

CHAPTER XIII

IMPORTS

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1. Scope of Chapter.

This chapter sets out the regulations relating to sale of foreign exchange by the Authorised Dealers against import of goods into Pakistan from any country.

2. Import Trade Control.

Import of goods into Pakistan is regulated by the Ministry of Commerce, Government of Pakistan, under the Imports and Exports (Control) Act, 1950 and the notifications issued thereunder. No import is permissible from Israel or from any other country, which may be notified by the Ministry of Commerce. Import of goods originating from any of these countries/ sources is also prohibited. Imports from India are regulated as notified by the Ministry of Commerce, Government of Pakistan from time to time.

3. Registration of Importers.

No person can import goods into Pakistan unless he is registered with the Export Promotion Bureau, under the Registration (Importers and Exporters) Order, 1993 or exempted from the provisions of the said Order. Authorised Dealers should, therefore, verify that the importer is registered or otherwise exempted before any letter of credit is opened/contract registered or remittance made on his behalf for imports into Pakistan. Authorised Dealers should ensure that the registration number of the importer is invariably furnished on [Form 'I'](#). Where the importer has been granted an exemption, a suitable mention of this fact should be made on [Form 'I'](#).

4. Classification of Imports.

Before establishing any letter of credit/registering contracts, Authorised Dealers should take all precautions to ensure that the goods to be imported under it are clearly classifiable under the Import Trade Control Schedules. In all cases of doubt, reference should be made either by the Authorised Dealer or the importer direct to the Export Promotion Bureau. Failure to do so may result in confiscation of goods or imposition of penalty for violating the provisions of the I.T.C. regulations. In all such cases establishment of letter of credit/registration of contract and/or making of remittance will also constitute infringement of the Foreign Exchange regulations.

5. Terms of Imports.

Subject to the provisions of this Chapter, imports can be made on FOB basis, CFR liner terms basis or CFR free out basis. However, prior permission of the State Bank shall be obtained for import of sugar and food grains (cereals) on CFR free out basis.

6. Modes of payments for imports.

Payment for imports may be made either through letters of credit, without letters of credit against documents received for collection on the basis of registration of contracts, or as clean remittance without opening of letter of credit and without registration of contract, as described in detail in the subsequent paragraphs.

7. Letters of Credit to be opened only against Firm Contracts.

Authorised Dealers should ensure before opening a letter of credit that in each case a firm commitment exists. For this purpose, they should ensure that an invoice, order or indent has been issued by an indentor duly registered as importer under Registration (Importers and Exporters) Order, 1993 and it bears registration number of the indentor concerned. It is also permissible to open a letter of credit on the basis of proforma invoice/order issued/accepted by the foreign supplier. Authorised Dealers should also ensure that while opening letters of credit, full description of the goods to be imported is given in each credit alongwith their prices. In all cases where the amount of the letter of credit is Rs.1,500,000/- or over, Authorised Dealers should obtain a confidential report on the exporter from their branches or correspondents abroad or in their discretion satisfy themselves as to the standing of the shipper by consulting standard books of reference issued by international credit agencies such as Seyds, Dunn and Bradstreet. Such reports should be obtained by the Authorised Dealers themselves and the reports if submitted by the importers should not be accepted. Even in the case of imports of the value of less than Rs.1,500,000/-, it is important that the Authorised Dealers satisfy themselves about the bonafides of the transactions before opening letters of credit.

8. Methods of Payment under Letters of Credit.

(i) Letters of credit may be established providing for payment to beneficiary either in the country of origin of goods or in the country of shipment of goods.

(ii) Authorised Dealers may also establish letters of credit providing for payment to the beneficiary in a third country, not being the country of origin of goods or the country of

shipment provided they are satisfied that the payment to the beneficiary in a third country does not involve extra expenditure. This facility is, however, not admissible for the import of goods which are directly shipped from the ACU member countries.

(iii) Authorised Dealers may also establish letters of credit providing for shipment of goods of the origin of more than one country provided the beneficiary remains the same and the shipment does not involve extra expenditure.

(iv) Letters of credit established as per (i), (ii) and (iii) above should provide for payment in any of the following manners:

- (a) in any foreign currency.
- (b) in Rupees for credit to the non-resident bank account of the country of the beneficiary or of the country of origin/shipment of goods.
- (c) Through ACU Clearing Arrangement where letters of credit envisage shipment directly from ACU member countries.

(v) Opening of letters of credit providing for payment in any other manner requires prior approval of the State Bank. Such requests giving full facts of the case alongwith their recommendations should be forwarded by the Authorised Dealers to the State Bank.

(vi) It is not permissible to establish letters of credit providing for alternate countries of origin of goods unless prior approval of the State Bank is obtained. Letters of credit providing for goods of European Union origin may, however, be opened.

