

国际贸易实务(双语版)

Chapter Eleven Payment of Goods



Chapter 11 Payment of Goods

Teaching Plan 8

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Teaching time: Two-class hour (90 minutes)

Learning Objectives

Master the features of Revolving letter of credit, Reciprocal L/C, Back-to-back letter of credit, Red clause letter of credit, Standby letter of credit



Important Points:

- 1.Revolving letter of credit**
- 2.Reciprocal L/C**
- 3.Back-to-back letter of credit**
- 4.Red clause letter of credit**
- 5.Standby letter of credit**

Difficult Points:

Features of Revolving letter of credit, Reciprocal L/C, Back-to-back letter of credit, Red clause letter of credit, Standby letter of credit

Teaching Methodology:

Questions and Answers; Presentation; Group discussion; case analysis

Teaching Aids:

PPT, blackboard, multimedia classroom



5. Types of letter of credit

(6) Revolving letter of credit

With a revolving letter of credit, the issuing bank restores the credit to its original amount once it has been used or drawn down. This credit is used in cases where a buyer wishes to purchase either a set maximum value of product per period of time, a certain maximum value of product or as much product as the seller can produce or supply.

That is to say a revolving L/C can be renewed on the basis of time or amount.



(6) Revolving letter of credit

1) Basis of revolving

① Renewed on an amount basis

If renewed on an amount basis, the amount of the credit is reinstated whenever it is drawn within the validity period until the total amount is used up. The credit is characterized by a revolving clause such as:

“This documentary credit of HKD 10,000 is revolving 10 times to HKD 100,000.”

This kind of credit can be used again and again under the same terms and without issuance of another letter of credit until the stipulated times of use and the stipulated total amount have been reached.



(6) Revolving letter of credit

② Renewed on a time basis

If renewed on a time basis it is available for a fixed amount over a given period. That is to say, a revolving letter of credit may be available for a set value for a set number of times, for example,

“USD 1,000 per month for six months”,

The beneficiary may draw up to USD1,000 every month and the issuing bank may automatically restore it for another USD1,000 every month for six months.

“ Credit amount USD 1,000, revolving every month for the first time in January, for the last time in September, maximum amount payable under this credit USD10,000. ”



② Renewed on a time basis

This form (**Renewed on a time basis**) of credit may be cumulative or noncumulative.

A. Cumulative revolving letter of credit

In a cumulative revolving letter of credit any sum not utilized by the beneficiary during an installment period may be carried over and added to a subsequent installment period.

Using the above example, if the beneficiary only uses USD 700 in the first month, the value of the credit for the following month will increase to USD1300.



②Renewed on a time basis

B.Noncumulative letter of credit

In a noncumulative letter of credit, any sum not utilized during an installment period may not be carried over and added to a subsequent installment period.

Using the above example again, if the beneficiary only uses USD 700 in the first month, the value of the credit for the following month is only USD1,000, he could not u



2) Types of revolving letter of credit

There are three more types of revolving letter of credit.

The first one is automatic revolving L/C

Automatic revolving L/C means the credit will be renewed automatically without a further notice of the issuing bank.

For example,

“the amount paid under this credit is again available to you automatically until the total of the payment reaches USD 20,000.” or

“the amount(USD2,000) paid under this credit is available to you (10 times) automatically until the total of the payment reaches USD 20,000”.



Another way of revolving is non-automatic L/C

Non-automatic L/C means the beneficiary needs a notice from the issuing bank to reinstate the credit, for example,

“the amount shall be reinstated after each negotiation only upon receipt of issuing bank’s notice stating that the credit might be renewed”.



The last one is semi-automatic revolving L/C.

With this arrangement, if the issuing bank does not notify the beneficiary that the credit stops or is not renewed within a specified period as mentioned in the credit, then the credit becomes reavailable.

For example, “this credit will be automatically restored to the face amount unless advising bank is advised by the contrary within one weeks after each negotiation”.



(7) Reciprocal L/C

When the two parties conclude a transaction in which they act as importers and exporters mutually and the traders are related and equal or almost equal. The two parties open letters of credit in favor of each other. So the two Ls/S are conditioned on each other.

Features of reciprocal L/C: a. The two Ls/C must be valid simultaneously; b. The drawer and the beneficiary of one L/C is usually the drawee and payer of another L/C; C. The opening bank is usually the advising bank of another.



