

国际贸易实务(双语版)

Chapter Eleven Payment of Goods



Chapter 11 Payment of Goods

Teaching Plan 6

Teaching Contents

Section 2 Methods of payment in international trade

III Letter of credit

3. Contents of letters of credit

4. The procedure (circulation) of letter of credit

Teaching time: Two-class hour (90 minutes)

Learning Objectives

1. Master the contents of letters of credit

2. Master the procedure (circulation) of letter of credit



Important Points:

- 1.Contents of letters of credit
- 2.The procedure (circulation) of letter of credit

Difficult Points:

- 1.Contents of letters of credit
- 2.The procedure (circulation) of letter of credit

Teaching Methodology:

Questions and Answers; Presentation; Group discussion;
case analysis

Teaching Aids:

PPT, blackboard, multimedia classroom



3. Contents of Letter of credit

MT700 Standard Format

M/O (mandatory /optional)	Tag	Field Name	Explanation
M	27	Sequence of Total	page number of total pages
M	20	Doc. Credit Number	documentary credit number
O	21	Receiver's Reference	receiver's reference
O	23	Issuing Bank's Reference	issuing bank's reference
M	31C	Date of Issue	the date the letter of credit is issued
M	31D	Expiry	date and place of expiry
M	32B	Amount	currency code and amount

3. Contents of Letter of credit

M/O (mandatory /optional)	Tag	Field Name	Explanation
O	39A	Pos./Neg. Tol. (%)	percentage credit amount tolerance
O	39B	Maximum Credit Amount	maximum credit amount
M	40A	Form of Doc. Credit	form of documentary credit
M	40E	Applicable Rules	applicable rules
M	41D	Available with/by	available with... bank by sight payment/ deferred payment/acceptance / negotiation
O	42C	Drafts at...	sight or days after sight for payment
O	42D	Drawee	drawee



3.Contents of Letter of credit

M/O (mandatory /optional)	Tag	Field Name	Explanation
O	42P	Deferred Payment Details	deferred payment details
O	43P	Partial Shipments	Partial shipments allowed or not allowed
O	43T	Transshipments	transshipments allowed or not allowed
O	44D	Shipment Period	shipment period
O	44A	Place of taking in charge/Dispatch from.../Place of receipt	place of taking in charge/dispatch from.../place of receipt
O	44E	Port of loading/Airport of departure	port of loading/airport of departure



II. Letter of credit

M/O (mandatory /optional)	Tag	Field Name	Explanation
O	44F	Port of discharge/Airport of destination	port of discharge/airport of destination
O	44B	Place of final destination/for transportation to/ Place of delivery	place of final destination/for transportation to/place of delivery
O	44C	Latest date of Ship	latest date of shipment
O	45A	Descript. of Goods	goods description
O	46A	Documents Required	documents required
O	47A	Additional Cond.	additional conditions
O	48	Presentation Period	period of presentation



3. Contents of Letter of credit

M/O (mandatory /optional)	Tag	Field Name	Explanation
M	49	Confirmation	confirmation or not
M	50	Applicant	applicant
O	53A	Reimbursement Bank	reimbursement bank
O	57A	“Advise Through”	advise through bank
M	59	Beneficiary	Beneficiary
O	71B	Details of charges	charges
O	72	Send. to Rec. Info.	sender to receiver’s information
O	78	Instructions	instruction to paying /accepting/negotiation bank



Letter of credit

The following is a letter of credit opened by SWIFT MT700. The letter of credit is opened in accordance with the sales contract in Unit 8.

Sequence of Total:	27	1/1
Form of Doc. Credit	40A	IRREVOCABLE
Doc. Credit Number	20	FGK200824596
Date of Issue	31C	080715
Applicable Rules	40E	UCP LATEST VERSION
Expiry	31D	Date 080830 Place CHINA
Applicant	50	COKTEL LABELMAKERS LTD. 785 AUSTRAL STREET, SOMERTON , AUSTRALIA
Beneficiary	59	KARRIC TRADING CO.,LTD NO.236 BAIYUN ROAD, GUANGZHOU, CHINA