9. Opening of/extension in letters of credit time frame/change of beneficiary and commodity/other amendments.

(i) Authorised Dealers can open letters of credit and extend their validity for a period allowed by the import policy announced by the Ministry of Commerce subject to compliance with all the conditions laid down therein.

(ii) If the import policy does not lay down any instruction in this regard, they may open

letters of credit for a period upto 12 months. However, in respect of machinery and mill-work which are required to be specifically manufactured and the period of manufacture is more than 12 months, the letter of credit may be opened for a period upto 24 months. The validity of a letter of credit may be extended by the Authorised Dealers for further periods not exceeding 12 months at a time on payment of fee, if so prescribed in the import policy, provided there has been no change in the Import Policy/exchange regulations in relation to the importability of the goods, the country of origin/shipment, and the method of payment/and if approached within its validity. An expired letter of credit may also be similarly revalidated subject to the same conditions.

(iii) Authorised Dealers are also allowed to amend the letters of credit envisaging change of the beneficiary/goods at the request of the importers provided the importers approach the Authorised Dealers for the change within the validity of the letter of credit and import of the goods covered by the letters of credit are still permissible.

(iv) Authorised Dealers should also ensure to make endorsement of L/C opened for items (other than freely importable items) whose import is subject to certain conditions, in the original Category Pass Book. In case an importer opens letters of credit with more than one bank, the Authorised Dealer holding the original category Pass Book will make out photostat copies thereof, authenticate the same and furnish other concerned Authorised Dealers with it and will keep record thereof.

(v) Authorised Dealers may also make other amendments in the letters of credit without reference to the State Bank provided the amendments are not in conflict with the provisions of this Manual or the Import Trade Control Regulations.

(vi) Letters of credit may provide for negotiation of documents within a period not exceeding 30 days from the date of shipment.

10. Terms on which Letters of Credits may be opened.

All letters of credit and similar undertakings covering imports must provide for payment to be made against full set of clean on board (shipped) bills of lading, air consignment notes, railway receipts, post parcel receipts (or in the case of bulk import of books from U.K. against "Statement of Dispatches" in lieu of post parcel receipts) showing dispatch of goods

to a place in Pakistan. Sea-way bills should not be accepted. All letters of credit must specify submission of invoices certifying the country of origin in addition to any other certificate prescribed in the import policy.

11. Import of Old Ships for Scrapping.

Letters of credit for import of old ships for scrapping may be opened by the Authorised Dealers in accordance with the normal procedure after scrutiny of the following documents:

- (i) Memorandum of agreement or contract of sale; and
- (ii) Confidential reports on buyers and sellers.

Authorised Dealers will satisfy themselves that the ship is free from all encumbrances and that the seller has a legal title to the ship.

12. Letters of Credit for Shipment by Country Craft, Motor Launch or Truck.

Ordinarily it is not permissible to open letters of credit providing for shipment by means of country craft, motor launch or truck except by public sector agencies or by well established and reputable firms in the private sector, provided in the latter case the Authorised Dealers are satisfied about their financial and business integrity and they have no doubt that the goods covered by such letters of credit will be received in Pakistan.

In the case of other importers in the private sector, letters of credit for import of goods by means of country craft, motor launch or truck may be opened by the Authorised Dealers subject to the following condition:

- (i) The supplier abroad furnishes guarantee of a bank in the country of export for an equivalent amount to the effect that should the goods be lost or damaged or pilfered in transit, the above guarantee can be invoked and the amount remitted against the letters of credit recovered.
- (ii) Alternatively, the letter of credit provides that payment will be made to the

foreign suppliers after the goods have been received and cleared by the Customs in Pakistan.

In respect of importers in the private sector who are unable to fulfill the conditions at (i) and (ii) above, the Authorised Dealers should refer their cases to the State Bank with full particulars.

13. Remittances in Excess of the Amount of Letter of Credit.

In cases where the value of documents exceeds the amount of the letter of credit and the foreign correspondent negotiates the documents because of the excess amount being small or sends them on collection basis, Authorised Dealers may allow remittance of the excess amount subject to the condition that the amount does not exceed 5 percent of the amount of credit subject to a maximum of US \$500/-. The bill of entry/certified invoice in respect of the consignment will be required to cover the increased amount.

14. Types of Letters of Credit not permitted.

It is not permissible to open clean, revolving, transferable or packing credits. Applications for opening such letters of credit should be referred to the State Bank with full particulars.

15. Prohibition to open Letters of Credit for Import from Certain Countries.

It is not permissible to open letters of credit for imports into Pakistan in favour of beneficiaries in Israel or of goods originating from that country.

16. Imports on the basis of registration of contracts.

The undernoted procedure will be adopted for making imports of goods not subject to authorisation from the Export Promotion Bureau/Ministry of Commerce as also not subject to minimum margin restrictions, if the importer wants to make the import on the basis of registration of contract without opening letter of credit: -

- (i) The importer will submit a copy of the contract/purchase order/proforma

invoice/indent etc. to the Authorised Dealer for registration.

