THE ROLE OF LETTERS OF CREDIT IN FOREIGN TRADE FINANCING

by

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CHAPTER I

PLACE OF LETTERS OF CREDIT IN FOREIGN TRADE FINANCING

Foreign trade is a system of exchanging goods and services among the nations. Fundamentally there is little difference between foreign trade and domestic trade. The existence of political and geographical boundaries, however, give rise to the difference of customs, traditions, languages, rules and regulations, markets, currencies and so on. These differences create a number of difficult problems in financing foreign trade, such as obtaining credit information, integrity, and management ability of customers in a foreign country.

In addition to these basic difficulties, economic and political conditions in the country of the customer bring another problem. Owing to the world wide dollar shortage and the unfavorable balance of trade with the United States, most of the countries in the world impose trade and exchange controls. Under these controls they usually set up exchange allocation systems as well as import restrictions. In countries which are economically and politically unstable, governments change their policies on trade and exchange controls in order to meet the need in

each circumstance.

The differences of currency also brings about a difficult problem.

At the present, a currency of one country is not acceptable in another country, so that a debtor has to pay his debts in a creditor's currency unless there is an agreement between the two.

Credit extension is made necessary by differences in market conditions, time lags between countries and the distance element.

Because of these reasons, the payment problem in foreign trade is very complicated and difficult.

There are several ways by which payments are made in foreign trade: Among them are:

1. Open Account:

Under this system, the importer pays the exporter after he has received or sold the goods. When the exporter enjoys good business relations with the importer, the exporter is willing to extend such a liberal advantage to his customer. The exporter, however, has to assume all the risks and his funds are tied up until he receives payment. Such terms cannot be given unless the exporter has confidence in the importer.

2. Consignment:

Some exporters sell on consignment basis. In this case, payment is made after goods have been sold. Although the exporter holds title to the goods, he assumes both credit and mardet risks. His funds are tied up until he receives payment.

Open account and consignment methods are seldom used, because they are too risky for exporters.

3. Discount Method by a Draft:

It is ideal when both the exporter and the importer divide risks and the exporter can receive payment at the time of shipment and the importer can pay in exchange for goods.

In order to meet the requirement of both parties, the discount method by means of a draft has been used. A draft or a bill of exchange is "an unconditional order, in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or at a fixed or determinable future time, a sum certain in money, to order or to bearer."[1]

There are two kinds of drafts. The one is a clean and the other is a documentary draft. A draft which is not accompanied by the shipping documents is called a

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[1]Shaterian, William S., Export-Import Banking. (New York: The Ronald Press Co., 1955), p. 49.

clean draft. Banks are not willing to discount clean drafts since this does not carry title to the goods. If the importer fails to pay, the bank can exercise the right of recourse on the exporter. The bank, however, may wish to have stronger security by requiring shipping documents so that it can avoid risks even if the importer fails to meet his obligation.

The draft which is accompanied by the shipping documents is called a documentary draft.

When the exporter presents the documentary draft to his bank, the bank discounts it deducting the interest and commission. Since the documents are negotiable, the bank obtains security title to the goods.

This method of financing a foreign trade transaction is widely used. The bank is well protected under this method, but the exporter is not freed from the risks involved in payments because there is no certainty that the importer will pay the draft, and if he does not pay, the exporter is liable to the bank.

4. Letter of Credit:

So as to eliminate the uncertainty whether the importer will pay the draft and accept the shipment, it is common practice for the exporter to request a letter of credit in his sales contract as a condition of payment.

In addition to such uncertainty, stringent foreign exchange restrictions in many countries make it difficult to obtain payment, even though there is no fault on the exporter's side. In order to make sure that the payments will be made even under the restrictions, letters of credit are required as a mean of assurance of payments.

A letter of credit is an instrument issued by the importer's bank upon application by the importer in favor of the exporter, by which the importer's bank promises to pay the draft drawn by the exporter if it meets the stipulations in the letter of credit. In other words, a letter of credit backs up the importer's credit standing thus assuring payment to the exporter. At the same time, the importer is assured that the goods will be shipped in compliance with the sales contract, because the shipping documents have to be presented in order that the exporter can receive payment.

The reasons why letters of credit have become so popular in foreign trade as compared to a plain documentary draft are that there may be uncertainty as to the integrity and payment ability of the importer as well as the existence of unstable economic and political conditions. Many governments impose exchange regulations under which the exporter is required to request a letter of credit from the importer as a means of assuring payments.

Statistics or data which indicate the percentage

of a country's foreign trade financed by letters of credit are practically non-existent, but their importance is recognized and emphasized by all the parties concerned.

A survey made by the Federal Reserve Bank of New York on collection situations in Latin American countries shows the figures both on draft collection and confirmed letters of credit. It is difficult to see the exact percentage of financing trade by letters of credit, but Mr. Maffry assumed that about 32% of the United States exports to Latin American countries was financed by the confirmed letters of credit and approximately 27% by sight and time drafts during the period 1950 to 1955.[1]

In Latin American countries the credit system has not been well established so that the ratio of collections by draft is proportionately greater as compared with the financing by letters of credit. The same is true in most of the under developed countries.

Although Latin American experience does not indicate the extreme importance of letters of credit, the leading imports of the United States, such as coffee, cocoa, wool, rubber, sugar and lumber are financed mostly on letters of credit basis, and the proportion on letters of

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[1]Maffry, August, "The Financing of United States Foreign Trade", International Banking and Foreign Trade. (London: Europa Publication Ltd., 1956), pp. 77-8.

credit basis tends to increase as total exports rise.[1]

"Many United States export firms have concluded on the basis of recent experience that all sales should be made on the basis of letters of credit, and the banks are also in favor of the use of letters of credit."[2]

Many governments require that the exporter should request a letter of credit from the importer prior to entering into business so that his payment is assured and also the government can increase its foreign exchange holdings, which are necessary in order to control the regulations effectively.

For instance, in Japan, export goods have to be financed in accordance with the regulations stipulated in the standard methods of payment, under which all exports are financed by the irrevocable letters of credit method, issued by a prime bank. Payments other than the standard methods are subject to the prior approval of the government.[3]

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[1] Ibid.

[2] Henning, Charles N., International Finance. (New York: Harper & Brothers Publisher, 1957), p. 139.

[3] Foreign Trade News, Procedures of Foreign Trade in Japan. (Tokyo: Jitsugyo no Nihonsha, Ltd., 1956), p. 26.

The establishment of the standard method of payment such as Japan's also can be seen in Germany,[1] Italy,[2] Netherlands,[3] Indonesia and the Philippines.[4] They also intend to administer their exchange controls effectively.

Thus letters of credit have become very important instruments in foreign trade financing as a means of eliminating uncertainty and difficulty and to provide assurance in regard to payment.

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[1]The Bank of Tokyo, "Export Control in West Germany," Monthly Report of the Bank of Tokyo. (Vol. 9, No. 2, 1957), pp. 59-62.

[2]The Bank of Tokyo, "Exchange Control in Italy," Monthly Report of the Bank of Tokyo. (Vol. 9, No. 3, 1957), pp. 15-20.

[3]The Bank of Tokyo, "Exchange Control in Netherland," Monthly Report of the Bank of Tokyo. (Vol. 9, No. 6, 1957), p. 25.

[4]Maffry, August, op. cit., p. 78.

CHAPTER II

COMMERCIAL DOCUMENTARY LETTERS OF CREDIT

Nature and Advantages of Letters of Credit

A letter of credit is a document which is issued by the importer's bank promising payment against a draft drawn by the exporter, if it is properly executed.

