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Rupee turns stumbling block in trade with Iran

ET Bureau

22 December, New Delhi: The rupee volatility has taken a toll on the rupee trade with Iran even before it could take off. Exporters to the region have been left to fend for themselves, as both governments wait for the rupee to stabilise. Indian rupee has depreciated over 19% against the dollar since July this year and is widely expected to fall more. "Iran at the moment is not interested in trading in rupee because it does not want to be stuck with a pile of currency that is losing value by the day," a government official told ET. India's trade with Iran had almost stalled early this year when under US pressure the Reserve Bank of India (RBI) suspended settlements through the Asian Clearing Union -- a payment arrangement for Asian countries, including India. The uncertainty has hit exports to Iran that have grown at 20% annually over April-September 2011 against 48% growth in the last fiscal. To get around the US sanctions, India and Iran had worked out a mechanism wherein it was decided that India will pay for at least half of the oil and non-oil imports from Iran by depositing the equivalent rupees in accounts opened with Indian banks that Iran would use that money to pay for its imports from India. Iran has now put a brake on the payment mechanism because of steady devaluation of the rupee which has fallen 18% against the dollar since July. While India is continuing to pay for its oil purchases from Iran through Turkey's Halkbank, a process that began in July this year, the country's exporters have been left in the lurch. "Exporters are managing to fend for themselves and getting their payments," the official said. Exporters, however, paint a less rosy picture. "We are exporting to Iran through front offices that Iranian companies have opened in countries such as Dubai, Jordan and Turkey. Since banks are not involved, there are no letters of credit, and we are completely at the mercy of our buyers for payments," said Vijay Setia, president, All India Rice Exporters Association. Setia said because of internal competition, exporters sell on credit and there is just no guarantee whether payments would come or not. Exporters ship their goods directly to Iran, but send all documents to front-offices of importers in third countries. Payments are made to exporters through cheques issued by the front-offices. "If importers delay payments or don't pay up, we could file a case in the Indian courts, but there is little that could be done to harm a company in another country," Setia said.

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In part solution to payment problem, Iran explores buying more goods from India

Amiti Sen,ET Bureau

19 Jan, New Delhi: Iran is considering stepping up its purchases from India to obtain a more balanced trade and reduce the problem faced by the two countries in settling payments for crude import by India, especially in the wake of fresh sanctions by the US. Iran is India's second largest supplier of crude after Saudi Arabia, but New Delhi is unable to pay for the imports in dollars because of the sanctions imposed by the US. Iranian officials recently met Commerce Secretary Rahul Khullar to discuss the possibility of sourcing more items from the country, an Indian official privy to the developments told ET. India's exports to Iran is just over \$ 2 billion against more than \$12 billion of annual oil imports from the country. "If we can double our exports to \$4 billion, it would be \$2 billion less of payments to Iran that we would have to worry about," the official said. US has imposed new sanctions on Iran late last month and asked banks not to deal with the Iranian central bank. Any bank that challenges the US runs the risk of being banned from the US financial markets or being thrown out of global financial markets. The Reserve Bank of India had allowed the Iranian Central Bank to open rupee accounts with UCO and IDBI banks last November to make payments for its imports from the country and also receive part payment for its oil exports, but the arrangement has not worked out well due to the steady depreciation of the rupee against the dollar. "If we make payments for our imports from Iran today in rupees at existing exchange rate against the dollar and the rupee depreciates further, then the dollar value of Iran's rupee holding will actually go down. Why would they accept such a situation?" the official said. On the other hand, if the rupee payment for imports is offset by the value of exports made by India to Iran, the situation would be even. "Therefore, Iran, too, is keen on increasing imports from the country, so that part of its payment for oil is taken care of," the official added. Cereals, tea, chemicals, metals and project exports are few areas that hold potential. While increase in India's exports to Iran will partly take care of the payment problem, it will have to continue to depend on paying Iran in dollars for some of its oil exports legitimately through non-sanctioned banks. India, at present, makes payments for its oil imports to Iran through Turkey's Halkbank. There are, however, fears that Turkey may come under pressure to stop the arrangement following the fresh round of US sanctions. An official delegation comprising senior representatives from the finance ministry, the RBI and the oil ministry is presently in Tehran to work out a mechanism to continue oil imports from the country and prevent disruption of Indian exports within the present limitations.

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Exporters & refiners a worried lot as US-Iran standoff rages on

Sutanuka Ghosal & Rajeev Jayaswal, ET Bureau

Feb 16, KOLKATA/NEW DELHI: The US-Iran standoff over Tehran's nuclear programme flared on Wednesday, rattling Indian refiners, who fear a jump in crude prices if supplies are hit, while exporters of rice and tea are panicking as Iranian buyers have started defaulting and banking channels will dry up after a week.