- (ii) The Authorised Dealer registering the contract etc. will issue to the importer, a registration certificate in the format appearing at Appendix V-25.
- (iii) In case the documents covering imports are received by the branch of the Authorised Dealer which had registered the contract/purchase order/indent/proforma invoice, directly from the bankers of the suppliers abroad, the remittance may be effected in terms of the instructions laid down in paragraph 23 (i) of this chapter provided the documents conform to the terms of the relative contract/purchase order/indent or proforma invoice.
- (iv) In case the shipping documents are received by the importers directly, or by the Authorised Dealer from the overseas supplier instead of the bankers of the suppliers, remittance should be made in accordance with the instructions contained in para 23 (ii) of this chapter.
- (v) In case of imports from ACU member countries, remittances will be effected through ACU Clearing Arrangements.
- (vi) Forward cover will be available to the importers in accordance with the terms and conditions laid down in [Chapter IV](#) of this Manual.
- (vii) Authorised Dealers will incorporate the figures of the contracts registered by them/ remittances made thereagainst in the statements as per appendices [V-131](#), [V-132](#) [V-133](#) and [V-134](#) ([para 15-Chapter XXII](#)).

17. Imports without letter of credit/registration of the indent/proforma invoice/order.

- (i) In terms of the import policy, registered importers are permitted to make imports upto specified value (US\$ 5,000/- as per Import Trade and Procedure Order 2000) without opening of letters of credit or registering the indents/proforma invoices or orders with the

Authorised Dealers, and make remittances thereagainst. The registered importers are free to make remittances in respect of such imports either in advance or after receipt of the goods in Pakistan. The remittances can be made through demand draft/telegraphic transfer/mail transfer. In such cases where the registered importers make advance payments for such imports, they will be required to furnish to the Authorised Dealer at the time of making a request for remittance, an undertaking to produce invoices and bills of lading/airway bill within a period of four months from the date of advance payment. The Authorised Dealers will pursue the matter with the importers and report those cases to the area office of the Exchange Policy Department where the requisite documents are not produced within the prescribed time limit. In cases where remittances are made after receipt of goods in Pakistan, the registered importers can approach the Authorised Dealers for remittance on the basis of invoices and original bills of lading or airway bill. The Authorised Dealers have general permission to make advance payments or arrange remittances against the prescribed documents on receipt of goods in Pakistan.

(ii) At the request of industrial establishments registered as importers, Authorised Dealers may issue foreign currency demand draft upto the value prescribed in the Import Policy (currently US\$ 15,000 per fiscal year for 2000-2001) for import of spare parts/machinery, without opening of letter of credit, provided such import is made by air or by courier. Authorised Dealers will maintain a record of all such drafts issued by them. They will obtain from the applicant a declaration showing the amount already remitted by him during the current fiscal year and issue demand draft only upto the extent of the balance entitlement. They will also obtain Exchange Control copy of Bill of Entry and evidence to the effect that the import was made by air/courier. These records will be retained till the next inspection of the concerned bank branch by the State Banks Inspectors.

18. Import on Usance Basis.

Authorised Dealers may open letters of credit or register contracts for imports into Pakistan providing for payment on usance basis subject to the condition that such letters of credit/contracts do not stipulate payment of any amount by way of interest separately. The usance should commence from the date of issue of Bill of Lading/Air Way Bill etc. or the acceptance of Bill of Exchange by the drawees as the case may be. The letters of credit opened on usance basis cannot subsequently be converted on sight basis. Similarly the terms of the contracts covering payments on usance basis registered by the Authorised Dealers cannot subsequently be changed to sight basis. It is not permissible to effect payments of usance bills prematurely.

19. Imports by public sector agencies to which special allocation is made by the Government.

Public Sector agencies like WAPDA, Karachi Electric Supply Corporation Limited, Pakistan State Oil Co. Ltd., OGDC, etc. which are allocated foreign exchange for their import requirement or the private parties who are allowed to import on Defence/Railway's account shall make applications to the area Exchange Policy offices of State Bank of Pakistan for permission to get the contracts registered with the Authorised Dealer/open letters of credit, on [Appendix V- 26](#). Authorised Dealers will register contract/open letter of credit in these cases on the basis of clearance issued by State Bank on [Appendix V- 26](#).

20. Remittance of bank charges in respect of imports.

Authorised Dealers can make remittance of the following bank charges on account of imports. The particulars of the charges should be specifically mentioned on the relevant forms.

- (i) L.C. Advising Commission.
- (ii) L.C. Amendment Commission.
- (iii) L.C. Confirmation Commission.
- (iv) Negotiation Commission.
- (v) Un-utilized letter of credit Commission.
- (vi) Payment Commission.
- (vii) Reimbursement Commission.
- (viii) Collection Commission.
- (ix) Acceptance Commission (Usance Drafts).
- (x) Postage and Cable Charges.