The exporter, in the sales contract, inserts a condition of payment and indicates the kind of letter of credit he wants depending on the importer's credit standing, business relationship and market conditions.

The importer files an application for a letter of credit with his bank. The bank investigates the importer's credit standing and business reputation. If the investigation is satisfactory, the bank then issue the letter of credit in favor of the exporter directly or indirectly through its correspondent bank.

The exporter prepares the shipment in accordance with the instructions in the letter of credit. Upon completion of the shipment, he presents the draft to his bank together with the shipping documents. The bank pays the draft, if it meets all the requirements named in the letter of credit. The draft, then, will be sent to the issuing

bank. The issuing bank presents this draft to the importer. If the draft is a sight draft, the importer has to pay when presented. In the case of a time draft, say thirty days after sight, the importer accepts the draft and promises to pay at the time of maturity, that is, thirty days after it is presented.

In the case of the sight draft, the shipping documents are released when payment is made by the importer. On the other hand, in the time draft, there are two different methods under which the shipping documents are released to the importer. The one is called documents against acceptance (D/A), and the other documents against payment (D/P). Under the documents against acceptance, the importer receives the documents when he accepts the draft, whereas in the case of the documents against payment, the documents are not released until the importer pays.

Since the importer cannot obtain the documents under the documents against payment, the importer has to pay before he sells the goods. In order to avoid such inconvenience, a trust receipt has been used widely.

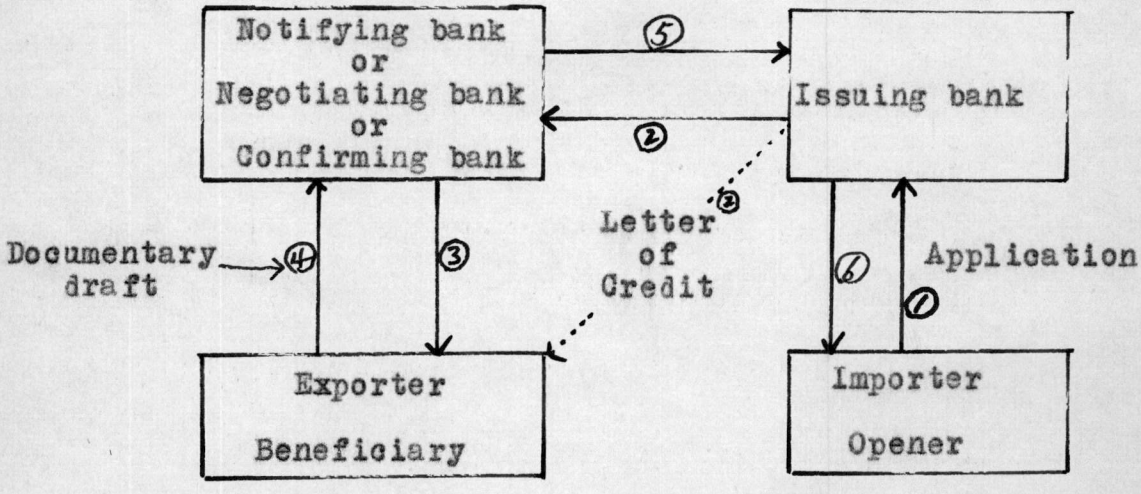
The trust receipt is a document which is given by the bank and signed by the importer, which contains conditions in regard to the method of releasing the shipping documents, security interest of the bank in goods, and other details as to manufacturing or sale of goods.

The purpose of a letter of credit is to enable the exporter to finance his transaction as soon as shipment is made and to give assurance as to payment.

Nothing can give greater assurance to the exporter than the promise of the issuing bank to honor the draft, although the scope of assurance is dependent upon what kind of letter of credit is issued.

The dollar shortage from which most of the countries in the world are now suffering, and the exchange controls and restrictions imposed in most of the countries make foreign trade financing difficult. But once a letter of credit has been issued, it guarantees that the importer received foreign exchange allocation from his government as well as import licence. His payment thereby assured.

The following illustrates the relationship under a letter of credit transaction.



The letter of credit is issued in favor of the exporter, which gives him reasonable assurance of payment of his draft. He has the primary promise of the bank, rather than merely that of the importer, that his draft will be honored. Accordingly, he is able to avoid credit risks, such as non-payment or disturbances of payments under the exchange controls.

Although the exporter is benefited primarily, the importer also has some advantages. The exporter has to fulfill his obligation if he wants to be paid, so that the importer is assured of securing of the shipping documents and the merchandise. The importer may be able to receive a better quotation by the exporter, as his payment ability is backed up by his bank.

Classification of Letters of Credit

There are several classification of letters of credit as follows:

1. Revocable and irrevocable
2. Confirmed and unconfirmed
3. Straight and negotiation
4. Revolving and nonrevolving
5. Assignable and non-assignable
6. Back-to-back
7. Red clause
8. Authority to purchase
9. Authority to pay
10. Traveler's
11. Clean

The letter of credit, in practice, may be issued in many forms and combinations so as to meet the requirements of the trading parties and their banks.

1. Revocable and Irrevocable Letter of Credit:

The revocable letter of credit may be modified or cancelled at any time up to the time of presenting the drafts and documents with or without notice to the beneficiary, whereas under the irrevocable letter of credit, the

bank cannot cancel its promise without the consent of all the parties.[1]

If the issuing bank is not satisfied with the importer's credit standing, it may open a revocable letter of credit instead of irrevocable. Sometimes when the exporter knows the importer well and has confidence in him as to his payment ability, the exporter may ask his customer to open a revocable letter of credit. A revocable letter of credit, however, does not give any assurance. Most of letters of credit are issued in the irrevocable form, because it gives stronger assurance of payment. The Uniform Customs and Practice provides that irrevocable credits are definite undertaking by an issuing bank. Once this type of credit is issued, the issuing bank cannot cancel or modify any part of it before its expiration unless all the parties agree.

2. Confirmed and Unconfirmed Letter of Credit:

Under the confirmed letter of credit, the negotiating bank also confirms the payment of the draft, whereas in the unconfirmed letter of credit, the negotiating bank acts only as a collection agent. Needless to say the former type is the stronger of the two.

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[1]Uniform Customs and Practice for Commercial Documentary Credits Fixed by the Thirteenth Congress of the International Chamber of Commerce. Article 4 & 5.

According to the British banking practice, the issuing bank confirms the credit, and the irrevocable letter of credit is often called a confirmed letter of credit.[1] The committee of the Federal Reserve Board made a survey and found out that in Britain an irrevocable letter of credit was called a confirmed irrevocable letter of credit in order to be more appropriate.[2] This survey was made so as to find the practical usage of letters of credit in United States foreign trade. It is interesting to learn that the survey indicated that the banks in the United States, at the time when this survey was made, that is in 1921, did not make any distinctions between the confirmed letter of credit and the irrevocable letter of credit. The committee asked a question, "do you draw a distinction between a confirmed and irrevocable letter of credit?" One of the answers was as follows:[3]

> "We have not found it necessary to differentiate between a confirmed and irrevocable letter of credit. It is questionable whether there is actually much distinction between the two terms. A confirmed letter of credit may be cancelled only by consent of the vendor. When a

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[1]Burtler, Jean, "Report on the Uniform Regulations for Commercial Documentary Credits." (Paris: International Chamber of Commerce, 1926).

[2]Edward, George W., Commercial Credit Instruments and Practice in Financing Foreign Trade. (New York: American Acceptance Council, 1921), p. 81.

