
Chief General Manager