Remittances of bank charges other than the items mentioned above in respect of imports will be subject to the prior approval of the State Bank.

21. Remittance of Proceeds of Dishonored Bills.

In those cases where the original drawee dishonors the bill and the foreign shipper or his local agent finds another buyer, the Authorised Dealers may make remittance not exceeding the value of such bills without the prior permission of the State Bank if there are no restrictions in the import policy issued by Ministry of Commerce.

22. Remittance involving Violation of I.T.C. Regulations.

Authorised Dealers may allow remittance of the value of imports made in contravention of the import policy if the Federal Government has condoned the contravention and the Customs have released the goods. Such remittance may be allowed on submission of the invoice, bill of lading and Exchange Control copy of Customs Bill of Entry.

23. General Authority for Remittances against Imports.

(i) Authorised Dealers may approve, on behalf of the State Bank, applications for remittance against imports into Pakistan provided the documents covering imports, whether under letters of credit or otherwise, are received through them and the conditions set out in this chapter are complied with. The relative [Form 'I'](#) should be certified accordingly when reporting the sale to the State Bank. In the case of imports by post, Authorised Dealers may make remittances without the prior approval of the State Bank, only if the post parcels are addressed directly to them. In cases, where the parcels are addressed direct to the individuals or care of the Authorised Dealers, applications should be forwarded to the State Bank for prior approval. Authorised Dealers should invariably attach a copy of the relative invoice with the original or quadruplicate ['I' Form](#), as the case may be, submitted by them to the State Bank with their monthly return of sale in terms of para 33 of this chapter.

(ii) Where the shipping documents are received by the importers directly, or by the Authorised Dealer from the overseas supplier instead of the bankers of the suppliers, remittance should be approved only after the goods have been cleared from the Customs and the Exchange Control copy of Bill of Entry or Customs certified invoices in the case of imports by post, relative invoices, Non-negotiable copies of the Bill of Lading/Airway Bill/Railway Receipt/Truck Receipt etc. and 'I' Form duly completed and signed have been submitted.

24. Collection of Freight on Imports on F.O.B. basis in the Private Sector.

The following procedure will be followed for imports on FOB basis in the private sector:

(i) The importers desiring to make imports on FOB basis will get the letters of credit opened/contracts for imports on consignment basis registered through/with their bankers provided the importers fulfill other instructions issued by the Government of Pakistan/State Bank of Pakistan with respect to imports.

(ii) The shipping lines/airlines will obviously issue Bills of Lading/Airways Bills in connection with FOB imports on "Freight to Collect" basis. As and when freight is required to be paid in Pakistan rupees, the importers will approach the Authorised Dealers who had opened letter of credit/registered the contract for import on consignment basis alongwith a copy of Bill of Lading/Airway Bill indicating the amount of freight payable together with the freight invoice issued by the carrier, where available, for issuance of a certificate in the format appearing at Appendix V-27 which will bear the name/address of the issuing Authorised Dealer and a running serial number.

(iii) The importers will then pay the freight amount to the carriers in Pakistan rupees and will also surrender the "certificate" referred to in the preceding sub-para to the concerned carrier.

(iv) Airlines/shipping companies and their agents will not accept freight on FOB imports without Authorised Dealers' certificate mentioned in sub-para (ii) above. The airlines/shipping companies will invariably attach the said "certificate" (Appendix V-27) in original alongwith the applications to be made for allowing remittance of surplus freight

collections.

25. Collection of Freight on F.O.B. Imports by the Public Sector.

In the case of imports by the public sector on FOB basis the carriers should not accept freight in Rupees without the approval of the State Bank. Approval will be given by the State Bank after charging the full amount of the freight to the foreign exchange allocation of the respective Government/Semi-Government agency. While applying for approval, the carrier company will produce with the application a letter in the prescribed form (Appendix V-28) from the concerned Department/Agency authorising the State Bank to debit its foreign exchange allocation with the freight amount. As an exception, it will be in order for the carriers to accept freight in Rupees on account of F.O.B. imports by the Ministry of Defence only subject to post-facto approval. Application for permission to pay freight in Rupees in respect of imports by the Ministry of Defence will be made by the Controller of Military/Naval/Air Force Accounts in triplicate in the above proforma. Approval will be accorded by the State Bank on the original copy of the application with the following narration.

"Payment of freight in Rupees as indicated above allowed".

While the triplicate copy of the application will be retained by the State Bank, the original and duplicate will be returned to the Controller of Military/Naval/Air Force Accounts. The latter will furnish the original copy to the carrier concerned.

26. Shipment of Public Sector cargo through PNSC vessels/PIA.

As an exception to the provision of paragraph 25 *ibid* it will be in order for the PNSC and PIA to accept freight in Pak Rupees on FOB imports by the Public Sector agencies (Ministries/Departments, autonomous and semi-autonomous public sector organizations) provided the goods are carried by them on freight to pay basis. PIA will, however, accept cargo only for the sectors covered by it. Authorised Dealer's Certificate mentioned in Para 24 (ii) will not be required to be produced to PNSC/PIA by the importing agencies.