[3]Ibid., pp. 83-4.

> confirmed letter of credit has been established, the exporter is assured that funds are available to him, provided, he complied with the stipulations of the credit and provided, of course, he presents documents before date of expiration. As a further safeguard, however, the irrevocable letter of credit was revised during the war and while it met with considerable popularity by manufacturers who were just extending their activities into the export field, it is doubtful whether it has really proved more effective."

Although few other banks made distinctions between the two, such was the attitude of the majority of the banks.

The committee of the survey also inquired, "when the banks are requested to notify a beneficiary that a foreign bank has opened an irrevocable letter of credit, is it also regarded as irrevocable by your banks or must you add your confirmation to the letter of credit?" The answer to this question was, practically no, but if the issuing bank was requested to confirm, then they would confirm. After receiving such answer, the committee considered that a distinction had to be made. Since then, in the United States, a distinction has been made between the irrevocable credit and the confirmed letter of credit. United States practice is to have negotiating bank confirm the credit, not the issuing bank.

3. <u>Straight and Negotiation Letter of Credit</u>:

When letter of credit designates a particular

bank as negotiating bank, it is called straight credit and the draft has to be presented to this bank. Such credit, sometimes, is called special or restricted credit.

If the negotiating bank is not specified in the letter of credit, it is called negotiation of general credit. The beneficiary can present his draft to any bank in his place whosoever offers the best exchange rate.

4. Revolving and Nonrevolving Letter of Credit:

When the exporter does business continuously and the bank is not willing to issue a letter of credit covering the whole transaction and the bank does not wish to open a letter of credit for each shipment, a revolving letter of credit may be issued. The revolving letter of credit automatically renews the amount when it becomes due.

The following three types are commonly used as revolving conditions:[1]

A. The full amount is available for the exporter as soon as the amount of the draft is paid by the importer,

B. The letter of credit can be used until the designated amount is spent, or

C. The exporter is authorized to draw a draft for the expressed amount for a certain period, say a month or three

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[1]Bogen, Jules I., Financial Handbook. (New York: The Ronald Press Co., 1956), p. 663.

months.

5. Assignable and Non-assignable Letter of Credit:

A letter of credit is issued in favor of the beneficiary so as to protect and give him assurance of payment for his shipment. From the bank's side, it is not a big problem by whom the draft is drawn if it complies with the letter of credit.

The importer, however, is completely dependent on the exporter for the shipment of goods, and if the latter transfers his title to another unknown party without informing the importer, the importer is not safeguarded. Therefore, letter of credit is not transferable or assignable unless clearly expressed in that document. The Uniform Customs and Practice provides as follows in this regard:[1]

> "A credit can be transfered only on the express authority of the opening bank and provided that it is expressly designated as transferable or assignable. In such a case the credit can be transfered only once (that is to say that the third party or parties designated by the first beneficiary are not entitled to retransfer it)."

The courts have held that a letter of credit is non-assignable unless otherwise expressed.[2] The

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[1] Uniform Customs and Practice, Article 49.

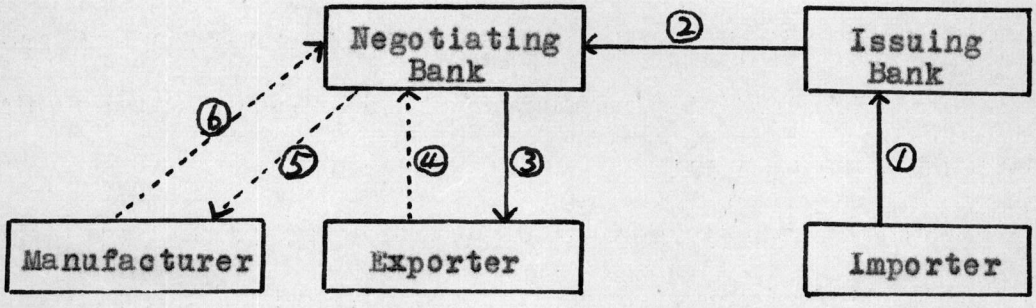
[2] Ward, Wilbert, and Harfield, Henry, Bank Credit and Acceptance. (New York: The Ronald Press Co., 1948), p. 129.

theoretical basis for this probably is that the contract between the seller and the buyer is that of personal skill and confidence.

6. Back-to-back Letter of Credit:

Depending on market conditions or other reasons, a manufacturer may not accept the exporter's order unless he pays in advance. Therefore the exporter asks his bank to open a letter of credit in favor of the manufacturer based on the original letter of credit originated by the importer. Such a one is called a back-to-back letter of credit. Sometimes it is called a countervailing or ancillary credit.

The following may illustrate a transaction under a back-to-back letter of credit:



1. Application for L/C
2. L/C
3. L/C
4. Application of back-to-back L/C
5. Back-to-back L/C
6. Documentary draft

Sometimes this credit is used in the transaction of two foreign countries where a United States or a British intermediary is used.[1]

When the domestic letter of credit is used, the amount of the credit is a little less than the original one, the balance being the exporter's profit.

7. Red Clause Letter of Credit:

This kind of letter of credit includes a clause which permits the negotiating bank to advance a whole or a part of the amount of letter of credit to the beneficiary before the shipment is made. The clause is printed in red, so that it is called the red clause letter of credit.

The importer, sometimes, wants a red clause letter of credit issued in favor of his representative or agent so that they can purchase goods that their principal needs.

Generally, however, this letter of credit is used to enable the exporter to receive funds in advance when large amounts of money are required for the purchase of heavy machinery, steamships, locomotives, or other heavy industrial products.

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[1]Walton, L. E., Foreign Trade and Foreign Exchange, Their Theory and Practice. (London: Macdonald & Evans Ltd., 1956), p. 61.

So as to avoid capital outflow and to protect the importer, strict regulations are imposed on the use of this credit.

For instance, in Japan, only 30% of the amount of the letter of credit can be advanced, only when goods are necessary or vital for her industry, and when the credit standing of both the exporter and the importer are good.

The red clause may read as follows:[1]

> "To enable the beneficiary to pay for the merchandise for the purchase and shipment of which this credit is opened,....(bank in territory involved)....may make clean advances to him at any time or times not exceeding in all either (a) the aggregate amount of (the amount of credit or less) or (b) the remaining unused balance of this credit (whichever is less) repayable with interest out of the proceeds of drafts which may thereafter be drawn hereunder by the beneficiary upon presentation of required documents, but if not so repaid during the currency of this credit, to be chargeable as withdrawals hereunder."

The negotiating bank sends the following letter to the issuing bank in order to avoid a dispute which might arise out of this transaction.[2]

> "With reference to your Credit No....containing the so called red clause, it is our understanding that, under the terms thereof, we

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[1]Shaterian, William S., Export-Import Banking. (New York: The Ronald Press Co., 1947), p. 434.

[2]The Bank of Tokyo, "Red Clause Letter of Credit," Monthly Report of the Bank of Tokyo. (Vol. 8, No. 11, November, 1956), p. 49.

> may make clean advances to the beneficiary at your risk and under your protection and without responsibility on our part as to the use which may be made of such funds by the beneficiary. If called upon to do so we will, at our option, make such advances without further advice to you and, incase of default draw clean drafts on you in reimbursement of our advances, together with all charges."

The negotiating bank asks the beneficiary to acknowledge the receipt as evidence of the advancement of funds.

