

RBI/2006-2007/268

A. P. (Dir Series) Circular No. 33

February 28, 2007

To,

All Category - I Authorised Dealer Banks

Madam / Sir,

Liberalisation of Export and Import procedures

As announced in the Mid-term Review of Annual Policy for the Year 2006-07 (para 93), the Reserve Bank constituted an Internal Task Force to review the exchange and payments regime. The Task Force has suggested some rationalisation and procedural simplification in areas related to trade. Accordingly, in order to facilitate external trade and provide greater flexibility to the Authorised Dealer Category - I (AD Category - I) banks, the following relaxations have been made in the areas of exports and imports and foreign currency accounts :

A. EXPORTS

I. Extension of Time for Realisation of Export Proceeds

In terms of A. P. (DIR Series) Circular No. 20 dated January 28, 2002, read with A. P. (DIR Series) Circular No. 31 dated April 21, 2006, AD Category - I banks have been delegated powers to extend the period of realisation of export proceeds in certain cases beyond six months, upto a period of three months at a time, where the invoice value of the export does not exceed USD one million or its equivalent. It has now been decided to authorise AD Category - I banks to allow further extension of time and also to remove the ceiling of USD one million on the invoice value.

Accordingly, AD Category I banks may now extend the period of realisation of export proceeds, beyond six months from the date of export, **up to a period of six months, at a time, irrespective of the invoice value of the export** subject to the following conditions :

- (a) The export transactions covered by the invoices are not under investigation by Enforcement Directorate / Central Bureau of Investigation or other investigating agencies,
- (b) The AD Category - I bank is satisfied that the exporter has not been able to realise export proceeds for reasons beyond his control,
- (c) The exporter submits a declaration that the export proceeds will be realised during the extended period,
- (d) While considering extension beyond one year from the date of export, the total outstanding of the exporter does not exceed USD one million or 10 per cent of the average export realisations during the preceding three financial years, whichever is higher,
- (e) The date up to which extension has been granted is indicated in the 'Remarks' column of the XOS statement as hitherto,

In cases where the exporter has filed suits abroad against the buyer, extension may be granted irrespective of the amount involved / outstanding.

Cases which are not covered by the above instructions would require prior approval from the Regional Office of the Reserve Bank.

II. Write-off of Unrealised Export bills

In terms of A. P. (DIR Series) Circular No. 30 dated April 4, 2001 read with A. P. (DIR Series) Circular No. 40 dated December 5, 2003, Status Holder exporters are permitted to write-off outstanding bills upto an annual limit of 5 per cent of their average annual realisations during the preceding three calendar years, subject to certain conditions. Furthermore, all exporters, including Status Holder exporters, are allowed to write off 10 per cent of the export proceeds due during the calendar year, subject to certain conditions.

With a view to rationalise the existing facility, it has been decided that Status Holder exporters may write-off outstanding export dues to the extent of (i) 5 per cent of their average annual realisation during the preceding three financial years **or** (ii) 10 per cent of the export proceeds due during the financial year, **whichever is higher**.

III. Repatriation of Funds in Case of On-site Software Contracts

In terms of A. P. (DIR Series) Circular No. 54 dated June 29, 2002, the overseas office / branch of software exporter company / firm is obliged to repatriate to India 100 per cent of the contract value of each off-site contract and at least 30 per cent of the contract value of each on-site contract.

In order to increase the competitiveness in the Indian IT Sector, the requirement of repatriation of 30 per cent of the contract value in respect of on-site contracts by software exporter company / firm has been dispensed with. The company should, however, repatriate the profits of on-site contract after the completion of the said contract.

IV. Reduction in Invoice Value

In terms of para C.12 of A. P. (DIR Series) circular No. 12 dated September 9, 2000 read with A. P. (DIR Series) Circular No. 40 dated December 5, 2003, AD Category - I banks are allowed to approve reduction in the invoice value upto 10 per cent of the invoice subject to conditions mentioned therein. Further, in terms of para C.14 of A. P. (DIR Series) Circular No. 12 dated September 9, 2000, prior approval of Reserve Bank is not required if, after goods have been shipped, they are to be transferred to a buyer other than the original buyer in the event of default by the latter, provided the reduction in value, if any, involved does not exceed 10 per cent and the realisation of export proceeds is not delayed beyond the period of six months from the date of export.

It has been decided to allow reduction in value up to 25 per cent of the invoice. Accordingly, AD Category – I banks may allow reduction in the invoice value upto 25 per cent of the invoice subject to the conditions mentioned in A. P. (DIR Series) Circular No. 12 dated September 9, 2000.

B. IMPORTS

Import Bills – Credit Report on the Overseas Supplier

In terms of para A 12 (ii) of A. P. (DIR Series) Circular No. 106 dated June 19, 2003 read with A. P. (DIR Series) Circular No. 66 dated February 6, 2004, AD Category - I banks are required to obtain credit report on the overseas supplier from their banker / reputed credit agency before

processing import bills received directly at the request of importer clients from the overseas supplier.

Henceforth, credit report on the overseas supplier (where the import documents are received directly) need not be obtained in cases where the invoice value does not exceed USD 100,000, provided that the AD Category - I bank is satisfied about the bonafides of the transaction and track record of the importer constituent.

C. GENERAL

Different Time Base Prescribed in RBI Directives

In the various Directions / Circulars / Notifications issued under FEMA from time to time, Reserve Bank has prescribed different time frames viz. calendar year, financial year, previous year, etc., for considering eligibility for various trade related facilities.

To simplify matters, henceforth, 'financial year' (April to March) is to be reckoned as time base for all transactions pertaining to trade related issues. To mitigate the mismatch in the time period due to change of time base from calendar / previous year to financial year, AD Category – I bank may, up to March 31, 2007 only, reckon the time base which is beneficial to its constituent/s.

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