Indian diplomats, oil firms and commodity traders warily watched the escalating confrontation after Iran flaunted a breakthrough in nuclear technology. Crude oil prices hit a six-month high of \$120 a barrel after Iran's state TV said the country had stopped exporting oil to six European countries.

Iran subsequently said there was no immediate move to do so, but markets remained on tenterhooks after reports the US wants to block Iran's access to a clearing house called "SWIFT" that is used by Iranian banks for financial transactions, including oil exports.

TEA, RICE EXPORTS TO PLUNGE

The escalating tension is bad news for India, where state oil firms are selling transport and cooking fuels below market prices and rice traders count on Iran for half of India's total exports of the commodity.

Indian tea and rice exports to Iran through Dubai are expected to plunge as Dubai-based banks will stop working with Iranian banks from February 23, traders said. Indian exporters have been selling basmati rice invoiced in dollars to Dubai-based traders, who then supply the grain to Iran.

India is the biggest supplier of rice to Iran apart from being the biggest buyer of Iranian crude as other Asian buyers scaled back purchases from Iran. India's purchases have also fallen over the years as companies such as Reliance have completely stopped buying Iranian crude, but Essar Oil and state-run MRPL buy significant quantities.

India's biggest state-run refiner Indian Oil Corp, a relatively small buyer, plans to continue importing crude oil from Iran. "We import about 1.5 mt crude oil from Iran and we intend to renew our term contract for the same quantity," IOC Chairman RS Butola said.

An oil ministry official said the US-Iran conflict was a big source of worry even for refiners that had shifted to other suppliers. "Even if India is not directly influenced by the US or EU sanctions, the Iranian crisis would certainly disrupt global crude oil supplies, which would in turn push up international crude oil prices. We may see crude oil prices soar to a new peak due to tensions in the Gulf," said the official, who did not want to be identified.

The US-Iran standoff has already added up to \$15 a barrel to the price of Brent crude, and oil prices may jump to \$200 if oil cargoes are interrupted, Societe Generale SA said, according to a Bloomberg report.

For commodity traders in India, the situation is already alarming. Iran buys half of the rice exported from India. Sources said the UAE central bank has told lenders to stop financing trade with Iran. Western economic sanctions have devalued the rial, raised the cost of imports for Tehran and made it more difficult for Dubai-based middlemen to process payments.

"Banks in Dubai have been asked by the UAE central bank to stop issuing letters of credit to finance trade deals with Iran. Before the sanctions, the central bank used to monitor trading with Iran on regular basis," said a banker based in Dubai.

About 8,000 Iranian traders are registered in Dubai, and re-export trade between Iran and the UAE totalled 19.5 billion dirhams (\$5.32 billion) in the first half of 2011, according to the latest figures from the UAE Customs Authority.

Vijay Setia, president of All India Rice Exporters Association, said: "The possibility of exporting rice through Dubai will diminish as we have been informed that Dubai banks will not be working with Iranian banks from February 23 onwards. This is a major jolt to rice trade. We supply around 1 million tonnes of basmati rice to Iran, which meets almost 70% of the country's requirement. Nearly 70 - 80% of these exports is routed through Dubai. We have to work out some other mechanism."

Iranian buyers have defaulted on payment for about 200,000 tonnes of rice that have been supplied from India. The defaults, totalling about \$144 million, were for shipments under term deals in October and November free-on-board Indian ports, traders said. Most Indian rice exporters allow 90 days' credit.

Some rice exporters have already stopped sending consignments to Iran in view of the payment crisis. Rajesh Sehgal, managing director of Sky Exim Ltd, an export house, said his company had stopped transactions with Iran in view of the impending crisis. "I used to send 50 containers of rice each containing 23 tonnes to Iran directly and indirectly. I will only send consignments to Iran if the Dubai trader now provides letters of credit from European and US banks that are approved by Indian banks," he said.

Tea exporters are also worried as India ships about 15 million kg of orthodox tea to Iran, earning about \$50 million. "There has been a squeeze in the Dubai banks dealing in dollar-denominated currency for the last 3-4 months. But we had continued with the trade though the volumes had trickled. It is really a matter of concern if Dubai banks stop dealing with Iranian banks as tea exporters had always used the Dubai route to export teas to Iran," said CS Bedi, chairman of Indian Tea Association and managing director of Rossell Tea Ltd.

