## SECTION- III

# BACK TO BACK LCS

**38 .General**

The ADs may open back to back (BTB) import LCs against export LCs received by export oriented industrial units operating under the bonded warehouse system, subject to observance of domestic value addition requirement (stated in terms of permissible limit of value of imported inputs as percentage of FOB export value of output) prescribed by the Ministry of Commerce from time to time.

**39. Opening of back to back import LC**

Further to the relevant general instructions in the foregoing sections of this chapter, the following instructions should be complied with while opening back to back import LCs:

(i) Only recognised export oriented industrial units operating under bonded warehouse system will be allowed the back to back LC facility. The unit requesting for this facility should possess valid registration with the CCI&E and valid bonded warehouse licence.

(ii) The master export LC (against which opening of back to back LC is requested) should have validity period adequate to cover the time needed for importation of inputs, manufacture of merchandise and shipment to consignee.

(iii) The back to back LC value shall not exceed the admissible percentage of net FOB value of the relative master export LC (as per prescribed value addition requirement) and the price of goods to be imported must be competitive. For computation of net FOB value of a master export LC, the freight charge, insurance cost and commission if payable by the exporter shall be deducted from the LC value. If the freight element is not shown separately, a certificate from the shipping company or the shipping agent should be asked for.

(iv) The back to back import LCs shall be opened on usance basis for a period not exceeding 180(one hundred eighty) days. Interest for the usance period shall not exceed the rate as mentioned at Para 33 (a) of this Chapter. Back to back LCs opened against (a) EDF administered by Bangladesh Bank and/or against (b) balances on NFCD Accounts may be on sight basis subject to relevant instructions in this regard. (Para 19, Chapter 13, Section II)

(v) All amendments of the master export LC should be noted down carefully to rule out chances of excess obligation under the back to- back import LC.

(vi) Back to back import LC should not be opened against LCs received for export under Barter/STA, without prior approval of Bangladesh Bank.

**40(a). Inland back to back LCs**

Inland back to back LCs denominated in foreign exchange may be opened in favor of local manufacturer-cum- suppliers of inputs, against master export LCs received by export oriented manufacturing units operating under the bonded warehouse system, upto value limits applicable as per prescribed value addition requirement/utilisation permit. However, EXP/IMP form will not be applicable in such cases unless EPZ/EZ unit is associated.

**(b) BTB import LC against inland BTB LC :** Back to back LC may in turn be opened for import of necessary inputs, against inland back to back LC in favor of a local manufacturer-cum-supplier operating under the bonded warehouse system, in accordance with the instructions, mutatis mutandis, at Para 38 & 39 above.

**(c) Opening of LC in FC by exporters operating without bond licence:** As per decision of the National Board of Revenue, a manufacturer-cum-exporter operating without bonded warehouse licence, may open usance LC and sight LC (against advance receipts of export proceeds) denominated in foreign exchange favouring packaging industries, manufacturers of hanger and plastic goods operating under bonded warehouse licence against all types of export contracts (sales contract, purchase order, proforma invoice, etc.) received from abroad.

**(d) Opening LC in local currency :** Hundred percent export oriented industries/direct exporters shall open and settle inland LC in foreign currency favouring manufacurer-cum-suppliers in the above cases only. For procuring inputs from local traders/suppliers, LC shall be opened in local currency only.

**41. Payment settlement against BTB LCs**

Payment abroad in settlement of usance bill against the back to back import LCs shall be made at maturity, out of proceeds of the relative export repatriated in foreign exchange; the required foreign exchange will be set aside, out of the export proceeds, in a separate foreign currency account in the subsidiary ledger of the AD. Before making remittance against the back-to-back import bill, the AD should see that the authenticated copy of bill of entry for bond in evidence of actual arrival of the relative imports has been submitted. Usance bills against back to back import LCs should be settled at maturity even where for some reason export has not taken place, or where the export proceeds have not been realised or where the realised export proceeds net of value addition requirement is not adequate to cover the back to back import payment. In such cases post facto approval of Bangladesh Bank (FEOD, Head office or other offices of Bangladesh Bank) will have to be sought for within fifteen days of the following month of effecting the payment, explaining fully the circumstances of export failure or non-realisation/ short realisation of export proceeds, with relevant supporting documents. Cases of failure of export against the relative master LCs should also be reported to the NBR and the concerned

Commissioner of Customs so that they may monitor closely the level of stock of the relative goods in the bonded warehouse. A copy of the letter to NBR reporting the export failure should be submitted to Bangladesh Bank alongwith the application for post facto approval of remittance towards back-to-back import payment. Also, all applications for post facto approval of such remittance in the event of export failure and short realisation/non-realisation of export proceeds should be accompanied by the authenticated copy of the relative bill of entry evidencing actual receipt of the back to back imports.

The AD should maintain effective watch on the stock of inputs procured under the back to back arrangement and of finished products made therewith; any indication of illegal disposal of stocks from the bond coming to the knowledge of the AD should immediately be reported to the concerned Commissioner of Customs and NBR.

**42 (i). Retention of foreign currency in single pool for back to back import payments under bonded warehouse system**

On encashment of export proceeds equivalent to the portion of value addition, residual portion of export proceeds against different export bills of the same export unit operating under bonded warehouse system may be maintained in foreign currency in a single pool by the ADs. Funds from this pool may be used for different back to back import payments of the same exporting unit on maturity basis to keep minimum involvement of AD's own fund under the exchange position as well as to keep exporter free from debt burden.

**(ii) Payment of import bills (other than back to back) from direct and deemed export earnings:** If import bills (other than back to back LC) fall due for payment within 30 (thirty) days from the date of receipt of export proceeds by the exporters/deemed exporters, the ADs may, on application by the manufacturers-cum-exporters retain such proceeds in foreign exchange for a maximum period of 30(thirty) days for making such import payments even it exceeds the allowable retention quota limit. However, export proceeds so retained (in excess of the usual retention quota entitlement) shall be encashed compulsorily in Taka if the same is not utilised for such import payment within 30(thirty) days from the date of receipt. To identify such transactions distinctly, ADs are required to maintain appropriate register and other necessary records. Furthermore, Head Office/Principal Office shall gather information of retention and utilisation of foreign currency as per Appendix 5/26 for each AD branch separately, shall prepare a consolidated statement as per Appendix-5/27 and submit the same to FEOD, Bangladesh Bank, Head Office on monthly basis.