

Letter of Credit – Basic Considerations

Letters of Credit (L/C) can be extremely useful tools in international trade, both for the seller and the buyer. It is a secure way for the seller to ensure they get paid (if they meet their commitments) and for the buyer to be sure they can collect their goods.

Some people, understandably, feel somewhat daunted by letters of credit as they can be complex and confusing if you're not used to them.

The following are a few basic considerations if you are thinking about requesting a letter of credit on an export project. This is by no means an exhaustive list. [Contact us](#) for bespoke advice or training on letters of credit for more complete assistance. We can even manage them on your behalf if you want to relieve yourself of the burden!

Who is in your L/C Team?

A letter of credit can call on requirements from many aspects of your business. It is therefore sensible to make sure there is some general knowledge of them within every department that could be involved:

Export Sales Teams, Finance Department, Production, Logistics, Admin, Quality Control, Purchasing should all know the basic principles at the least and also the risks and costs of getting L/C's wrong.

Is the importer willing?

Is the customer willing and able to issue a letter of credit? They may be able to purchase competitive goods from elsewhere on simpler terms, especially if they have a good credit rating.

Who are the banks?

Is the **Issuing Bank** well known? Talk to your own bank as soon as possible to establish the status of the Issuing Bank. You should be looking to get the Letter of Credit "Confirmed" by a reputable bank in your own country. This may be harder if the Issuing Bank is not well known or has a poor reputation / standing.

Getting the Letter of Credit "Confirmed" is also important if your customer is in a region of political or economic unrest.

Who is the **Advising Bank**? This is the bank in your own country through whom the Issuing Bank will advise the beneficiary of the L/C and its terms. Do you know this bank, are you happy with them and if not can you get the term changed to "available with any bank by negotiation"?

The **Confirming Bank** are the bank in your country who will be scrupulously checking the details of the L/C and who, if they are happy, will be adding their confirmation to the L/C meaning that they will guarantee to pay you, the seller, the amount in question so long as all terms of the L/C are met and the documents you present comply to the conditions of the L/C.

Do I know the costs?

Costs under an L/C can come in many forms. There are obviously the banks fees for handling, processing and confirming the L/C. These are often a percentage of the L/C value related to the amount of time the L/C is open for.

However, in addition to the bank fees, you need to fully understand the documentation required by the L/C. For example translated user manuals could be called for – where have you accounted for

translation costs? Country specific documents or technical certificates could be required, Certificates of Origin, Legalised Invoices all have a cost associated to them. If the L/C calls for any of these and you are not able to supply them your documents will be discrepant and you will not get paid.

Important Dates

Final Date of Shipment – Make sure you are giving yourself enough time to source materials, produce the goods and get them shipped. Bear in mind that final date of shipment will refer to, for example, the date the vessel leaves the port if you're responsible for shipping by sea. So this won't be the date the goods have to leave your factory gates.

L/C Expiry Date - As it says, the date on which the validity of the L/C expires.

Period for Presentation – The amount of time you have to present all the required documents to the bank. 21 days should be acceptable but some customers may request 10 or 14 so watch out for that. You will most likely be relying on some third parties for some documentation so check with them what time scales they need.

Additional Considerations

Check that no additional **terms** have been added in the L/C that you did not agree to in the Sales Contract.

Does the L/C allow **Partial Shipments**? Will you need to be shipping in several different consignments and if so does the L/C specifically allow this and allow enough time.

Are **Trans-shipments** allowed? Do you know what route your goods will be taking to their destination? Some places in the world can not be reached directly from the UK and if the L/C does not specifically allow trans-shipments you will have a problem and will end up paying for an amendment.

Has the L/C stipulated which port / airport in the UK the goods must depart from?

What **Incoterms® 2010** are you trading under? Consider how the Incoterms will impact the control you have over the presentation of documents and the timing of the project.

How Your Export Department Ltd can help

- We have a template you can use for raising a Pro-Forma laying out the terms you would like to see on the L/C. We can help you complete this and you can then present it to your customer stipulating that they need to get a DRAFT L/C for you to then review. This will save time and money having to get an L/C amended. [Contact us for the Pro-Forma Template](#)
- [We offer a full L/C handling service so we can do the whole thing for you!](#)
- [We provide training on L/Cs bespoke to your business.](#)

We hope this has been a useful introduction and please do [Contact us](#) for more detailed help!