

**Government of India
Ministry of Commerce & Industry
Department of Commerce
Directorate General of Foreign Trade
New Delhi**

Policy Circular No. 4 (RE-2007)/2004-2009

Dated 16th August, 2007

Transitional Arrangements under Para 1.5 of Foreign Trade Policy, 2004-2009

Instances have come to notice of this office that when a certain item is prohibited for export, exporters want to take advantage of Para 1.5 of FTP by putting up their contracts and Letters of Credit. In some cases, Letters of Credit presented by the exporter are Standby Letters of Credit and not Commercial Letters of Credit.

2. Your attention is invited to Para 1.5 of Foreign Trade Policy, 2004-2009 as amended by Notification No. 20 (RE-2007)/2004-2009, dated 13.08.2007, whereby the earlier words 'irrevocable letter of credit' in the first sentence of Para 1.5 of FTP have been substituted by words 'irrevocable commercial letter of credit'. (available on website www.dgft.gov.in).

3. Under the Transitional Arrangements (as amended), the reference is to 'irrevocable commercial letter of credit established before the date of imposition of such restriction'. Clearly, the intention of Transitional Arrangements is that the principal mode of payment should be through an irrevocable commercial letter of credit, so that there is greater sanctity and assurance regarding the contract and that exporter may not be able to submit any back dated contracted documents under the Transitional Arrangement.

4. It is also seen that standby letters of credit are not themselves the mode of payment, rather they are standby guarantees. The standby letters of credit guarantee payment of a specified amount, under stipulated conditions, however, the actual payment is not deducted from the amount of standby letter of credit but it is routed from some other account.

5. In view of the clear intention of Transitional Arrangements and nature of standby letters of credit, brought out above, it is clarified that while examining the documents submitted by applicant under Para 1.5 of FTP, it needs to also be ensured that the payments for exports covered under the documents are routed and deducted through the concerned commercial letter of credit and not from some other accounts/channels. Absence of the above mentioned mode and routing/deduction of payment would amount to violation of the Transitional Arrangements in Para 1.5 of FTP.

Sd/-

(AMITABH JAIN)

Joint Director General of Foreign Trade

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