27. Payment of Freight on Import of Trade Samples.

Airlines/shipping companies can accept freight in Rupees upto Rs. 2,000/- per year per registered importer for import of bonafide trade samples. While accepting freight the airlines/shipping companies should obtain a certificate from the registered importer to the effect that the total amount of freight already paid including the amount to be paid during the calendar year on account of trade samples received by him, does not exceed the limit of Rs. 2,000/- The certificate should be submitted by the airlines/shipping companies alongwith their application for remittance in which the collection of such freight is included.

28. Imports on Private Account.

Certain categories of imports are exempted from the Import Trade Control Regulations. For example, in transit imports, imports by diplomatic officials in Pakistan, imports in bond, imports of gift parcels upto the exempted limit and imports by private parties for their personal use upto prescribed limits. Authorised Dealers should not allow any remittance against such imports except as laid down in [Chapter XVI](#).

29. Imports by PICIC/NDLC under Foreign Currency Lines of Credit.

(i) PICIC/NDLC can open letters of credit under the foreign currency lines of credit contracted by them with the approval of the Government of Pakistan, and the foreign currency loans contracted by the Government of Pakistan and placed at their disposal for on-lending to their customers.

(ii) In all the cases of imports against letters of credit issued by PICIC/NDLC, it should be ensured that import is made on C&F basis unless shipment is made on Pak flag vessels and in that case letters of credit may provide for imports on FOB basis on payment of freight in Pakistan rupees.

30. Advance Remittances.

(i) State Bank may consider applications for advance remittance against imports where the goods are of a specialized or capital nature. Applications for such advance remittance should be made to the State Bank on [Form 'I'](#) and should be accompanied by the original contract (with a spare copy) entered into between the importer and the foreign manufacturer or supplier. The applications should also be supported by an undertaking in the prescribed form (Appendix V-29) duly countersigned by the Authorised Dealer. In special cases advance remittance may be allowed upto 33 1/3% of the estimated C & F value of the total quantity of the goods to be imported.

(ii) In the case of import of books and subscription to journals and magazines etc., by Government and Semi-Government agencies, Authorised Dealers may allow direct advance remittance upto the amount of the relative letter of credit/contract. In the case of subscription to magazines/journals etc., there will be no Customs Bill of Entry/certified invoice. In such cases, Authorised Dealers will attach the relative debit note with the duplicate of [Form I](#) giving on both a suitable remark indicating that the remittance has been allowed in advance. As regards import of books, there will be usual Customs Bill of Entry/certified invoice which will be processed in the normal course.

(iii) Authorised Dealers may allow advance remittances for import of books, journals and magazines etc., by commercial importers upto the amount of relative proforma invoices. Since magazines and journals are imported in bulk by the commercial importers in their own names, there will be usual Bills of Entry/certified invoices as in the case of import of books.

31. Use of foreign exchange acquired for Imports.

In all cases of remittances against import into Pakistan, the importers shall not use the foreign exchange so acquired other than for that purpose.

32. Processing of Form I.

Applications for remittance against imports into Pakistan should be made on [Form 'I'](#) (Appendix V-30) which should be signed by the importer or his authorised agent. The signatory should disclose his status/capacity in the concerned firm/company etc., i.e. Director/Partner/Proprietor/Manager etc. In case the form is signed by the agent of the importer, it should be ensured by the Authorised Dealers that he holds a valid legal power of

attorney from the importer and the terms of the power of attorney are such that the importer as well as the attorney can be held responsible jointly & severally under the Foreign Exchange Regulation Act, 1947. The form should be submitted to an Authorised Dealer who must sign the certificate as provided therein under his stamp and signature. In cases where the Authorised Dealers are empowered to approve remittances on behalf of the State Bank, they will do so by recording their approval on the form. In all other cases, the forms together with the required supporting documents should be forwarded to the State Bank for approval.

33. Functional Utility of the various copies of Form I.

Form 'I' consists of four copies. The original copy of the form duly signed by the importer is required to be sent to the State Bank by the Authorised Dealers with their monthly return of sales. In cases where the importers do not retire the documents and the Authorised Dealers fail to get the original copies of the form signed by them, they should themselves sign the quadruplicate copy of the form and send it with the monthly return to the State Bank. All cases where the importers fail or refuse to sign the Form 'I' should be specifically reported to the State Bank.

34. Indication on Form I for Government Import.

In the case of remittances against imports by Government Departments or in cover of imports by private parties which are marked "ON GOVERNMENT ACCOUNT", Authorised Dealers should mark Forms 'I' with a bold letter 'G' to indicate that the remittance is on Government account.

