

LETTER OF CREDIT

The L/C is a binding document issued by the importer's bank on his behalf, which guarantees the exporter full payment provided that he submits the requested documents as agreed and at the conditions stated in the L/C. The necessary paperwork usually includes several copies of the draft, the commercial invoice, all the shipping documents, the packing list and the Certificate of Origin. If the documentation submitted to the importer's banks is correct, the credit is released and the exporter is paid on time. If it contains irregularities or discrepancies which don't comply with what is specified in the L/C, payment is refused until the documentation is amended and revised or until both parties reach an agreement.

Documentary credit is a costly bank service, generally borne by the importer, thus it is only used when a lot of money is involved.

This method brings benefits to both parties:

- **exporters** are sure they will be paid by the issuing bank as long as they provide the right documents in accordance with the L/C, regardless of the buyer's ability or willingness to pay;
- **importers** are sure that the bank will check the conformity of the documents and that their payment will be required only after shipment.

The parties involved in a L/C contractual agreement are:

- **the importer (applicant) and his bank (issuing bank);**
- **the exporter (beneficiary) and his bank (advising bank).**

A L/C can be:

- **revocable**, if the applicant can make amends without the beneficiary's consent (not recommended);
- **irrevocable**, if both parties must agree on amendments;
- **confirmed irrevocable**, if it is confirmed by the advising bank which guarantees full payment in case of negative credit standing of the issuing bank or of high risk markets (maximum protection).