8. <u>Authority to Purchase</u>: — Be used in Intra regional trade asia

In a strict sense, the authority to purchase is not a letter of credit, but its function is so similar that it is usually included in discussions pertaining to the subject. An authority to purchase is a letter of cable sent by the importer's bank to the branch, agent, or correspondent in the exporter's place instructing the bank to purchase the exporter's draft which is drawn on the importer, in accordance with the stipulations named in the authority to purchase. The advise, however, does not bind the exporter's bank to purchase the draft. Therefore the exporter assumes the credit risks.

The authority to purchase was originated in transactions with Far Eastern countries, and it was used quite extensively before World War II. Since this does not guarantee the bank's payment, its usage has decreased and is now used only in Burma and Indonesia.

9. Authority to Pay:

In a broader sense, an authority to pay is also included in letters of credit.

The importer's bank, upon application by the importer, instructs to his branch or correspondent bank to pay against the exporter's draft drawn on the negotiating bank.

The difference between an authority to purchase and an authority to pay is that the draft is drawn on the importer in the former, while in the latter case it is drawn on the negotiating bank.

An advantage of the authority to pay is that the draft is without recourse, although it is issued in revocable form.

10. Traveler's Letter of Credit:

A traveler's letter of credit is one addressed to banks abroad requesting them to buy the drafts drawn by the traveler against the letter. Having this instrument, the traveler does not have to carry cash and he is freed from many troubles, such as loss of money or theft. The traveler is a beneficiary in the traveler's letter of credit, and he can draw drafts whereever he may go and whenever he needs the money within the amount specified.

The traveler's letter of credit has advantages as

when a large amount of money is involved. It is a record of how much he spent, also what his balance is.

11. Clean Letter of Credit:

In order to collect freight or insurance premiums, a clean letter of credit has been used.

A clean letter of credit is used when a firm receives a loan from a foreign bank. The firm's bank will issue a "stand-by" letter of credit to the foreign bank as a collateral for the loan.

Relationship between the Letter of Credit and the Sales Contract

A sales contract is an agreement between the exporter and the importer reciting their respective responsibilities as to the methods of transportation, time and date of delivery of the merchandise, methods of payment, quotations, methods of settlement of disputes, and other necessary conditions in regard to sales.

As has been stated, the exporter inserts the kinds of letter of credit he wants in the sales contract. The importer asks his bank to open the requested type of credit in favor of the exporter.

The following is an example of a payment condition in the sales contract.[1]

> "Payment: Against Seller's Sight Draft(s) in the currency stated in Paragraph....hereof, under a confirmed, irrevocable and without recourse letter of credit of a prime bank in favor of seller, available for "about" the amount and "about" the quantity of sale, and valid at least for fifteen days after the latest date of shipment, to be established in full within fifteen days after closing contract. Such letter of credit to permit part shipments and transhipments: also to provide for any freight increase, war

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[1]The Sales Contract of the Toyko Menka Co. Ltd., (Osaka, Japan).

risk premium, consular fee, etc., to be added in invoice, if necessary as per stated herein."

Thus, it is the duty of the importer to arrange the particular type of letter of credit with his bank as stipulated by the exporter, and the conditions of the sales contract.

A letter of credit is an instrument issued by the bank in favor of the exporter promising to honor the draft drawn by him on the importer, if it meets the conditions named in the letter of credit.

Although the conditions in a letter of credit are based on the sales contract, it has no legal relation to the latter document. Each is an independent and different contract. The sales contract binds the exporter and the importer, while the letter of credit is a contract between the issuing bank and the exporter.

The legal relationship between the sales contract and the letter of credit is stipulated in the Uniform Customs and Practice as follows:[1]

"Commercial Documentary Credits are essentially distinct transactions from sales contracts, on which they may be based, with which Banks are not concerned."

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[1]Uniform Customs and Practice, Article 1.

Shipping Documents and the Letter of Credit

The importer desires shipping documents as evidence that the exporter has fulfilled his obligations under the sales contract, and for customs entry at the port of import.

The banks, as stated in the previous section, also want to obtain shipping documents so that they can hold the title to goods and safeguard themselves. Therefore, all letters of credit list the shipping documents to be attached to the draft when presented to the negotiating bank.

The issuing bank promises to honor the draft drawn by the beneficiary. The beneficiary is required to comply with the instructions in the letter of credit against the bank's promise to pay. If the beneficiary does not present the documents as specified in the credit, the bank will not pay the draft and the significance of the letter of credit becomes meaningless. It is, therefore, extremely important that the exporter carry out the terms named in the letter of credit. The negotiating bank also has a duty to the importer to examine the documents carefully and to refuse them if they do not confirm exactly to the instructions.

The documents to be presented will vary according

to the types of transactions and the regulations of the importing countries.

Commonly, however, the following are the main documents.[1]

1. Commercial invoice
2. Bill of lading
3. Marine insurance policy or certificate

1. Commercial Invoice:

The commercial invoice is a statement of merchandise shipped or to be shipped, as well as the debt status of the importer for goods described in the statement. It carries various conditions, such as name, quantity, quality, price of goods, charges, total sum, date of shipment, name of the ship, destination, names of consignor and the consignee, shipping mark and the number, tare, weight, date of bill of lading, expiration date of the draft, date of letter of credit, number of export and import licenses, and other necessary conditions as to the merchandise to be shipped.

The commercial invoice is not a negotiable document, but it describes the nature of the goods and indicates the price and other charges of the merchandise. The

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[1]International Chamber of Commerce, Incoterms. (Paris: 1953).

amount of the invoice must be within the amount named in the letter of credit.[1]

"Its primary use is to check whether the proper merchandise has been shipped, at an agreed price, and to check similarly for costs if there is any damage to the merchandise."[2]

2. Bill of Lading:

A bill of lading is a receipt issued by the shipping company when goods are loaded or received for shipment, and is a contract of conveyance, a document of title, and also document of collateral. It contains a detailed statement of the terms according to which goods will be transported.

Bills of lading are one of the most important documents used in foreign trade. Goods will be released only against surrender of the bill of lading and the holder of this document has the title to goods.

There are several types of bills of lading. Among them are:

A. Order and Straight Bill of Lading:

A straight bill of lading is not negotiable.

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[1]Uniform Customs and Practice, Article 32.

[2]Henning, Charles N., op. cit., p. 66.

Goods specified in the bill of lading are consigned to the named person. This is used only when goods are sold on open account or consignment basis.[1]

An order bill of lading is negotiable and may be endorsed by a consignee or his order, and thus allows transfer of ownership.

B. Shipped, On-Board, and Received-for-Shipment Bills of Lading:

a. A shipped bill of lading or an on-board is issued when goods are loaded and indicates that goods have actually been loaded in good condition. Shipped bill of lading carries a clause stating that "Shipped in apparent good order and condition by....on board the ship."

Some steamship companies issue bills of lading which contain a clause reading: "Shipped or delivered for ....in apparent good order and condition by....," or "Received on board in apparent good order and condition." These bills of lading are considered as shipped bill of lading.

On-board bill of lading is a received for shipment bill of lading which is stamped "on-board" after goods have been loaded. This is treated as shipped bill of

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[1]Rosenthal, Morris S., Techniques of Foreign Trade. (New York: McGraw-Hill Book Co., 1950), p. 75.

lading. The notation of "on-board" may read:[1]

"I certify that the goods described herein were loaded on board the vessel named herein at the port specified in this bill of lading on or before the date of this endorcement dated....."

b. A received-for-shipment bill of lading is a receipt which indicates that goods are delivered to the dock or the pier. Goods may be loaded at some future date, so that this bill of lading does not indicate the date of shipment, or whether goods are loaded in good condition or not.

