



"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.

The Partial Shipments Allowed Credit

There is a way to use the same Letter of Credit over and over again without having to reissued it again and again. The Letter of Credit becomes a slick transaction pipe instead of a drain clog every time a shipment is made. It is done with a clever use of this type of Letter of Credit.

What is a Partial Shipments "Allowed" Letter of Credit

UCP 500: Article 40

"Partial drawings and/or shipments are allowed, unless the Credit stipulates otherwise."

Partial Shipments Allowed.

A Letter of Credit that allows partial shipments allows the beneficiary to ship less than 5% of the quantity of goods called for in the Credit. It also means that he can draw from the Credit less than its full value, i.e. draw for the actual value of the shipment.

Partial Shipments Not Allowed.

A Letter of Credit that does not allow for partial shipments, the beneficiary must ship the quantity stipulated within 5%, or not be within compliance of the Credit.

The partial shipments allowed also provides more flexibility to the seller in the event he cannot ship the entire order as planned, and must make two or more incremental shipments.

The Power of the "Partial Payments Allowed" Letter of Credit

Partial Shipments Allowed can defeat the cost of reissuing Letters of Credit.

Buyer's Position vs. Seller's Position

The buyer's position is that he wants the entire order shipped in as little time as possible between opening the credit and receiving the goods.

The seller's position is that he wants as much time as possible to assemble the order and make the shipment, with a partial allowed in the event he cannot make the latest ship date called for in the Credit.

The Credit Reissue Problem

No matter what terms and conditions or wording the buyer and seller desire in the Letter of Credit, the foreign bank is going to add their local bank and country policies into what the buyers credit application requested. Often the beneficiary has spent (wasted) a great deal of time and goodwill with his buyer to amend the Credit to resemble the original sale agreement. Conceptually for the next order, the buyer can get the Credit reissue with the same wording, terms and conditions, with only the dates changed.

Unfortunately, when the Credit is reissued it will have the same "flaws" as the un-amended original Credit. Since the "flaws" were put there intentionally in the first place, they will intentionally be put back in.

The Solution

The solution is to never close the Credit between the between the beneficiary and the applicant. Leave it open continuously for the duration of the buyer/seller relationship.

First, work with the buyer to amend the credit to correct known problems with the document or performance requirements, and additional conditions.

Simplify the goods description to eliminate unit prices and shipping dates. Also eliminate references to other documents such as Purchase Orders and Proform Invoices. The entire goods description can be reduced to "Equipment and/or materials", and the shipping specifics can be contained in the sales documentation outside of the Credit.

Second, when you ship against the Credit never drawn down against its total value, this will automatically close it. Always leave at least \$100.

Third, after a shipment that uses most of the Credits value, request your buyer to amend it. Amend the value upward to cover the next shipment (or more); amend the expiry date out up to three months; and amend the latest shipping date out the same amount. Do not allow the issuing bank to reissue the Credit, only amend the one you worked so hard to fix.

Accept the new amendment; ship against it; and do it all over again. How many times can you do this and over what period of time? Forever. One of our clients was able to keep a Letter of Credit open for three years, shipped and negotiated it 23 times.

Like the man said, I don't care if it's a black cat or a white cat, as long as it catches mice. κ

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