

A Guide to Documentary Letters of Credit



Letters of credit exist primarily to assist the seller in receiving guaranteed payment for goods from the buyer through the international banking system. They also help protect the buyer from costs other than those already agreed.

The rejection of shipping documents for failing to comply with letter of credit requirements is a significant cause of delays. Adherence to the points in this Guide can assist in reducing errors.

When shipments covered by letters of credit move, they can prove troublesome for the forwarder. Unless forwarders act correctly in all instances in the handling of such shipments they may have to expend considerable time, effort and money in resolving problems later, and also in placating shippers.

In order to avoid problems a forwarder should document and enact good practice in their operation for the handling of shipments that are covered by letters of credit.



Upon receipt of shipping instructions (always in writing) for any consignment covered by a letter of credit, the forwarder should:

- 1** Insist on receiving a copy of the letter of credit.
- 2** Check before arranging movement that the terms of the letter of credit can be complied with.
- 3** If the terms cannot be complied with, then immediately advise the appropriate party accordingly and seek further instructions in writing.
- 4** When carriage documents, such as bills of lading, airline air waybills (AWBs) etc. are prepared, check and re-check them for accuracy to ensure compliance with the terms of the letter of credit, prior to their being lodged with the carrier to permit carriage to be effected.

Upon receipt from carriers following shipment, the forwarder should:

- 1** Check and re-check bills of lading, AWBs etc. for acceptability against the terms of the letter of credit.
- 2** Make sure no amendment or endorsement has been added which may be unacceptable.
- 3** Rectify problems immediately.
- 4** Ensure that any other documents required to be supplied by you, such as insurance certificates, are double-checked for accuracy against the letter of credit to ensure acceptance by the bank.

If you fail in your responsibility to provide the shipper with correctly prepared documents, he may lose his right to payment under the terms of the letter of credit.