Letter of credit

Amount	32B	Currency USD	Amount 22780,00
Pos./Neg. Tol. (%)	39A	10/10	
Available with/by	41D	ANY BANK BY NEGOTIATION	
Drafts at...	42C	60 DAYS AFTER MARINE BILL OF LADING DATE	
Drawee	42D	BKCHCNBJ400 BANK OF CHINA GUANGDONG BRANCH GUANGZHOU	
Partial Shipments	3P	NOT ALLOWED	
Transshipment	43T	ALLOWED	
Port of Loading/airport of departure	44E	GUANGZHOU CHINA	
Port of Discharge/airport of destination	44F	MELBOURNE AUSTRALIA	
Latest Date of Shipment	44C	080730	
Description of Goods	45A		





Letter of credit

APPROX 6.7 M/T OF BIAXIALLY ORIENTED POLYPROPYLENE FILM.
CIF MELBOURNE, AUSTRALIA

: Documents required 46A

- + FULL SET OF CLEAN ON BOARD MARINE BILL OF LOADING MADE OUT TO THE ORDER OF SHIPPER BLANK ENDORSED AND MARKED FREIGHT PREPAID NOTIFYING THE APPLICANT
- + INSURANCE POLICY OR CERTIFICATE BLANK ENDORSED BY ASSURED FOR 110 PERCENT OF THE CIF INVOICE VALUE COVERING INSTITUTE CARGO CLAUSES A INSTITUTE STRIKE CLAUSES INSTITUTE WAR CLAUSES WITH CLAIMS PAYABLE IN AUSTRALIA
- + COMMERCIAL INVOICE IN TWO ORIGINALS
- + PACKING LIST IN TWO ORIGINALS





Letter of credit

Additional Condition 47A

- + ALL DOCUMENTS IN DUPLICATE UNLESS OTHERWISE STIPULATED
- + DOCUMENTS NEGOTIATED WITH OR SUBJECT TO ACCEPTANCE OF ANY DISCREPANCY WILL ATTRACT A HANDLING FEE OF USD 65
- + DISCOUNT/INTEREST CHARGES, TERM STAMP DULY (IF ANY) AND ACCEPTANCE COMMISSION ARE FOR ACCOUNT OF THE BENEFICIARY
- + DRAFTS MUST INDICATE MARINE BILL OF LADING DATE
- + ON PRESENTATION OF DOCUMENTS THIS L/C, THE NEGOTIATING BANK(S) PRESENTATION SCHEDULE MUST INDICATE THE NUMBER AND DATE OF ANY AMENDMENTS THAT HAVE BEEN AVAILED/REJECTED UNDER THEIR NEGOTIATION





Letter of credit

Details of Charges 71B

ALL BANK COMMISSIONS AND CHARGES OUTSIDE AUSTRALIA, PLUS ADVISING AND REIMBURSING COMMISSIONS, ARE FOR ACCOUNT OF BENEFICIARY

Confirmation 49 WITHOUT

Presentation Period 48

DOCUMENTS TO BE PRESENTED WITHIN 10 DAYS AFTER THE DATE OF SHIPMENT INDICATED ON TRANSPORT DOCUMENT(S) BUT WITHIN THE VALIDITY OF THE CREDIT

Instructions 78

1) WE HEREBY UNDERTAKE THAT DOCUMENTS IN COMPLIANCE WITH L/C TERMS WILL BE HONoured UPON PRESENTATION AND PAID AT MATURITY AT THIS OFFICE





Letter of credit

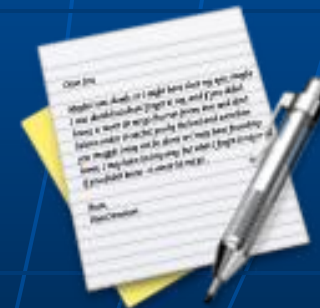
2) DOCUMENTS ARE TO BE FORWARDED TO NATIONAL AUSTRALIA BANK
INTERNATIONAL TRADE NORTHERN L3/BLGD B RHODES CORPORATE PARK,
1 HOMEBUSH BAY DR, RHODES NSW 2138 ORIGINALS BY AIR COURIER OR
REGISTERED AIRMAIL, DUPLICATES BY AIRMAIL

Advise Through 57A

BANK OF CHINA, GUANGDONG BRANCH SWIFT: BKCHCNBJ400

Send. To Rec. Info. 72

PLEASE ACKNOWLEDGE RECEIPT BY SWIFT



3. Contents of Letter of credit

The structure of the letters of credit may be different, however, the contents may include the following parts:

(1)the number of letter of credit

(2)the date of issue, the place of issue , the date of expiry and the place of expiry

(3)the parties involved: the applicant, the issuing bank, the advising bank, the beneficiary and so on.