Since the consignee is anxious to know if goods are actually placed aboard the ship in good condition, it is customarily stamped "on-board" on the received-for-shipment bill of lading after goods have been loaded.

This type of bill of lading includes the following clause:

"Received from the shipper....the goods or package said to contain....in apparent good order and condition to be transported by.....".

C. Through Bill of Lading:

When transport covers both sea and land, and both

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[1]The Bank Of Tokyo, Foreign Trade and Letters of Credit. (Tokyo: Jitsugyono Nihonsha Publishing Co., 1952), p. 152.

the ocean and the inland carrier have agreements as to the cargo carriage, a through bill of lading is issued by the ocean carrier to cover the whole route.

But "railroad through bills of lading are not accepted unless expressly stipulated, except on exportations via Pacific ports to the Far East."[1] This is because the railway company cannot prove that goods may be loaded in good condition on an ocean going vessel.

British banks do not accept this kind of bill of lading. Their objections are that "it is not always possible to ensure actual shipment on the named vessel, and that, in course of transit, the goods may come into the possession of persons who are not parties to the through bill."[2]

4. Transshipment Bill of Lading:

If a destination is a small port or out of the route of an ocean going vessel, transshipment is made from the original vessel to another vessel. In such a case, a transshipment bill of lading is issued by the original carrier so as to cover the shipment even after goods have been transshipped. The Uniform Customs and Practice provides that the transshipment may be permitted only when

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[1]Uniform Customs and Practice, Guiding Provisions, #7.

[2]Walton, L. E., op. cit., p. 97.

the entire voyage is covered by one and the same bill of lading.[1]

5. Clean and Foul Bill of Lading:

A bill of lading which indicates that goods have been loaded in apparent good order and condition without any qualification is called a clean bill of lading.

When a bill of lading has remarks, such as "three cases missing," or "five boxes broken," it is termed a foul bill of lading.

The Uniform Customs and Practice governing the use of letters of credit name the following kinds of bills of lading.[2]

A. Shipped or on-board bill of lading.

B. Received for shipment or alongside bill of lading.

C. Through bill of lading.

D. Port or custody bill of lading.

E. Transshipment bill of lading.

There are some differences in practice and forms of bills of lading among shipping companies, but what is important for the exporter is that he prepare the right kind of bill of lading as required in his letter of credit,

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[1]Uniform Customs and Practice, Article 19.

[2]Ibid.

and the issuing bank to exercise careful examination whether the documents are properly presented or not.

3. Insurance Policy or Certificate:

Banks are interested in insurance policies or certificates, for these documents indemnify the bank when goods are lost or damaged, on which banks have advanced funds. A marine insurance policy is a contract whereby one party undertakes, in return for a stipulated consideration and in accordance with definitely expressed restrictions, to indemnify another party against the loss or damage to a definite interest in vessel, cargo, or freight earnings when caused by certain contingencies.[1]

But it is burdensome and inconvenient for foreign traders who do a continuous and extensive business to negotiate the policy with the insurance company for each shipment. In order to avoid such inconveniences, traders negotiate a contract in advance with the insurance company which protects all their shipments within a specified time or over a given route. Such a contract is called an open policy and a document issued under the open policy is an

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[1]Edwards, G. W., Foreign Commerce Credit. (New York: McGraw-Hill Book Co., 1922), p. 18.

insurance certificate.[1]

The Uniform Customs and Practice provides that either the policy or certificate may be accepted.[2]

British custom does not accept the certificate. "Insurance certificates are not acceptable, perhaps not even if they embody the terms of the insurance contract. As a general rule, a banker is not bound to accept anything less than a policy."[3]

Mr. Winter explains the reason why British banks and merchants do not accept the insurance certificate as follows:[4]

> "For many years, certificates of insurance were accepted as satisfactory evidence of insurance and as sufficient compliance with the requirement of the sales contract or letter of credit that insurance be provided by the seller.
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> During the postwar deflation period, following the end of World War I, when every possible loophole was availed of to avoid contracts, English merchants, refused to accept a shipment, claiming that the requirements for insurance were not satisfied by the certificate of insurance in that this document was not complete in itself,

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[1]Winter, William D., Marine Insurance, Its Principles and Practices. (New York: McGraw-Hill Book Co., 1952), p. 58.

[2]Uniform Customs and Practice, Article 28.

[3]Megraph, Maurice, "Some Aspects of the English Law of Documentary Credit," International Banking and Foreign Trade. (London: Europa Publications Ltd., 1949), pp. 112-3.

[4]Winter, William D., op. cit., p. 59.

> but referred to another document which contained other terms and conditions governing the insurance. The English courts, both of original instance and of appeal, accepted with this view and declared the contract void."

Such being the case with British banks, exporters trading with importers in the United Kingdom should be aware of this fact.

4. Other Documents:

According to the nature of goods, trade customs and regulations of importing countries, other documents may be required. Whenever they are required, they are considered as a part of a complete set of documents.

Among them are the consular invoice, customs invoice, certificate of origin, certificate of inspection, certificates of weight and measurement, packing lists, export and import licenses, and so on.

CHAPTER III

LEGAL ASPECTS OF LETTERS OF CREDIT

Legal Theories of Letters of Credit

In order to explain the legal aspects of letters of credit, the nature of the contract created by the issuance of a letter of credit has to be made clear.

There are several views concerning this subject.

1. Offer and Acceptance Theory:

According to this theory, the issuance of a letter of credit is an offer made by the issuing bank to the beneficiary who accepts it by tendering the draft and the shipping documents.

"An offer may be revoked by the offeror at any time before it has been accepted."[1]

This theory can be applied to revocable letters of credit, for the bank can cancel the offer at any time before it is accepted. In the case of an irrevocable letter of credit, however, this theory cannot be applied,

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[1]Dillavou, Essel R., and Howard, Charles G., Principles of Business Law. (New York: Prentice-Hall, Inc., 1952), p. 30.

because the issuing bank cannot cancel the promise it made to the beneficiary.

2. Guarantee Theory:

This theory says that a letter of credit is a contract by which the issuing bank guarantees the importer's payment.

The objection to this theory is that the contract does not guarantee the importer's solvency. "The issuing bank agrees to pay quite independently of whether the buyer is in default or not."[1]

3. Estoppel or Trustee Theory:

"If a party appears to be acting under a contract and leads the other party to believe that he is doing so, he may be estopped from subsequently denying it."[2]

The estoppel theory is applied to explain the nature of the contract between the importer and the issuing bank.

The theory, under an irrevocable letter of credit, says that the contract implies the issuing bank

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[1]Gutteridge, H. C., and Megrah, Maurice, "The Law of Commercial Credits," International Banking and Foreign Trade. (London: Europa Publication Ltd., 1955), p. 17.

[2]Estrich, Willis A., American Jurisprudence. (New York: Jirisprudence Publishers, 1939), p. 148.

received the fund equivalent to the amount of the credit from the importer so as to pay it to the beneficiary. Therefore, the issuing bank is estopped from denying that he holds the fund on behalf of the exporter.[1]

The issuing bank does not receive any fund from the importer, what he does is to promise to honor the exporter's draft only when it is drawn properly.

4. Assignment Theory:

This theory says that the benefit of the contract is assigned by the importer to the exporter. The benefit is given to the beneficiary by the issuing bank, and not assigned by the importer.

5. Novation Theory:

"Novation is an agreement whereby an original party to a contract is replaced by a new party."[2]

Under this theory, the importer is replaced by the exporter, and the contract becomes one between the issuing bank and the beneficiary after the letter of credit is issued. This theory seems to be "somewhat unnecessarily

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[1] Gutteridge, H. C., and Megrah, Maurice, op. cit., p. 18.

