



"Reliable payment is the first fundamental of free trade."

*John W. Dunlop is President of AVG Trade Group, providing Letter of Credit management, documents and payment via the Internet to clients worldwide.*

### What is a Letter of Credit?

The world's standard for reliable payment is the Documentary Letter of Credit. The International Chamber of Commerce defines a Letter of Credit by its Publication No.500, Uniform Customs and Practice for Documentary Credits, Revised January 1993. Better known as "the UCP 500". The UCP 500 is not a law, nor even a rigorous procedure, but rather a guideline used by over 200 countries and their thousands of banks to facilitate trade and payments thorough Letters of Credit. The current definition of a Letter of Credit is a financial instrument, issued by a bank, in which the issuer undertakes to effect payment against the presentation of documents that conform to the terms and conditions stipulated in the credit document. Letters of Credit is one of the oldest trade tools, having their genesis when King John of England ordered marble from Italy in 1210 with a "credit letter".

### Letters of Credit Have Their Problems

Working with Documentary Letters of Credit is, if not a nightmare, is at least a continuous bad dream worthy of a

## The Internet Rescue of Letters of Credit

*Internet technology provides international trade new tools to overcome the legendary frustrations with Documentary Letter of Credit delays, discrepancies, and risk.*

Stephen King novel. Importers, exporters, manufactures, issuing banks, advising banks, negotiating banks, freight forwarders, carriers, government agencies, chambers of commerce, embassies, brokers, couriers, and shipping clerks all get involved trying to produce documents that conform to the Letter of Credit. The Letter of Credit requirements for transport, value, and quality documents, certifications, inspection stamps, issuing bank additional conditions, and country specific legalization's, cause continuous frustration for everyone involved. The confusion results in discrepant document sets, payment delays, cargo clearing delays, business payment risk, management hysteria, and a cottage industry that deals with Letter of Credit transactions. Adding to this Gordian Knot tangle are the trade banks in every country that have their own unique Letter of Credit policies and forms for the importer and exporter to use for managing a Letter of Credit. This lack of world business standards guarantees that all the Letters of Credit issued from the thousands of banks involved in trade will be always be different. Reliable payment becomes less a fundamental, than a romantic dream. Yet there is hope, and it is happening now on the Internet.

### The Internet as the World's Business Network

The Internet is able to combine technology with standard business systems to rescue the Letter of Credit from its reputation for being a necessary but evil thing to work with.

Internet technologies that are available now include; document management software, document imaging, electronic mail, interactive forms within web browsers, and password security protocols. Standard business systems that are available now include; the UCP 500, UCP 516 (Standard Documentary Credit Forms), INCOTERMS 1990, and the Global Business Model©. The following are some examples of solutions being applied to specific problems that eliminate discrepancies, reduce document preparation time, short circuit cargo clearing, and assist in getting better Letters of Credit issued from foreign banks.

### Negotiable Document Set Preparation Software

Eighty percent of document sets submitted for negotiation have discrepancies. Letter of Credit negotiable document sets must exactly match the requirements of the Credit, and must also have congruent information between each document in the set. If there is any inconsistency resulting in a discrepancy, the payment is delayed or at risk until it is corrected or approved or waived by the Applicant of the Letter of Credit. One of the best solutions to this problem is AccuDox™ document preparation software, developed by Quality Letters of Credit, Inc. AccuDox™ software combines the specific Letter of Credit wording, the document requirements, and the actual shipment information from the invoice, packing list, ocean bill of lading, air waybill, inspections and certifications, to

produce a discrepancy free set of documents.

### **Internet as the Company Network**

Missing any dates called out in the Letter of Credit invalidates the Credit. The most critical dates are the not-later-than shipping date, presentation date, and expiry date. Missing any one of these dates requires the Letter of Credit to be reissued or amended. After the Letter of Credit is issued, it is common to amend it to reflect the exporter's actual production and shipping capabilities. As the Credit is amended, it becomes a management problem to communicate the last changes to the dates to all the parties involved in the shipment. The Internet can be used as the wide area network (WAN) within an office, a company, or a country to continuously communicate the changing dates to everyone at the same time. A person still must post this information, and everyone needs to become aware of the change. The Internet only provides the capability to disseminate the information, not a substitute for common sense.

