



FREIGHT PAYMENT BY EXPORTERS

# Topic of Discussion

Meetings held under the Chairmanship of Special Secretary (Logistics), Ministry of Commerce & Industry to discuss the issues pertaining to exchange rates being charged by shipping lines from Exporters at the time of freight payment.

# Existing Process

For payment of the freight charges by the Exporters to the Shipping Liners, the existing mechanism is as under:

- At the time of booking of containers for shipment, the Shipping Liners raise Invoices either on the Exporters directly or through intermediaries like Clearing Agents, Freight Forwarders, etc. for the freight amount in USD and equivalent INR, with an option to pay in either of the currencies.
- Invoice is raised up to a month before the ship reaches the shore, coinciding with first day of accumulation of cargo by the exporters. Final accumulation of cargo takes generally 30 days..
- For freight payment in INR (instead of USD), to cover the volatility in exchange rate during this 01-month period, Shipping Liners quote TT selling card rate of the Banker and add margin of 200-300 paise.
- Exporters upon receipt of the invoice, arrange for payment on a date as agreed upon or as per the credit terms provided, if any. Subsequently the Bill of Lading (B/L) is issued for collection by the exporter.
- It is observed that in many cases, for the same exporter dealing with different shipping lines, exchange rates quoted are different for the same date of invoice.
- Further, for payment routed through the intermediaries, apart from the rate quoted by the shipping liners, margin/commission is loaded by the intermediaries to cover their operational costs.

# ISSUES

Exporters, in their representation to the Logistics Department under Ministry of Commerce and Industry, have brought to notice the following pain-points in the existing mechanism:

- ❑ Different Shipping Liners are charging different rates for the same day of invoicing.
- ❑ Exchange rate is higher by 200-300 paise than the ongoing rate.
- ❑ Most of the exporters (approx. 57%) prefer payment through intermediaries, rather than directly dealing with shipping liners leading, to higher cost.
- ❑ Also, some of the small exporters prefer payments in INR for operational convenience.

- ❖ To sort out the issues, the Ministry has convened several meetings at New Delhi and Mumbai with all the stakeholders, i.e. Exporters, FIEO, Shipping Liners and also engaged SBI with an objective to find an acceptable solution that reduces the overall cost for the exporters.
- ❖ Team of SBI officials along with FIEO and Indian Port Authority (IPA) representatives also met a Mumbai based major shipping liner, on 27<sup>th</sup> August 2019 to find out possible solutions. Also another meeting was held on 24<sup>th</sup> Sep 2019 at SBI Corporate Centre, Mumbai.
- ❖ Based on various discussion, feedback from SBI officials who have attended earlier meetings and overall feedback from FIEO, it was suggested that the best course of action would be the Exporters paying directly to Shipping liners in foreign currency for which, SOP has been prepared.

# Standard Operating Procedure Freight Payment (Revised)

Discussions held with some Exporters, RBI, FIEO representatives from different ship liners and Port Authorities on 24<sup>th</sup> Sep 2019 at Mumbai, chaired by SBI. Based on discussions revised SOP is as below:

1. The exporter and the Shipping Liner enter into a contract with terms and conditions mutually agreed upon. This agreement can be a triparty agreement involving Shipping line, their representative office in India and the exporter, if need be.
2. Shipping lines issue an invoice in freely convertible Foreign Currency as per the contract entered as above.

<b>Payment Option A</b>	<b>Payment Option B</b>
<b>Payment using INR Operating A/c</b>	<b>Payment using EEFC A/c</b>
Exporters approach their AD Bank and negotiate and finalize the conversion rate for foreign currency payment to Ship liners	Exporters pays the freight charges and other mandated ancillary charges / tariffs as per the industry norms in foreign currency through their EEFC account to the Foreign Currency account of Ship liners. The permissible debits and credits in EEFC a/c is detailed in Point VI and that in Foreign Currency accounts of Ship Liners is mentioned in Pont VII

3. Exporters perform the A2 freight remittance on the basis of the freely convertible foreign currency invoice received from shipping lines and submitting required documents with AD (Form A2, form 15 CA/CB). The SWIFT copy of remittance is shared with the Exporter on the same day.
4. Upon receipt of acknowledged copy of SWIFT, the shipping lines to issue Bill of Lading (B/L) to the exporters.
5. For payments through Freight Forwarders (FFs), the invoice amount raised by them on the exporters would be equivalent to that received by them from the ship liners. For covering their operational expenses / booking margins, the same to be raised in INR denominated invoice separately. In essence, the exporters to pay only the Freight charges and other mandated ancillary charges in USD only.

# Standard Operating Procedure Freight Payment (revised ) contd..

6. Other operational expenses, for service received by the exporters in India, will be treated separately and billed in INR
7. Banks and FIEO will generate awareness amongst small exporters on the benefits of having an EEFC account.
8. Ship liners have also offered to educate Exporters on the due diligence required while finalizing contract for Freight and other related aspects.
  - For freight payments as detailed above, Forex / exchange conversion issue is eliminated, if Exporters debits their EEFC account and credit is received in Foreign currency accounts of Shipping companies.
  - However, the Exporter has to pay charges to CA's for online filing of Form 15 CA/CB per instance of payment. As per the current practice, there is no fixed charges and it can be in the range of Rs.1000.00-Rs.3000.00. This is also dependent on the Exporter's relationship with the CA Firm.
  - We recommend that the Ministry may request Income Tax Department to exempt filing of 15CA/CB for Freight Payment and may be included in the list of exempted categories of purpose of payment (current list of exempted categories is 33) as per Rule 37BB.
- V.** For recommended payment option "B", as per notification FEMA 10 (R) /2015-RB of January 21,2016, all Exporters are eligible to open and maintain Exchange Earners Foreign Currency Account (EEFC). Similarly, all Indian agent of Shipping companies incorporated outside India are eligible to open and maintain Foreign Currency accounts.

# Standard Operating Procedure Freight Payment (revised ) contd..

VI. The permitted Credits and Debits in EEFC accounts are mentioned as under:

Credits	Debits
1) 100% of foreign exchange received on account of export transactions.	1) Any permissible current or capital account transaction
2) Payments received for the purpose of counter trade	2) Cost of goods purchased
3) Advance remittance received by an exporter towards export of goods or services	3) Customs duty
4) Repayment of loans given to foreign importers	4) Trade related loans and advances
5) Disinvestment proceeds on conversion of ADR/GDR	5) To a person resident in India for supply of goods/services
6) Professional earnings like director's/ consultancy/ lecture fees, honorarium and similar other earnings received by a professional by rendering services in his individual capacity	
7) Interest earned on the funds held in the account	
8) Re-credit of unutilized foreign currency earlier withdrawn from the account	
9) Payments received in foreign exchange by an Indian startup arising out of sales/ export made by the startup or its Overseas subsidiaries	

VII. The permitted Credits and permitted debits in Foreign Currency accounts of Ship Liners are:

**Permitted Credits:**

Freight or passage fare collections in India or from the principal outside India.

**Permitted Debits:**

Local expenses of the overseas company.



Thank You