35. Loss of Goods.

In the event of total or partial loss of goods, it will be the responsibility of the importers to recover claim from insurance company/shipping company/supplier, as the case may be.

36. Designation of Authorised Dealers for imports under Special Arrangements.

(i) The State Bank designates Authorised Dealers for handling imports under Foreign Loans/credits and barter agreements including PL-480 programme. Letters of credit for import under these arrangements are required to be established through the designated Authorised Dealers only. Importers are, however, free to approach the designated banks

either directly or through their bankers.

(ii) In the case of US AID Loans, PL-480 and KFW (German) Loans, the State Bank designates banks in U.S.A. and West Germany also for claiming payment or reimbursement from the loan/aid giving agencies. Similar designation of banks in the country of other aid giving agencies may also be made, if necessary, under the aid/loan arrangements.

37. Rates of Commission to be charged by Banks.

- (i) Authorised Dealers may recover from the importers following charges:-
 - (a) Bank charges specified in and remittable under the provisions of para 20 of this chapter and the amount of interest, where authorised under loans like US AID Loans and others, payable to the foreign banks handling the transactions at the other end. The amounts of bank charges and interest as mentioned above may be remitted to the foreign banks without the prior approval of the State Bank subject to report on [Form 'M'](#).
 - (b) Their own commission at rates allowed by the Banking Supervision Department from time to time, if applicable.

In respect of imports under Aids/Loans/Credits/Barters where the business is handled through Authorised Dealers who are not designated banks, the commission will be shared equally between the designated bank and the bank handling the business on behalf of its customers.

(ii) Authorised Dealers may recover commission at the following rates on letters of credit covering imports by the Government routed through State Bank:

- (a) In respect of cash/reimbursable loans/barters expressed in U.S. Dollar or any other

foreign currency including L/Cs under A.C.U. arrangement:

aa) 1/8 % if the value of the letter of credit is less than Rs.250,000/-

bb) 1/16 % if the value of the letter of credit is Rs 250,000/- or more.

(b) In respect of non-reimbursable credits and Rupee Barter: 3/8 % irrespective of the value of the letter of credit.

The above charges are inclusive of foreign correspondents charges. However, in addition to the above, Authorised Dealers may recover actual cable/telex charges where L/Cs are desired to be established through cable/telex and confirmation charges of foreign bank if foreign bank's confirmation is also to be added on opener's request.

38. Special Features of various Aid, Loans and Credits.

(i) **U.S. AID LOANS:** After the signing of the loan agreement, U.S. AID, Washington issues letters of commitment which indicate the salient features of the loan as also the names of designated Pakistani and American banks. U.S. AID loans stipulate minimum monetary limits for the opening of each letter of credit as well as the value of each shipment. They may, however, issue one letter of commitment under each U. S. AID Loan. Goods are required to be shipped on U.S./Pakistan flag vessels in accordance with the shipping requirements laid down in respect of each loan. U.S. Liner Services are available on some ports from where shipments can be made only on U.S. flag vessels. In cases U.S. flag vessels are not available on these ports, shipments can be made on Pakistan flag vessels or on the vessels of any other country which is included in the AID Geographic Code 941 after obtaining waiver from the U.S. AID. From ports where U.S. Liner Services are not available, shipments can be made on Pakistan flag vessels or vessels of other countries included in AID Geographic Code No.941. Two percent or ten percent of the freight amount under U.S. AID Loans on 'Free-Out' and 'Non-Free-Out' basis respectively, which is not financed by AID authorities, is paid from Pakistan's own resources.

(ii) **PL-480 PROGRAMME:** Major food items like wheat, soyabean oil, tobacco and non-fat dry milk are imported under Public Law 480. Banks are not designated for import of

wheat which is directly handled by the Ministry of Food. For the remaining items, banks in Pakistan and the U.S.A. are designated for handling imports. Payment to the suppliers is made directly by the Commodity Credit Corporation (C.C.C.) of U.S.A. for which Procurement Authorisation (P.A) is issued. Shipments are required to be made on Pakistan and U.S. flag vessels on 50:50 basis. In the event of non-availability of U.S./Pakistan flag vessels, shipments can be made on vessels of any other country at the discretion of Commodity Credit Corporation. In case of shipments by Pakistan flag vessels, Pakistani Shipping Companies can accept payment of freight in Rupees without approval of the State Bank. In case of shipment on U.S. flag vessels, permission of the State Bank for opening of freight letter of credit/making remittance of freight is required in each individual case.

(iii) **I.D.A. CREDITS:** Imports under I.D.A. Credits can be made from member countries of I.B.R.D. (International Bank for Reconstruction and Development) and Switzerland. Shipment is also required to be made on the vessels of member countries of I.B.R.D. and Switzerland. There are different case procedures for payments under I.D.A. Credits.

(iv) **OTHER LOANS AND CREDITS:** In respect of loans and credits other than those mentioned above, which are provided by various countries, specific instructions are issued by the State Bank from time to time for handling imports and claiming reimbursements thereunder.