### **Imaging of Negotiable Documents**

Delays in clearing cargo are common because the ship, plane, train, or truck can arrive at the port of destination before the document set completes its journey through the banking pipeline to the importer or freight forwarder. Five to ten days port to port for container ships, and one to four days for aircraft are common passage times. Documents often take three to twenty days to prepare, and another five to thirty days to be negotiated, paid and delivered to the importer. The importer often requires, through the Letter of Credit, that a separate original bill of lading, or complete original document set be sent directly to him in addition to the negotiable document set being sent to the paying bank. This requirement increases the

exporter's payment risk, since he is giving up title to the goods while he negotiates with the paying bank for the proceeds.

Negotiable document sets can be scanned with imaging software, such as Adobe Acrobat (pdf Portable Description File format), and posted to a company secure web site for printing by the importer or notified party at the destination. This can be done before the original hardcopies of the documents are sent to the negotiating bank for examination. Adobe Reader software, for viewing pdf files, is downloadable from the Internet free of charge for anyone, anywhere to use ([www.Adobe.com](http://www.Adobe.com)). With only a copy of the original negotiable document set, the exporter often can procure a bond from his bank, and arrange for the duties to be paid and the cargo released. As an alternative to posting, the document set can be sent by Email attachment to the importer via the Internet, and the same process followed. The Internet provides a simple method for the distribution of the scanned copies of the documents, and the Letter of Credit to all the parties that must coordinate the transaction.

### **Internet Security for Negotiable Documents**

The Internet is an open channel like the old telephone party line. However, simple and practical security is available at multiple levels. Adobe Acrobat software has password protection within it, and can be used to protect a file with a password. Whether the file containing the documents is posted on a web site, or attached to an Email, the receiver must know (be given) the password to open the file. Company web sites can contain password protected firewalls to stop access to their site, or to a section or page within the site. Microsoft FrontPage web publishing software contains this capability within its active elements for protecting web pages. For a higher

levels of security, messages and documents can be encrypted and require digital signatures and certifications for opening and decrypting.

### **Global Business Model© as an Internet Standard**

There has been no international standard for a common business transaction system until recently. Invoices, Packing Lists, Sales Orders, Purchase Orders, Basic Ordering Agreements, etc., usually have different data elements and have slightly different uses and meanings for different individuals, companies, and countries. The Global Business Model© (GBM) was first published in 1996 to be used between buyers and sellers as a common standard. The GBM was developed to produce good Credits that reflected what the importer and exporter wanted and agreed to, and not what the foreign banks decided the transaction needed. Its business forms and Letter of Credit Application Forms conform to UCP 500 and UCP 516. The objective of the GBM is to simplify trade transactions and lead to a good Letter of Credit that strictly conforms to UCP 500. The GBM separates the sales effort from the trade finance transaction resulting in good Letters of Credit that are quickly negotiated thus reducing payment and title transfer delays. The GBM is available free of charge at [www.AVGTS.com](http://www.AVGTS.com).

### **Internet Interactive Letter of Credit Forms**

One of the most interesting technologies on the Internet is interactive form fill-in. This technology comes in two basic modes; browser based forms, and document image based forms. For Letters of Credit the document image forms that can be filled-in on the screen is the simplest and most adaptable. Any business or government form can be scanned to show the original image, and then programmed to allow the

fields to be filled in and the form printed off of the screen. This concept combines the "old" document forms with an improved Internet way to manage and distribute them. This allows the subject business and Letter of Credit forms can be filled-in on the monitor, printed and faxed, or downloaded and Emailed. All parties to a transaction can have access to the same system of business forms for defining trade transactions between them. And, as with all Internet technology it is available every where, all the time, to everybody.

### **In Conclusion**

The paper based Documentary Letter of Credit is going to be with us for a long time to come. The Internet today does not solve all of the problems with using them, but they do allow the world trade community a way to keep up with at least the speed of freight. Letters of Credit are only a nightmare if you enjoy things that go bump in the night. The Internet is here and solutions do exist.

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