[2] Dillavou, E. R., and Howard, C. G., op. cit., p. 180.

elaborated and artificial."[1]

6. Mercantile Specialty Theory:

According to this theory, letters of credit are placed in the same category as commercial papers, such as drafts, checks, notes, etc., but without the characteristic of negotiability. This is based on the ground that letters of credit have been recognized that they are a definite class of promises to extend credit or to pay money, under certain conditions and with a certain essential uniformity.[2]

Some people have raised objections against this theory on the basis that the uniformity of letters of credit has not been achieved like other instruments, so that letters of credit should not be treated the same as other commercial instruments.

The uniformity of letters of credit have almost been achieved and banking customs and practices of issuing letters of credit have been standardized relatively well. Therefore, this theory has been supported more strongly than any of the other theories discussed here.

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[1]Gutteridge, H. C., and Megrah, Maurice, op. cit., p. 20.

[2]Finkelstein, Herman N., Legal Aspect of Commercial Letters of Credit. (New York: Columbia University Press, 1930), p. 289.

Courts Attitude toward the Theories

So far courts have not recognized theories as a basis upon which to render decisions. This situation is discussed by Mr. Finkelstein as follows:

"The nature and use of the letter of credit ought to be kept as free as possible from narrowing statements of limitation and from judicial dicta not necessary to a particular decision. They should not be bound by definition so as to become incapable of growth and change in accordance with the development of legitimate business practices."[1]

The courts were not so eager to formulate legal principles in regard to the nature of contracts under letters of credit. They rather tried to be harmonious with commercial practices.

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[1] *Ibid.*, p. 275.

Legal Relationship between the Interested Parties

1. Relationship between the Importer and the Issuing Bank:

The relationship between the two is determined by the agreements in the application for a letter of credit. As long as the issuing bank follows instructions given by the importer, the importer has an obligation toward the issuing bank to indemnify the payment made to the beneficiary.

Under a revocable letter of credit, the importer can make any changes or modification before the bank pays the beneficiary's draft without notifying the beneficiary.

On the other hand, in an irrevocable credit, the importer is not in a position to make changes once the letter of credit is issued unless agreed upon by all the parties. The issuing bank has to inform the beneficiary that an irrevocable credit has been issued in his favor.

The bank, also, has to use extreme care in examining the documents and papers to see if they are in order.

The importer, on the other hand, must pay interest and other charges. Sometimes he has to establish a

fund as collateral when so required by the bank.

If the importer finds some discrepancies in the documents, he has to inform the issuing bank.

2. Relationship between the Issuing Bank and the Beneficiary:

The relationship between the two parties is determined by the nature of a letter of credit.

Under a revocable letter of credit, the right of cancellation is reserved by the issuing bank, and the bank is not obliged to notify the beneficiary.[1] Here lies a problem whether the issuing bank has to notify the modification or cancellation of the credit to an intermediary bank or not. If a letter of credit does not indicate any bank as a notifying bank, it would be almost impossible for the issuing bank to notify all the banks in the exporter's place. In Britain it has been the custom for the issuing bank to accept the draft which was paid by the negotiating bank even after cancellation or modification was made, if the negotiating bank honored the beneficiary's draft without knowledge of any change. The innocent negotiating bank, therefore, is protected from loss or damage.

The Uniform Customs and Practice provides as

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[1]Uniform Customs and Practice, Article 4.

follows:[1]

"....its modification or cancellation can take effect only upon receipt of notification by the said correspondent or branch with which the credit has been made available."

Under an irrevocable letter of credit, the issuing bank has to inform the beneficiary of the issuance of the credit, and the beneficiary's right to cancel arises when he receives the notice.

The bank cannot cancel this kind of credit without the consent of all the parties.[2] Nor can the bank refuse the negotiation of the beneficiary's documents on the ground of a dispute between the importer and the exporter. "The issuing bank must accept and pay for the documents irrespective of any defense which there may be to a claim under the contract of sale, and that such defense is solely a matter to be fought out between the importer and the exporter".[3]

Also the issuing bank cannot resist payment of the documents on the ground that the credit was issued by the importer's fraud, or because of the importer's

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[1] Ibid., Article 4, #3.

[2] Ibid., Article 5.

[3] Gutteridge, H. C., and Megrah, Maurice, op. cit., p. 36.

insolvency.

The bank has nothing to do with the nature of the quality of goods. The exporter's duty is to present the documents as specified in the letter of credit; the bank then accepts the documents if they are presented in order, in spite of the deficiency of the commodity. It is the bank's duty only to check the documents carefully. The idea is based on the belief that banks are primarily financial institutions and engage in selling and buying goods only as the last resort to protect themselves.

3. Position of the Notifying Bank:

Usually the credit is sent by the issuing bank to the exporter through a correspondent or branch bank in the exporter's place, but sometimes it is sent directly to the beneficiary by the issuing bank. The correspondent bank is called a notifying or advising bank, whose duty is to notify or advise the issuance of the credit according to the instructions of the issuing bank.

There is no contractual relationship between this intermediary bank and the importer so that neither party is obligated to the other.

The relation between the exporter and the notifying bank is determined by the terms of notification. If the letter of credit is either revocable or irrevocable, the notifying bank has no obligation to the exporter.

Whereas if this bank confirms the letter of credit, the bank becomes responsible to the exporter from the date on which it gives confirmation.[1]

4. Position of Negotiating Bank:

If an intermediary bank pays the draft, it becomes a negotiating bank.

The rights and the liabilities of the negotiating bank are governed by the instructions which it receives from the issuing bank. When the negotiating bank is requested to confirm a letter of credit, it has no right of recourse against the beneficiary.

The negotiating bank acts as an agent for the issuing bank. According to the agency contract, the negotiating bank cannot make any profit out of the transaction done on behalf of its principal. But when the negotiating bank honors the draft, the bank is no longer the agent for the issuing bank. "When a bank buys a draft relating to a letter of credit, it does not act as the agent of the drawee. The transaction is at its own risk. It owes no duty to the drawee or the drawer's customer. It buys commercial paper relying on the credit of the drawer and the security that is offered."[2]

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[1]Uniform Customs and Practice, Article 7.

[2]Finkelstein, H. N., op. cit., pp. 162-3.

Thus, the relationship of the principal and the agent terminates when the negotiating bank has advised the opening of a letter of credit, and it is no longer under any duty to the issuing bank at the time it honors the exporter's draft.

CHAPTER IV

STANDARDIZATION OF LETTERS OF CREDIT

Background of the Movement

Before World War I, most of the foreign trade financing was made by and through British banks, so that there was little standard practice governing the uses of letters of credit. Much of the practice and forms used were dictated by London international banking houses.

As New York became the center of the international money market after the war, the volume of letters of credit and the number of banks issuing letters of credit increased rapidly in the United States. Such sudden change created a bewildering situation in practice and the types and forms of letters of credit used in the United States. Each bank created its own forms and used phraseology which varied in many respects from others. This situation was well presented in the following comment:[1]

> "It is interesting to note the many different forms used by the various banks: they all seem to be different in some respects. Some

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[1]Ward, Wilbert, and Harfield, Henry, Bank Credit and Acceptances. (New York: The Ronald Press Co., 1948), p. 147.