(4)the currency and amount

It is very important to indicate clearly the amount and what currency is to be used.

3. Contents of Letter of credit

(5)availability (兑付)

A credit must state the bank with which it is available or whether it is available with any bank. And the credit must state whether it is available by sight payment, deferred payment, acceptance or negotiation.

3. Contents of Letter of credit

(6) specifications of the goods

A credit should state clearly the name of the goods, the size of the goods, quantity, quality, packing, price and so on. When describing the size, quality, quantity, packing and price of the goods, the terms such as “first class”, “goods”, “about” should be avoided. According to UCP 600, if the words “about” or “approximately” are used to describe the quantity or the unit price stated in the credit, they are regarded as allowing a tolerance not to exceed 10% more or less. A tolerance not to exceed 5% more or less than the quantity of the goods is allowed, if the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the credit.



3. Contents of Letter of credit

(7)shipment

A credit should state clearly port of loading, port of discharge, place of final destination, whether partial shipments and /or transshipment are allowed or not, and so on.

(8)insurance

If a credit stipulates CIF or CIP terms the seller is responsible for providing insurance. The credit should name the specific type of insurance coverage required and any additional risks that are to be covered. The terms "usual risks" or "customary risks" should not be used as they will be ignored by the banks. If there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least 110% of the CIF or CIP value of the goods.

3. Contents of Letter of credit

(9)required documents

The required documents may include: commercial invoice, shipping documents, insurance policy, certificate of origin, packing list and so on.