(v) **ACU CLEARING ARRANGEMENT:** ACU Clearing Arrangement provides a clearing system through which all eligible payments for current international transactions among the member countries, other than payment relating to travel, are compulsorily settled through the ACU mechanism which allows payment in the AMU or the currency of the participating country in which one party to the transaction resides. However, there is no bar to any contract or letter of credit or invoice being denominated in Non-ACU Currency, provided such contract/letter of credit invariably contains a clause to the effect that payment of equivalent amount in ACU Currency/AMU shall be made through the Clearing Arrangement and also specifies the manner in which the currency of the contract/letter of credit will be converted into the currency of actual payment/AMU. Payments for exports to member countries against letters of credit established under loans/credits taken by the importing country from the international financial institutions like World Bank, Asian Development Bank etc., can be realised in convertible currency outside the Clearing Arrangement.

39. Foreign Currency Loans and Credits Negotiated by the Government of Pakistan.

Foreign currency loans and credits negotiated by the Government of Pakistan with the international institutions and other agencies are utilised for import of machinery, capital goods, technical know-how, commodities etc. Such credits negotiated for import of machinery, capital goods etc., are normally placed at the disposal of public sector agencies (who use it by opening letters of credit through the banks designated by State Bank of Pakistan or by arranging direct disbursement by the lending agency) and the Development Finance Institutions e.g. PICIC, NDLC and IDBP who in turn disburse them to their constituents. The credits for import of commodities, raw materials, spares etc., are normally disbursed through banks designated by the State Bank against the allocations made by the Economic Affairs Division, Government of Pakistan. Any other foreign currency credits negotiated privately would require approval of the Federal Government/State Bank.

40. Project Loans and Credits.

In respect of imports under Project loans, banks are also designated. Normally, Authorised Dealers are advised to deliver shipping documents to the importing agencies free of payment.

41. Reimbursable Loans and Credits.

In case of reimbursable loans and credits, imports are financed in the first instance from Pakistan's own foreign exchange resources and reimbursement is obtained from the loan giving agency. In some cases imports are also financed from Pakistan's cash foreign exchange resources pending signing of the relevant loan agreement. As and when the loan agreement is signed, reimbursement is to be sought expeditiously from the relevant Loan/Credit giving agency. The procedures for obtaining reimbursement from the loan giving agencies are worked out on loan to loan basis.

42. Deposit of Counter-Part Rupee Funds with the State Bank in respect of Foreign Non-Project Commodity Loans.

The designated Authorised Dealers will observe the following procedure for deposit of counter-part Rupee funds:

(i) Appropriate Rupee amounts in respect of imports under all foreign non-project commodity loans and credits on non-reimbursable basis will be deposited with the regional office/branch of the State Bank within three working days of the receipt of documents by the designated banks in Pakistan or within 10 days from the date of negotiation by the bank abroad, whichever happens to be earlier, at the rate of exchange prevailing on the date of lodgement of documents in cases where no forward exchange is booked. Where forward cover has been booked, the booked rate is applied for the purpose of depositing Rupee funds.

(ii) The designated Authorised Dealers will submit, to the concerned area Chief Manager of the State Bank, a statement of Rupee deposits at the time such deposits are made against foreign non-project commodity loans and credits in the prescribed form (Appendix V-31). Copies of these statements will also be sent to various Government agencies.

43. Fine on delay in deposit of Counterpart Funds.

In the event of delay in depositing counterpart funds with the State Bank within the prescribed period, the concerned Authorised Dealer will pay to the State Bank fine at the rate of Rs 4 per day per Rs 10,000 or part thereof for the period of delay.

44. Documents received on Collection Basis due to Discrepancy/Documents drawn on usance basis.

(i) In cases where the overseas negotiating bank does not make payment to the supplier but sends the documents to the bank in Pakistan on collection basis due to discrepancy in the documents, the Authorised Dealers will deposit counterpart funds with the State Bank on retirement of the documents by the importers concerned. The prescribed period for deposit of counterpart funds will be reckoned as from the date of retirement of bill by the importer. If the funds are held back by the Authorised Dealers beyond the prescribed period, fine would be charged as per paragraph 43 *ibid*.

(ii) In those cases where the negotiating banks make payment to the suppliers under reserve or guarantee due to minor discrepancies in documents, either the documents should be sent back to the negotiating bank or the counterpart funds deposited with the State Bank within a maximum period of one week from the date of the receipt of the documents. In case, however, the designated bank in Pakistan chooses to retain the documents beyond the prescribed period of one week, a statement of all such cases should be sent to the Director of Accounts, Economic Affairs Division, Government of Pakistan, Islamabad and the concerned Chief Manager of the State Bank showing the particulars of shipping documents and indicating names and addresses of the importers, letters of credit numbers and dates, vessel, commodity and foreign currency amount specifying the detailed reasons for not depositing the amount within the prescribed period of one week. The cases in which deposits are made within a week need not be reported.