> banks merely write an explanatory letter on their regular letter heads, while others have forms set up on which to record the various points in relation to the terms of the credit. When one considers the vast number of these daily transaction by all the banks having foreign department or foreign correspondents of any importance, it would only seem natural that some concerted action be taken by the banks to standardize, as much as possible, the forms for reporting letters of credit."

In view of such confusion, the adoption of standard forms was imperative. The preliminary task toward this end was taken by the Committee on Foreign Banking of the Banker's Association for Foreign Trade, and as the result of their study the "Regulations affecting Export Commercial Credit" were adopted by the New York Bankers Commercial Credit Conference in 1920.

In connection with the work of the Bankers Commercial Credit Conference, the Federal Reserve Board also conducted an extensive study in the field of commercial credit during 1920 and 1921. The committee of the Board studied the cases in Britain and the United States in order to clarify the nature and the meaning of letters of credit. They also studied the forms of the credit by sending questionnaires to the leading banks throughout the country.

The American Acceptance Council had recommended the adoption of the "Commercial Credit Conference Forms" in 1922, which was prepared on the basis of the survey made by the Federal Reserve Board.

Such voluntary movement toward the standardization of letters of credit in the United States encouraged the same movement all over the world, especially in Europe. The Association of Berlin Banks and Bankers adopted the "Regulation affecting Commercial Credit Transaction" in 1923, The Norwegian Banker's Association, The Bankers Association in Paris, Italian Banks, Swedish Banks, Czechoslovakian Banks, Argentine Banks, Copenhagen Banks, and Holland Banks respectively adopted similar regulations.[1]

The interest toward the standardization of the practice pertaining to letters of credit in each country opened the way to the ultimate aim of international uniformity and as such was a great encouragement to all the parties interest in this problem.

The American National Committee on the advisability of unifying the commercial documentary credit expressed the importance and the advantage of adopting uniform regulations, and proposed their adoption.

In their report, it said:[2]

> "Agreement on this matter would be of immense advantage to international banking and commercial interests, and might usefully serve

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[1] Ibid., p. 154.

[2] Burtler, Jean, "Report on the Uniform Customs and Practice for Commercial Documentary Credit," (Paris: International Chamber of Commerce, 1933), p. 1.

> to smooth away numerous difficulties likely to arise in international transactions through the multiplicity of presentation of the terms and phrases in constant use so that complete agreement would exist between those opening the credit and those acting in virtue of the power invested in them by that credit."

After long and careful inquiries and a thorough study of the question by the Standing Committee on Bills of Exchange, Cheques and Commercial Documentary Credit,[1] with close collaboration of the National Banking Association, the National Committee of the International Chamber of Commerce drew up uniform regulations and submitted them to the Amsterdam Congress in 1929, which was responsible for drafting the first Uniform Code and Practice.

These regulations were approved by the Congress and introduced into banking practice in Belgium and France. Banking associations in other countries, though not adopting the regulations, often referred to them and expressed their willingness to adopt them if some amendments were made.[2]

In 1931, the Banking Committee on Commercial Documentary Credit was formed to revise the Uniform Regulations based on the suggestions and requests made by various sources.

Although efforts for the standardization were

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[1] Ibid.

[2] Ibid.

suspended during World War II, further observations and suggestions were made. On the basis of these suggestions, definite results were obtained by the banking committee. They drew up a new code which is entitled "Uniform Customs and Practice for Commercial Documentary Credits."

Uniform Customs and Practice for Commercial Documentary Credits

The Uniform Customs and Practice is the only standard code pertaining to letters of credit on an international scale at the present time. They are intended to be a guide of principles for doubtful situations which might occur in future letters of credit transactions.

The Committee considers that the Uniform Customs and Practice Code offers a solid basis satisfactory to banks and users of letters of credit, and suggests that the bankers in the world should adopt them and abandon their own regulations with wide diversity of phraseology and multiple divergencies.

The Uniform Customs and Practice are composed of the following parts:

1. General Provisions
2. Form of Credit
3. Liabilities
4. Documents
5. Interpretation of Documents
6. Transfer

Important points in the Uniform Customs and Practice have been pointed out in the previous chapters, so

that only a brief presentation will be made in this section.

Form of Credit:

Article 1 makes clear distinction between the sales contract and the letter of credit. It says that they are separate transactions.

Article 2 classifies two different types of letters of credit as basic forms, namely, revocable and irrevocable. All the credits are considered revocable under the regulations, unless specified as irrevocable.

Articles 4 to 8 deal with the nature of these two basic types of credits and liabilities of the banks issuing them.

Liabilities:

This part regulates a bank's liabilities on errors, delays, examination in handling documents.

Documents:

Articles 15 to 34. It provides that the documents listed here may be accepted if banks consider them necessary and if they are presented in proper forms.

This is the most controversial part in the Uniform Customs and Practice in that British banks do not accept any but shipped bills of lading and marine insurance policies rather than received for shipment bill of lading

and insurance certificates issued under open policies.

The reason why they do not accept documents which are listed in this section is that if they accept, discrepancies may arise between their customs and established practice which has been built up over a great number of years and is based on the "case law" of their country.[1]

Interpretation of Documents:

This section regulates on interpretation of terms in order to avoid misinterpretation. For instance, when the term "about" is used in the credit, it allows 10% more or less in quantity and in amount.

Transfer:

The last part prohibits transferability of a letter of credit unless it expressly states it is transferable or assignable. The idea of this strict regulation is to protect the importer from uncertainty and trouble as mentioned in an earlier part of the thesis.

It is unfortunate that British banks do not adopt this Uniform Customs and Practice. The failure in adopting these rules is discussed by Mr. Megrah as follows:[2]

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[1]Maas, Graden van der, "Uniform Customs and British Letter of Credit Practice," Export Trade and Shipper. (March 7, 1955), p. 7.

[2]Megrah, Maurice, op. cit., pp. 121-123.

"Unification of terms and phraseology are recommended. But practice must first be set up by the trade, not by the banks. Banking and the law will adjust themselves to the changing requirements of practice, for it is the function of the bankers to serve their customers, and it is the intention of the law to give the effects as evidence of their written contract and their customary behavior."

Mr. Gutteridge also commented on this matter, saying:[1]

"It is impossible to standardize the nature and extent of the banker's duty with regard to documents tendered to him under a credit, because each case must be decided on its merits in the light of the phraseology of the letter of credit and the circumstances in which the credit has been established."

Although the United Kingdom and the British Dominions have not adopted the Uniform Customs and Practice, there are few problems, practically speaking. If a letter of credit is issued in the United States and available in Canada, the issuing bank usually makes its letter of credit subject to the Uniform Customs and Practice. The clause they usually insert in this regard is as follows:

"Unless otherwise expressly stated, this credit is subject to the uniform customs and practice for commercial documentary credits fixed by the Thirteenth Congress of the International Chamber of Commerce and certain guiding provisions."

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[1] Ibid., p. 108.

Similarly if it is issued in Canada and available in the United States, Canadian banks usually expect that it will be treated under the Uniform Customs and Practice.

It is important for foreign traders, however, to note some of the differences in customs and practices, especially in regard to the shipping documents.

Standard Forms of Letters of Credit

Up to 1920, there were no forms of commercial credit which served as patterns. Each bank had its own forms and used somewhat different terminology.

