

Govt. to extend exports SOPs to trades settled in Rupees

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- **The step, demanded by exporters for a while, could boost exports to countries such as Russia**

Exporters settling their trades in rupees will soon be able to avail of export incentives and duty rebates under India's foreign trade policy, in a move that promises to boost shipments to countries like Russia. According to a government official aware of the matter, the Directorate General of Foreign Trade (DGFT) is expected to issue a clarification in this respect shortly, following approval by the Union finance ministry.

Currently, incentives to exporters in the form of duty drawbacks, export promotion capital goods (EPCG) incentives, and rebates on duties and taxes under different government schemes like Rebate of State and Central Taxes and Levies (ROSCTL) and Remission of Duties and Taxes on Export Products (RODTEP) are available only if payments or export realizations come in freely convertible currencies including the dollar, British pound, euro and yen, while the rupee is not a freely convertible currency. With the clarification, the foreign trade policy (FTP) will be suitably amended to enable exporters to claim export benefits for settling trade in rupees.

"We will come out with a clarification soon... It is a valid issue raised by exporters. This is an enabling provision. We are working with the ministry of finance towards the clarification," the government official cited above said on the condition of anonymity.

Queries emailed to the department of commerce remained unanswered till press time.

According to reports, Russia's Gazprombank has opened a special rupee account with state-owned UCO Bank. In July, the Reserve Bank of India introduced a rupee settlement system for international trade, where invoicing, payment, and settlement of exports and imports to all countries, on the central bank's approval, can be in Indian rupees. Banks will need RBI approval to use the mechanism. Under this mechanism, exporters and importers can use a Special Vostro account linked to the correspondent bank of the partner country for receipts and payments denominated in rupees.

RBI last month said it has received a good response from four-five countries and many banks for settling bilateral trade in the rupee, and it is taking time as the process involves a lot vetting at the levels of banks, central banks and of the governments.

According to a study by India's apex trade promotion body Federation of Indian Export Organisations (FIEO), India's shipments to sanctions-hit Russia could grow by another \$5 billion once the rupee settlement mechanism becomes functional. It said that agro products, food, pharma, and engineering equipment are the key areas where India could see a boost in exports to Russia.

With supplies from the European Union nearly coming to a halt, especially for industrial and engineering goods, this could be a big opportunity for India.

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The mechanism is also aimed at facilitating trade with countries under sanctions like Iran and Russia. India's exports to Russia have seen the contraction ease to 4.72% in August from the previous year, from a decline of 13.1% in July. New Delhi's exports to Moscow saw a 24% decline in the April to August period to \$992 million.

"We hope that the government will clarify benefits on such exports in rupee, which is hitherto only granted for exports payments received in foreign currency," said A. Sakthivel, president of FIEO.

Exporters have been asking the government to also extend the export benefits from incentive schemes like RODTEP and EPCG to be available in case the trade is settled in rupees.

Imports from Russia grew by 414% in the first five months of the current fiscal to \$17.23 billion. Although crude oil imports accounted for 85% of total imports from Moscow, shipments of sunflower oil, fertilizers, silver, printed books, coriander seeds, and furniture items reported a sharp spike, suggesting that New Delhi was steadily forging trade ties with Russia.

According to trade experts, RBI's move to allow international business transactions in rupees could also ease the flow of trade with BRICS nations—Brazil, Russia, China and South Africa—and sanctions-hit Iran but the new settlement mechanism may not be easy to implement.