(10)special terms and conditions



Letter of credit

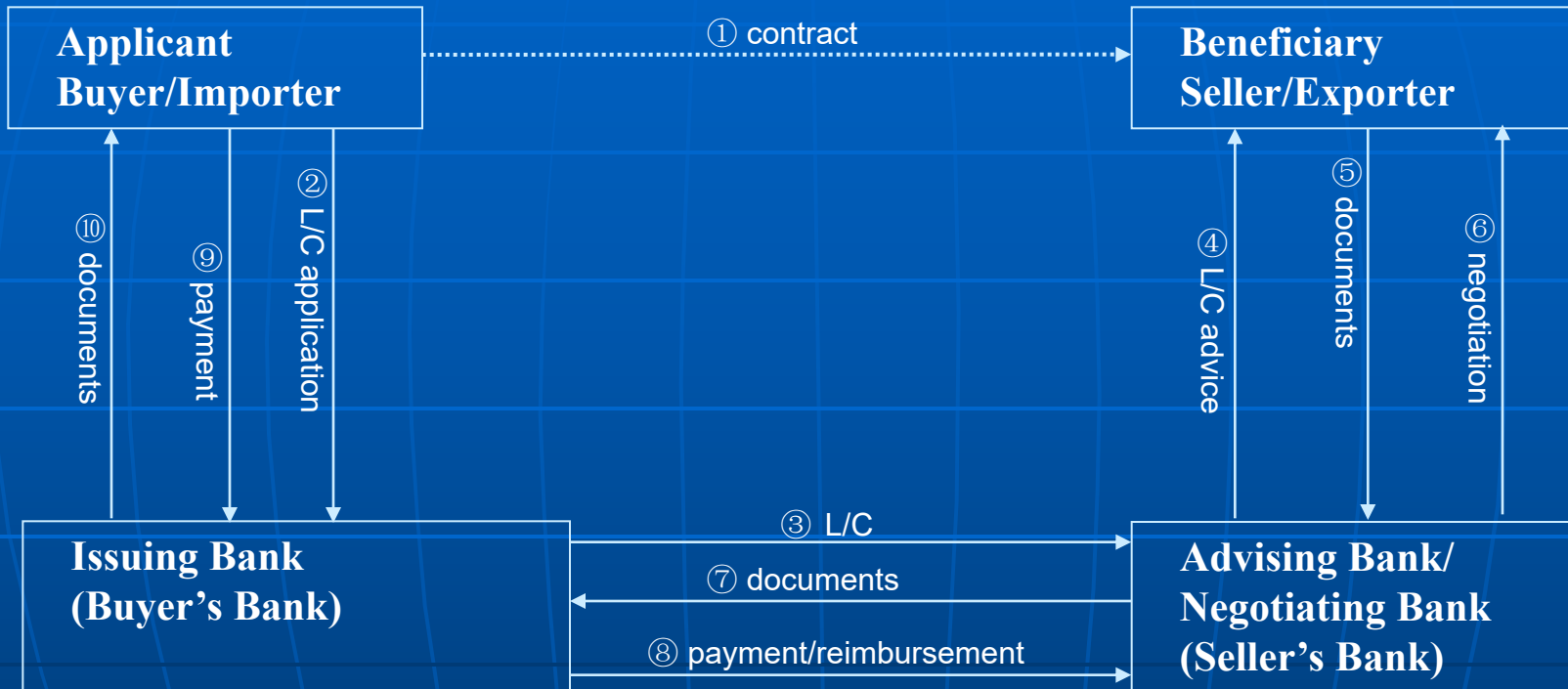


Brainstorm: *There are so many banks involved in a letter of credit transaction, can you explain the functions of the different banks?*

4. The procedure of letter of credit

The basic procedure of letters of credit is almost the same with some slight differences due to the different types of letters of credit. The following chart describes the procedure of an irrevocable documentary sight negotiation letter of credit.

4. The procedure of letter of credit



① Buyer/applicant and seller/beneficiary agree to conduct business, so they sign a contract. They specify a letter of credit as the terms of payment and list the required documents.

4. The procedure of letter of credit

② Buyer submits a credit applicant to his bank to apply for a letter of credit in favor of the seller based on specific terms and conditions that are listed in contract.

③ The issuing bank issues and forwards the credit to the advising bank named in the credit.

④ The advising bank informs the seller of the letter of credit. But if there are really some problems with the letter of credit, the seller must try to amend the L/C. If the advising bank is the confirming bank, it must add its confirmation to the letter of credit.

⑤ Seller ships the goods to the buyer, and after that the seller prepares and presents the required documents to the negotiating bank for negotiation.

4. The procedure of letter of credit

⑥ The negotiating bank examines the documents for compliance with the terms and conditions of the letter of credit. If the documents are correct, the negotiating bank will effect payment according to the letter of credit.

⑦ The negotiating bank forward the documents to the issuing bank or the bank authorized by the issuing bank for reimbursement.

⑧ The issuing bank reviews the documents making certain the documents are in conformity with the terms of the credit, then pays or reimburses negotiating bank.



4. The procedure of letter of credit

⑨ The buyer makes payment to the issuing bank.

⑩ The issuing bank releases the documents to the buyer who then takes possession of the goods.

Brainstorm: Please use your own words to describe the procedure of an irrevocable documentary sight negotiation letter of credit's operation.

Case study

Banco de Espana that is a bank in Spain opened an L/C to import 52,000 yards of cotton print cloth from China, partial shipment not allowed. There was a word “about” before the quantity of 52,000 yards in the credit.

The beneficiary only shipped 47,800 yards of the goods because of insufficient stock. And after shipment, the beneficiary presented the documents for negotiation and the negotiating bank sent these documents to the issuing bank after finding no mistakes in them. After receiving the documents, the issuing bank claimed that the applicant refused to make payment because of the shortage. The applicant would not accept the documents and effect payment unless the beneficiary could ship the short-shipped goods within two weeks.



It was difficult for the beneficiary to do that because the goods were out of stock. And the beneficiary insisted that according to article 30 of UCP600, it allows a tolerance not to exceed 10% more or 10% less, therefore, the applicant should make payment.

Discuss: How to solve the problem?

Is it reasonable that the applicant refused to make payment? why?

What lessons should the applicant learn from the case?





Thank You !