



Exporters: Exercise caution with your letters of credit

By Suzanne Richer

Preparing an export shipment from A to Z requires a coordinated plan of action, especially when the payment mechanism is tied to a letter of credit. Typically, these transactions offer the exporter a reliable avenue to secure payment from a foreign-based customer. However, they haven't always been the least expensive payment mechanism — fees for amendments and discrepancies fees chip away at the profit margin. A well-thought-out plan can ensure an exporter timely payments with minimal transaction costs.

The use of an L/C does not guarantee that an exporter will be paid for its product. Instead, it is a conditional promise to pay. Exporters must meet all of the conditions in the document before payment cannot be issued. If discrepancies occur, they must be waived by the importer for the payment to proceed. When waivers are not approved, exporters could find themselves renegotiating prices or other key parts of their agreement.

Commonly, once an export has been quoted by the customer service group or sales representative, the formalities of shipping, documentation preparation and finalization of the L/C are left to the accounting or shipping group, or even the freight forwarder. The exporter's bank sends it the authenticated L/C, but the document may languish in the company for a week or two before one group claims responsibility. In those instances, the exporter may lose the opportunity to amend the L/C as the latest shipping date draws near.

To avoid expensive amendment costs, an exporter can take several easy steps toward receiving an acceptable L/C. The first step is to recognize that the entire shipment is predicated on several agreements, beginning with the original offer or quote and the customer's acceptance. Ideally, the quote will have outlined not only price and

quantity information, but also the Incoterm and delivery point. From that information, the customer will approach its bank and complete the letter-of-credit application. However, in most instances, the person who approved the sale at the customer level is not the one who will complete the bank application. This may result in different requirements listed in the L/C that were not part of the original sales quote.

Discrepancies, including spelling mistakes, can result in banking fees for the exporter — and even nonpayment if the importer does not waive them. However, strong attention to details can result in payment before the importer has received the goods.

To avoid these differences, an exporter should prepare a letter of instruction to the customer outlining what information may appear in the L/C, including a list of documents it is willing to provide. Requiring the L/C to be in the exporter's language is another commonly missed area. Getting it translated will add extra expenses.

Once the exporter receives an authenticated L/C, the document should be reviewed by manufacturing, accounting, sales and logistics to ensure that all the criteria in the L/C can be met, such as shipping dates, and that it includes a proper description of the product. Any amendments must be made quickly, and the sales group should be responsible for alerting the customer that shipping will

not occur until an acceptable L/C has been received.

If the L/C appears to be in order, the exporter may begin to prepare documentation or work closely with their freight forwarder to ensure compliance. Letters of credit requiring signed documents from a consulate or chamber of commerce may require longer preparation time and that should be accounted for.

Exporters should be familiar with the UCP 500, which are guidelines for the banking industry. For example, if no time frame for submitting documents to the bank is listed in the L/C, then documents must be submitted within 21 days after the date of the bill of lading or they will be considered late. (UCP stands for Uniform Commercial Practices.)

Once the exporter's bank has received the documentation, it will begin the process of ensuring that all the L/C's requirements have been met. Common errors include spelling mistakes, charges on the invoice not listed in the L/C, incomplete description of the product, expiration date already passed, missed shipping dates or similar errors. Discrepancies, including spelling mistakes, can result in banking fees for the exporter — and even nonpayment if the importer does not waive them. However, strong attention to these details can result in payment even before the importer has received the goods.

With a proper plan, an L/C can be an excellent means of confirming payment and avoiding currency and political risk throughout the world. And that's what makes the export letter-of-credit transaction worthwhile. ⚙️

Suzanne Richer is president of Customs & Trade Solutions Inc., an advisory firm specializing in international trade topics. She can be reached at (609) 896-2210, or via email at smricher@aol.com.