

How to Put Letter of Credit Transactions into E-commerce

International trade export companies can now add the Letter of Credit option for payment in addition to credit cards and wire transfers.

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

Virtually All E-commerce Sites Lack the Letter of Credit Option.

Web commerce sites that offer the ability to purchase products directly from the Internet are marvels of efficiency, as long as you use a credit card. Using a credit card works fine for the purchase of low dollar value, but what if you want to sell machinery or long lead time manufactured products. Most company web sites only offer advance payment or open terms as viable options.

Why the Difficulty?

Letter of Credit transactions are inherently complex requiring the coordination of banks, freight forwarders, custom agents, shipping schedules, government agencies, and coherent documentation. Virtually no two Letter of Credit transactions are ever identical. Each one is labor intensive and generates difficulties that must be solved by people rather than binary code. This is not the stuff successful computer applications are made of.

Documentary Letters of Credit are Available on the Internet.

AVG Trade Group provides companies selling worldwide on the Internet the additional option of offering their buyers the Documentary Letter of Credit to make purchases. Letters of Credit have been the standard for international transactions since 1933. They are accepted in over

197 countries and can be issued from any international bank. Many countries require imports to be made on Letters of Credit if they are over a fixed dollar amount; large dollar transactions are beyond the scope of credit cards; interest rates on card purchases are exorbitant; and advance payment is inherently unfair for many transactions. Without the Letter of Credit option, a company is truly global in name only.

The AVG E/LC-commerce Letter of Credit Process.

AVG recommends a five step process for companies adding Letters of Credit as a payment option. The first step is for a buyer to generate a Purchase Order with the selling company. Second, the PO is accepted and a Proforma Invoice is produced by the seller. Third, the Proforma Invoice is sent to the buyer with the companies Letter of Credit Instructions. Fourth, the seller must be ready to amend the Letter of Credit after it is issued. Fifth, send the Credit to AVG for management and processing.

1. The International Purchase Order.

The Purchase Order that is filled out online by the foreign buyer must contain those data elements or fields that are unique to international trade verses a domestic purchase. These fields include the INCOTERM; commercial ports of embarkation and destination, insurance requirements, seller financing, and available document for negotiation.

2. The Proforma Invoice.

The seller, or exporter, must provide the buyer with a Proforma Invoice that takes into account the cost of freight, insurance, finance and banking fees. This proforma invoice becomes the value for the Letter

of Credit. Otherwise the seller is going to pay for these items from the unit price he quoted prior to the Purchase Order.

3. The Letter of Credit Instructions.

The seller must also provide the buyer the terms and conditions of the Credit in addition to the total value needed to cover the sale. These terms and conditions include the name of the sellers advising bank, his correct address, transferability, available documents for negotiation, number of days for presentation, acceptability of third party documents, and how long the Credit must be open for.

4. Amending the Letter of Credit.

The difficult part of the process for the seller is reviewing and amending the first issue of the Letter of Credit with the buyer. The Credit will not be issued as planned by the buyer or seller. The issuing bank is going to incorporate both the issuing country's requirements and the banks requirements. US banks will not officially assist in this amendment process so that they can be impartial when judging the negotiable documents for discrepancies from the seller they are advising the Credit too.

Adding to the entertainment is management's pressure to complete the sale for that quarters bookings. The trade finance staff's responsible is to protect the assets of the company, and make sure they get paid. This function is at odds with their sales department. What makes the task all the more difficult is the trying to understand the nuances of the Credit's SWIFT telex language and made an objective risk evaluation.

AVG's recommendation is to send the Letter of Credit to our staff for review by professionals, or use the AVGTSG.com

web site for all the references needed to decipher the wording and their meanings.

5. Letter of Credit Processing Sheet.

When the Credit is accepted, send it to AVG for management and processing. This includes a Credit review, negotiable document generation, discrepancy resolution, and tracking to payment. The Letter of Credit Processing Sheet tells AVG who the beneficiary is, where to send the payment, who the freight forwarder is, and also provides limited signature authority to prepare documents and solve problems, and invoice for fees through the negotiating bank.

Management From the Internet.

All of the sales and Letter of Credit processing functions are Internet based. The customer buys from the company's Internet site; the company responses via Email; the Credit is sent directly to AVG and posted on the password protected sub-site; amendments are handled by AVG; documents are prepared by AVG and posted to the Internet and presented to the negotiating bank; and the payment is tracked by AVG via internet for the seller.

How to Simplify the Complexity of Letter of Credit Transactions.

The Documentary Letter of Credit worldwide standard is published by the International Chamber of Commerce, Paris, France. The publication is called the Uniform Custom and Practices for Documentary Credits, ICC Publication No. 500. This a general and flexible standard, which gives it its wide acceptance and also its difficulties. The flexibility allows every country to use what parts of it they chose, and ignore what is inconvenient or not politically correct.

Exporting companies can specify exactly the terms and conditions of the Letters of Credit they will accept, and reject all those that are not congruent with them. This is not so easy if you want to do business worldwide. Different countries insist upon their unique requirements. For example, China will not allow their Credits to be confirmed; India insists on

drafts drawn on the applicant; Saudi Arabia will not allow ships carrying their cargo to stop at politically incorrect ports; Dubai wants legalization stamps from a United Arab Emirate delegation; and the beat goes on.

The solution is begin with a clear set of Letter of Credit Instructions that becomes part of the sales negotiation up ahead of the Purchase Order. What problems arise should be dealt with at that point in time, not after the Credit is issued. Most Credit problems have easy answers that have been applied over the years. For example, the requirement for not stopping at certain ports is easily handled by using an Arab carrier.

Simplicity comes from not taking short cuts in the international transaction process, and insisting your marketing staff makes your Letter of Credit terms and conditions part of the sales process.

Conclusion.

The Internet is open for international trade using Documentary Letters of Credit in addition to credit cards.

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