

FIEO asks for level playing field for exporters

Mr M. Rafeeqe Ahmed, President, FIEO, and Mr Ajay Sahai, DG&CEO, FIEO, attended the round table meeting convened by the Reserve Bank of India with bankers, apex industry associations and selected export promotion councils at Mumbai on June 21, 2012. Representatives of EEPC and the Gems and Jewellery Export Promotion Council were also present. The banking side was represented by nationalized banks, private banks, foreign banks, factoring agencies, Exim Bank, ECGC, FEDAI and others. Mr Ahmed raised the following issues:

1. Declining trend of export credit vis-à-vis exports

The declining share of export credit as a percentage of net bank credit (NBC) and also as a percentage of exports is adversely affecting exports. While the compound annual growth rate of exports is about 20% in the last decade, we have observed a sharp decline in credit to the export sector. Export credit as a percentage of NBC has been decelerating over the years and accounted for only 4.2 per cent as on December 30, 2011 compared to the 9.8 per cent as on March 24, 2000.

The CAGR of export credit in last decade has been 13.45%, while export growth in last 10 years showed a CAGR of 19.11%. The mismatch between the two is resulting in lesser availability of credit for exports.

The decline trend of export credit both as a percentage of net bank credit as well as a percentage of exports is one of the biggest handicaps for tiny and small units who are not given timely credit to meet their export requirement.

2. Rebooking / cancellation

of forward contracts

Rebooking/cancellation of forward contracts has been withdrawn vide RBI Circular No. 58 dated December 15, 2011. This has caused hardship to the exporter who is forced to 'hold' on to an order on the instructions of the buyer/market condition abroad which are primarily beyond the control of the exporter. At times, logistic delays also force the exporters to delay shipments. The postponement incidents of shipments have increased due to tight monetary liquidity and sale delays of previous orders due to overall sluggish economic situation overseas. The trend is likely to accelerate further in months to come.

However, normally such incidents are not more than a quarter of the total shipment effected by an exporter in a year. The RBI may therefore, issue guidelines that the exporter may be given the option to re-book/cancel 25% of the currency booked/cancelled in the previous year subject to usual risks.

3. Restriction on EEFC

In view of the rupee's high volatility, the RBI has restricted the amount to be kept in EEFC from 100% of export proceeds to 50% of the same. However, this has affected certain segments of exports which have high import intensity like gems and jewellery, electronics, petroleum products and plastics. The exporters of these sectors are required to purchase dollars to meet their requirement of imports thus losing out due to difference in buying and selling rates. Exporters in merchanting trade are also feeling the pinch as the net margins in such transactions are in the range of 5 to 10%. Many a times, the export proceeds are required to be utilized for the imports in the pipeline. Therefore, it is suggested that the restriction of retaining only

50% in EEFC account may be lifted for gems and jewellery, electronics and petroleum sectors while the cap may be increased to 75% for plastics and other sectors having import intensity of over 50%. Moreover, the exporter should be asked to convert 50% of the export proceeds only after 15 days of credit to his account, in case he has not used the same within 15 days for transactions permitted through EEFC account.

4. Deregulation of PCFC

The Reserve Bank of India deregulated PCFC to encourage banks to access dollars from the market. However, this has not augmented the availability of dollars nor checked the volatility in the exchange rate. On the contrary, banks have increased the interest rate in the deregulated environment hitting the competitiveness of the export sector. The RBI has already increased the ceiling of interest rate from LIBOR+ 200 basis point to LIBOR+ 350 basis points which has already given enough cushion to the bank. FIEO, therefore, suggests regulating PCFC interest rate by capping it at LIBOR+ 350 basis points.

5. Enhancement in repatriation period

Looking at the global challenges and the liquidity problems, the Reserve Bank of India has extended the normal period of repatriation of export proceeds from 6 months to 12 months. The facility is available only up to September 30, 2012. Looking at the tough global trade forecast coupled with financial problems in many countries, the said facility may be extended from October 1, 2012 to September 30, 2013.

6. Limit on e-Transactions

Electronic commerce is increasingly used by small exporters for B2B

and B2C transactions. e-Commerce platform provides a marketing support to MSME exporters while simultaneously ensuring hassle-free payment. At present, the RBI has put a limit of \$3000 for such transactions. Since transition through e-Commerce is more or less over and many transactions are taking place through e-Commerce, including gold and diamond jewellery, carpets etc. the monetary limit of \$3000 may be increased to \$5000.

7. Operationalization of Rupee Interest Subvention for exports

Minister of Commerce, Industry & Textiles has announced reintroduction of operationalisation of Rupee Interest Subvention for exports while releasing the Annual Supplement to the Foreign Trade Policy. The Subvention Scheme has been added to few new sectors in addition to the existing ones. However, in the absence of any communication from the RBI,

banks are not providing the benefit of Interest Subvention. The RBI may kindly expedite issuance of the notification for the same.

8. Insistence on collateral

Exporters of tiny and cottage sectors like carpets have reported numerous instances of banks insistence on collateral even for small value loans where exemption from collaterals has been provided. Other exporters have also pointed out that in many cases, banks are insisting on collateral over 200% of exposure which restrict the operational viability of exporters. The RBI may, therefore, instruct banks to provide exemption from collateral upto the specified limits and in none of the case collateral should exceed 100% of the exposure.

9. Settlement in domestic currency within stipulated time

When buyers request us to postpone shipments we are forced to

bring in funds (from domestic sources) and settle the account within 180 days to avoid being termed as defaulters by the bank. The banks will charge us a penal interest which is usually 5-7% above the rates charged for packing credit for export in Indian rupees. In such cases banks insist that irrespective of the outstanding amount, each drawing/tranche must either be settled fully as per PCH norms or in the domestic currency.

For example, for a particular withdrawal of Rs 50,00,000 as export credit, Rs 20,00,00 has already been settled by export proceeds. However, the exporter later on realizes that he is unable to pay the balance of Rs 30,00,000 by export proceeds, the banks insist that the entire withdrawal must be settled at the penal rate and not just the outstanding. We request that instructions may be given to banks that only the balance outstanding should be charged penal interest. ■

FIEO employee retires after 39 years of service

Mr Ashok Kumar, Deputy Director General, FIEO, retired from the services of the Federation on June 30, 2012 after serving the organization for more than 39 years.

Mr Kumar joined FIEO on April 16, 1973 and worked in almost all the departments. He also worked in Regional Offices from time to time.

With rich experience in the field of Foreign Trade Policy and International Trade, he helped FIEO Members resolve their grievances not only from Regional Licensing Authorities but from other economic ministries of the Government of India.

During his service, Mr Kumar discharged his duties and responsibilities with dedication and sincerely. FIEO wishes him good health and a long life.



FIEO hails SBI for 0.5% cut on export credit

Complimenting the State Bank of India for taking the lead in announcing a reduction of the interest rate by 0.5% on export credit, Mr M. Rafeeqe Ahmed, President, FIEO, said the move is in a positive direction although he expected a far deeper reduction in view of the fact that the RBI has increased refinance to the export sector.

Elaborating further, Mr Ahmed said the refinance by RBI to banks has been enhanced from 15% to 50% and the same would be available to banks at 8%. Since the cost of deposit of banks is in the range of 9-10% with 50% refinance facility available at 8%, the cost of export credit should come down in the range of 9-9.5%.

The FIEO Chief added that Indian exporters lose much of their competitiveness in exports due to the high cost of credit, particularly at a time when requirement of the same is for longer period as buyers are making payments only after selling of the products. He hoped SBI would be a trendsetter and other banks would follow suit, proving to be the harbinger of further interest rate cuts.