The Iran crisis has pushed down orthodox tea prices by 14 per kg as there is hardly any buyer for it in the domestic market.

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Allow advance payments from Iran: Exporters

Business Standard

Say advance payment of 15-50 per cent will ensure the buyer remains committed even during price fluctuations New Delhi March 24, 2012: Indian exporters have urged the finance ministry to allow them to obtain advance payments from Iran, even as a payment mechanism has already been established between India's UCO Bank and the Parsian Bank of Iran. The mechanism is aimed at raising India's exports to Iran from \$2 billion to \$5 billion in 2013-14.

It has been decided shipments to sanctions-hit Iran would now be paid in rupees.

According to the Federation of Indian Export Organisations (FIEO), letters of credit (LCs) have been operational under the new system of payment mechanism with Iran. However, the exporters' body has urged the government to look into another issue. The buyer, in this case Iran, should pay an advance of 15-50 per cent of the entire value based on the contract, to ensure the buyer's commitment during price fluctuations.

Unlike dollar trade, trading in rupees requires permission from the importer's bank to clear payment guarantees for exporters. In dollar trade, whenever an exporter produces the LC before his bank, the guarantee is given by the home bank.

Sahai said under rupee trade, the importer had the right to reject payments in case there was a discrepancy in the documents provided by the exporter.

Ajay Sahai, director general and chief executive, FIEO, said, "Advance payments are required in sectors in which where prices are changing rapidly. Paying advance means there is a commitment from the buyer's side to buy the product from us. At the moment, the mechanism that has been worked out does not talk of advance payments. We are demanding this with Iran, because we are carrying out rupee trade with them."

India earlier engaged in a similar manner of trade with the erstwhile USSR (rupee-rouble trade). Then, too, an option of advance payment was sought. However, this trade collapsed with the fall of the USSR.

FIEO officials today met the banking secretary and RBI officials to raise the issue of advance payments with Iran.

According to Ram Upendra Das of the Research and Information System for Developing Countries (RIS), exporters are always wary of payments. The fact that FIEO is urging for such a provision indicates the risk factor associated with such transactions, especially if a country is under sanctions.

FIEO had led an 80-member delegation to Iran to increase its exports to that country in the wake of sanctions imposed on the region by the US and EU. The delegation, led by Arvind Mehta, joint secretary in the department of commerce, ministry of commerce & industry, also had exporters and representatives from the Reserve Bank of India (RBI).

India now plans to export pharmaceuticals, auto components, iron and steel, rice, soya bean, soya bean oil, medical instruments, surgical instruments, flat-rolled iron, flat-rolled stainless steel, tractor parts, polymers and frozen meat products to India. India has set a target of increasing bilateral trade with Iran from \$15 billion to \$25 billion in four years.

Rafeeqe Ahmed, president, FIEO, said, "There is now a huge demand for Indian commodities there. We are going to sell those products where there is an opportunity. We are not there only because of the sanctions, we want to be their permanent trading partner."

Ahmed also said the payments stuck would be cleared expeditiously. Payments worth over \$1 billion to be paid to Indian exporters are stuck under the Asian Clearing Union mechanism since December 2010, when RBI withdrew the mechanism.

FIEO has set up a separate Iran cell to solve the problems of exporters under the new payment mechanism. The cell would also receive feedback from exporters. India is the second-largest buyer of Iranian crude oil after China. It imports about \$11 billion worth of crude from Iran, the second-largest supplier to it after Saudi Arabia. Items Iran imports from India include spices, coffee, tea, mineral fuel, iron and steel, machinery and organic chemicals.

Ahmed is scheduled to meet officials from the shipping ministry to determine the shipping lines, as some have expressed reservations on carrying consignments to Iran.

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Iran looks at India wheat for possible imports

Reuters

June 12, Mumbai: A delegation from sanctions-hit Iran arrived in India on Tuesday to explore the possibility of importing wheat from the South Asian nation, which has huge stocks and wants to reduce its trade imbalance with the oil exporter, government sources said.

Food shipments to Iran are not targeted under Western sanctions aimed at curbing Iran's nuclear programme, but payments remain difficult because of financial sanctions, even though India has just won a waiver from Washington on the strictures.

India, Iran's second biggest crude client, hopes it can reassure Tehran on quality and secure wheat sales to help settle part of its \$10 billion a year-plus oil import bill through a barter-style mechanism using rupees.

The delegation from Tehran will primarily see whether India's wheat meets the quality norms of Iran, a government source said, with actual deals unlikely to emerge at this stage.

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