(iii) The designated Authorised Dealer is required to deposit counterpart funds with the State Bank within the period specified in paragraph 42 *ibid*. The letters of credit opened by the Authorised Dealers for imports under Aid/Loans and Credits should not, therefore, provide for documents to be drawn on usance basis. Documents with usance clause if received by an Authorised Dealer will not be accepted by the State Bank as sufficient reason for waiver of fine on account of delayed deposit of counterpart funds.

45. Deposit of Funds Received under Reimbursable Loans/Credits.

In case of loans and credits on reimbursable basis, the designated banks are required to deposit funds in the State Bank's Account with the Federal Reserve Bank, New York or with such other banks as may be specified from time to time. The deposits should be made immediately on reimbursement by the foreign loan/credit giving agencies but not later than the date following that on which reimbursement is received. Late deposits will be subject to payment of fine at rates given in paragraph 43 *ibid*. The Authorised Dealers designated to open letters of credit for imports under loans and credits should, therefore, make necessary arrangements in advance with their correspondents abroad to effect the transfers within the stipulated period. Late receipt or non-receipt of reimbursement advice by the designated banks in Pakistan would not be accepted as sufficient reason for waiver of fine.

46. Exchange Facilities for Merchanting Business by Pakistan Intermediaries.

(i) Residents of Pakistan and firms and companies functioning in Pakistan are allowed to engage themselves in three way merchanting trade through back-to-back letters of credit providing for payment in convertible currency or advance payments excluding payments under bilateral/multilateral accounts, in respect of the following commodities:

1. Crude Oil
2. Edible Oil
3. Wheat
4. Rubber
5. Cotton
6. Tea
7. Sugar
8. Fertilizer

Authorised Dealers are permitted to open letters of credit in favour of third country exporters either against an irrevocable letter of credit on sight basis or against advance remittance in convertible currency received from the ultimate importer subject to the following conditions:

- a) The price differential includes intermediary's commission at not less than one percent, plus actual charges incurred on account of opening of back-to-back letter of credit, buying and selling rates differential etc.
- b) The letters of credit to be established by Pakistani intermediary in favour of third country supplier will carry sufficient usance so that payment becomes due only after receipt of payment from the importer. In case where letters of credit are to be opened against advance remittance, the condition of usance will not be obligatory.
- c) The amount of foreign exchange representing the price differential including commission will be converted into Pak rupees.

- d) No commission or any other claim of whatsoever nature will be allowed to be remitted from Pakistan.
- e) No credit line such as export finance etc. will be available.
- f) Goods will be shipped directly from the country of supply to the country of import.
- g) No forward cover facility will be available for trade under this arrangement. However, if desired, the intermediary Pakistani trader can open a "Special Foreign Currency Account" with an Authorised Dealer in Pakistan for deposit of the proceeds of the letters of credit/advance remittances received from the third country buyer pending (i) eventual payment to the third country suppliers under the back-to-back letter of credit stipulating reimbursement to the third country suppliers out of Special Foreign Currency Account and (ii) conversion into Pakistan rupees of the amount left out after making payment to the third country supplier against back-to-back letters of credit.

General permission has been accorded to the Authorised Dealers for opening and maintaining Special Foreign Currency Accounts for merchanting trade which will be subject to the following terms, conditions and the procedure:

- aa) The account will be fed exclusively through remittances emanating either from the realisation of proceeds under an irrevocable letter of credit opened by an overseas buyer for third country goods or advance remittance made by such buyer for supply of third country goods.
- bb) The account will be kept outside the scope of Foreign Currency Accounts Scheme as embodied in paragraph 3 of Chapter VI of this Manual. In other words the foreign currency received in such accounts will not be required to be surrendered to the State Bank. Authorised Dealers can hold such foreign currency abroad in addition to the normal balances held abroad.
- cc) Interest accruing on the balances held in the account will be converted into and paid in

Pak rupees.

dd) The exemption of interest income from levy of taxes etc. shall not be admissible.

After payment for import under the back-to-back letter of credit, the Authorised Dealer will prepare a statement in the format appearing at Appendix V-32 matching the receipt and payment for each merchanting transaction individually and will submit the same to the concerned area office of the Exchange Policy Department. The reporting of inward and outward remittances would be as indicated in the format appearing at Appendix V-33.

(ii) It is also permissible to conduct three-way merchanting trade in commodities other than those mentioned in sub-para (i), subject to the same terms and conditions, except that the margin to be retained by the Pakistani intermediary which includes his commission and expenses, is not less than (a) 10%, if the sale price is to be received from the foreign buyer before remittance of the purchase price is made to the overseas supplier of the goods, and (b) 15% if back-to-back letter of credit provides for payment to be made to the overseas supplier of the goods before receipt of remittance from the overseas buyer.