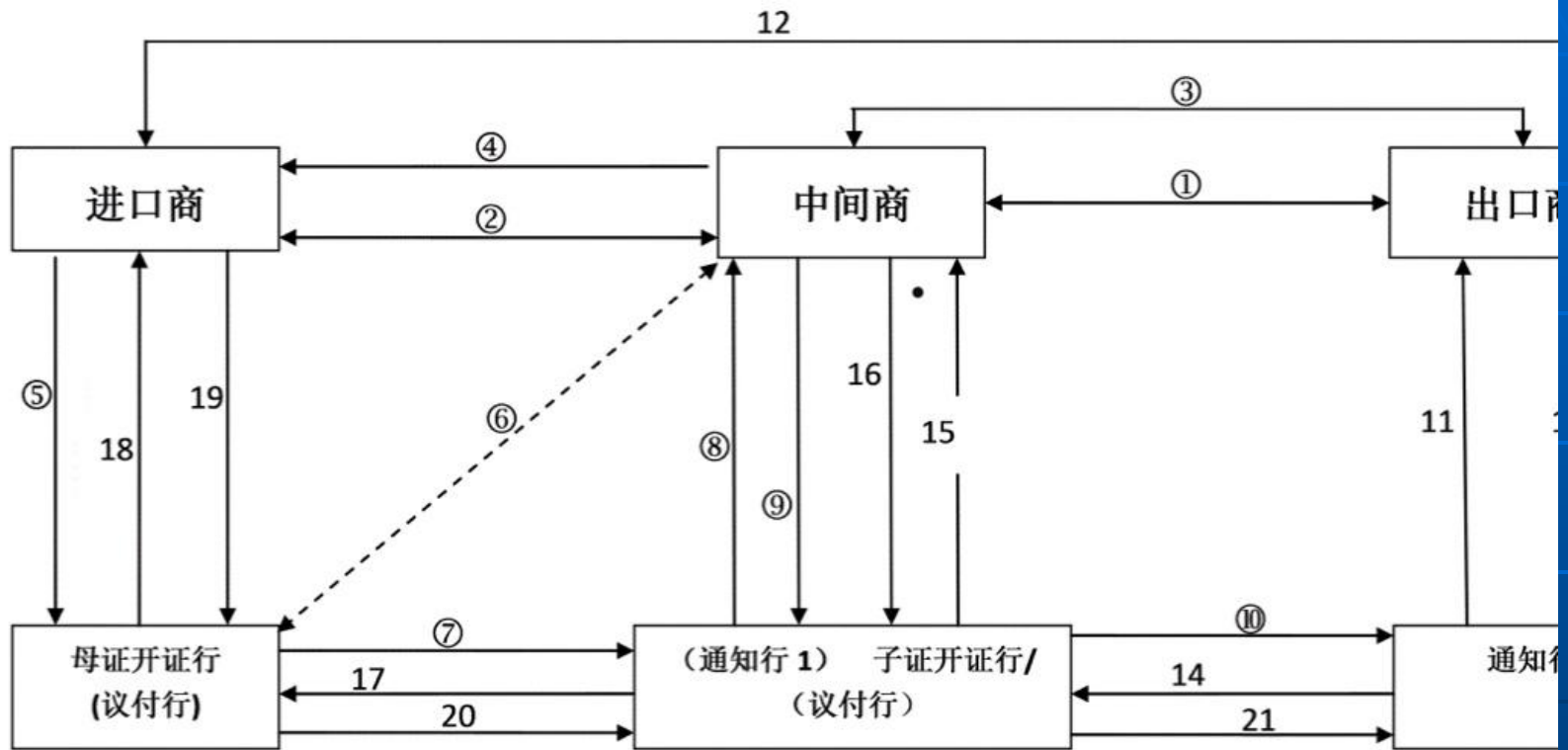
(8) Back-to-back letter of credit

A back-to-back letter of credit is a new credit opened on the basis of an existing credit (original credit) in favor of another beneficiary. An intermediary often uses back-to-back arrangements to pay the ultimate supplier. An intermediary receives a letter of credit from the buyer and then opens another letter of credit in favor of the supplier. The first letter of credit serves as collateral for the second credit. So in back-to-back letter of credit, two letters of credit are involved. However, the original credit and the back-to-back credit are two separate transactions. There is no legal relationship between them, although together they form a single financial operation.

Brainstorm: What are the differences between a transferable letter of credit and a back-to-back letter of credit?



Procedures of Back-to-back letter of credit



(9) Red clause letter of credit

A red clause letter of credit is the one that makes advances payment available to the exporter/seller before shipment.

A red clause credit is similar to a normal letter of credit except that contains a clause formerly written in red ink authorizing the bank to make advance payment to the seller. A red clause credit should only be entered into if there is a close trade relationship based on mutual trust between the buyer and seller. The seller benefits from pre-payment, however, as the buyer, the risks are considerable: the buyer acting as creditor to the seller, but there is no guarantee that the seller will submit the documents stipulated in the documentary credit.



(10) Standby letter of credit

A standby letter of credit is an obligation on the part of an issuing bank, to pay a beneficiary in the case of the nonperformance of the applicant. Therefore, a standby letter of credit is often called nonperforming letter of credit because it is only used as a backup should the buyer fail to pay as agreed. A bank will issue a standby letter of credit on behalf of a customer to provide assurances of his ability to perform under the terms of a contract between the beneficiary. The parties involved with the transaction do not expect that the letter of credit will ever be drawn upon. Standby letters of credit are used, for example, to guarantee repayment of loans, to ensure the fulfillment of a contract, and to secure payment for goods delivered by third parties.





Thank You !