In 1922, the American Acceptance Council set up standard forms with a view of establishing standard phraseology of the different forms and the regulations governing the forms. No bank actually used the recommended words of the Council, but they followed the patterns.[1]

The forms were:

1. Conference form A.....Advice of Authority to Pay.

2. Conference form B.....Irrevocable Credit

3. Conference form C-a.....Correspondent's Irrevocable Straight Credit.

4. Conference form C-b.....Correspondent's Irrevocable Negotiable Credit.

5. Conference form D.....Correspondent's Confirmed Irrevocable Credit.

This was the first movement toward uniformity as far as forms were concerned. In 1951, at the meeting of

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[1]Shaterian, William S., op. cit., p. 384.

the International Chamber of Commerce, the standard forms for the opening of documentary credit were recommended for adoption in order to establish uniform terminology and forms of the credit.

The Committee believed that the adoption of the standard form not only permitted greater accuracy and clearness in the mail and telegraphic correspondence between the banks, but also saved work and expense.[1]

The recommended forms are in telegraphic and letter forms in,[2]

1. Revocable Credit
2. Unconfirmed Irrevocable Credit
3. Confirmed Irrevocable Credit
4. Unconfirmed Irrevocable Negotiable Credit
5. Confirmed Irrevocable Negotiable Credit
6. Combined forms of the above

A list which shows the present situation of acceptability of the Uniform Customs and Practice and the Standard forms for the opening of documentary credit is attached in the appendix.

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[1]International Chamber of Commerce, "Standard Forms for the Opening of Documentary Credit." (Paris: 1951), p. 8.

[2]See Appendix.

CHAPTER V

CHANGING PATTERNS OF THE INTERNATIONAL PAYMENT SYSTEM

Under the gold standard system, the gold functioned as a standard international medium of exchange. The gold was termed the balancing element in international trade. In other words, when a nation's debit and credit did not balance, the gold flowed in and out so as to bring about equalization between the sales and purchases. Therefore, the economic forces of supply and demand for commodities determined the character and the quantity of exports and imports.[1]

The depression of the 1930s forced many countries to abandon the gold standard system, because (1) world trade and foreign investment declined as the result of the world wide depression, (2) the depression brought underdeveloped countries into a critical balance of payments situation, owing to the sharp decline of the prices of agricultural products, and (3) financial panic initiated by the

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[1]Brainard, Harry G., International Economics and Public Policy. (New York: Henry Hold & Co., 1954), p. 55.

Central Bank of Austria, which resulted in the termination of gold payments in international transactions.[1]

In order to stop outflow of capital, to maintain monetary reserves, and to relieve the pressure on foreign exchange rates, currency devaluation and foreign exchange controls had to be adopted.

Currency devaluation is the reduction of a currency's gold content. In other words, the currency is revalued downward. Such a policy was adopted hoping it would improve the international balance of payments, by adjusting the currency of a nation so that such would increase exports and decrease imports. Many countries have taken the same measures in order to improve their payments situation, which resulted in international financial chaos. Currency devaluation stimulated inflation and the devaluation had to be made one after another.

Exchange controls, compared with devaluation, offered a possible solution to balance the unfavorable international payments.

Exchange control is an intervention of the monetary authorities to adjust the balance of payments and to manipulate foreign exchange in order to prevent its outflow.

It was, however, difficult to maintain a

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[1] *Ibid.*, pp. 430-1.

favorable balance of trade only through exchange controls; commodity controls were equally essential in order to make exchange controls more effective. Therefore, many countries exercised exchange controls together with trade controls.

Both foreign exchange controls and trade controls are imposed by individual nations rather than on a uniform international basis, which frequently resulted in national retaliatory measures by the aggrieved countries.

Thus abandonment of the gold standard system created a retrogressive effect upon the development of international finance.

International Financial Agreements

1. Prewar Agreements:

Many different types of agreements had been signed in prewar days, many of which were of a bilateral nature. A bilateral agreement is one made between two countries. The nature of the agreement depends on the country's needs and economic background, but the main feature was to improve payments position and promote foreign trade.

The following were the main types of bilateral agreements signed before the war:

A. Reciprocal Tariff

B. Bilateral Import Quota

C. Bilateral Clearing

D. Bilateral Payment

A. Reciprocal Tariff Agreements:

The purpose of this agreement was to increase sales through adjustments of excessive trade barriers, which stood in the way of expansion of foreign trade. The partner countries signed most favored nation agreements which created international good will.

B. Bilateral Import Quota Systems:

This system placed a definite limit on the total quantity of an article which may be imported within a specific period of time or from a particular country. Foreign traders therefore limited their transactions within the amount they could buy.

"It was a very powerful weapon in negotiating international commercial agreements, and also good for protecting the supply of foreign exchange."[1]

C. Exchange Clearing Agreements:

This agreement provides that importers of both countries pay their debit obligations into a special account set in a designated bank in each country, and exporters are paid in their own currencies from accounts. Thus payments were made without using foreign exchange, and the government hoped to reduce the demand on monetary reserves.

This system was good from the viewpoint of minimizing foreign exchange, but was not too effective because the exports and imports rarely offset each other.

The government's role was to set up the mechanism for the settlement of accounts with its own traders and for

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[1]Heck, Harold J., Foreign Commerce. (New York: McGraw Hill Co., 1953), p. 344.

a periodic balancing with the other partners involved.[1]

D. Bilateral Payment Agreements:

Under this agreement, provisions are made so as to keep the balance of imports against exports, and also it contains an agreement over the methods of payment of overdue accounts.

These were not normal international financial methods, but were necessary in order to prevent foreign exchange from flowing out of the country and to improve a nation's payment position.

Bilateralism before the war was stricter than that of the postwar years in that the agreement was exclusively between the two countries involved and the trading privilages agreed upon were not extended to other countries as would be under the most favored nation agreements.

2. Postwar Agreements:

Bilateral agreements have also been used in post war years. Scarcity of monetary reserves in many countries and the necessity of foreign trade after the war forced these countries to sign bilateral agreements to match their imports with exports so that they could avoid actual use of

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[1]Brainard, Henry G., op. cit., p. 471.

foreign exchange.

The following are the types of agreements signed after the war.

A. Barter

B. Compensation

C. Clearing

D. Payment

A. Barter Agreements:

A barter agreement provides for an exchange of one goods for another. Such agreements do not create a need for any financial settlements.

B. Compensation Agreements:

Compensation agreements are signed to effect international transactions without making remittance by offsetting exports and imports of party countries.

C. Clearing Agreements:

Clearing agreements provide for exchanging goods with a minimum use of foreign exchange. Mechanism of the agreement is the same as for prewar agreements.

D. Payment Agreements:

Payment agreements are of the utmost importance in postwar international relations. Most of the payment

agreements before the war were between European creditor nations and debtor countries in Europe or in South America, but they are now extended throughout the world on an unprecedent scale. The number of these payment agreements had reached a high of 200 in 1947.[1] Since then the number has tended to decline. The incentive for the bilateral payment agreements is to open a door to the world abroad.[2]

Bilateral payment agreements, however, exposed weaknesses. It was difficult to maintain a commodity balance so that they had to include a provision how to make payment for the balance. The revision of a list of products to be exported or imported is made from time to time in order to keep the overdue balance at a minimum. Such modification of provisions made agreements complicated and highly technical.

Bilateral payment agreements, under the dollar shortage and foreign exchange and trade controls, has widely served as a solution to these problems, and contribution to the postwar international finance was significant. However, it was not an ideal solution of international payments.

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[1]Looper, Johan H. C. de., "Current Usage of Payment Agreements and Trade Agreements," Staff Papers. International Monetary Fund, Vol. 4, No. 3, August 1955, p. 355.

[2]Ibid. p. 359.

Characteristics of postwar bilateral agreements are (1) intergovernmental rather than private agreements, and (2) the period of agreements is shorter, mostly for a year, although extension is made whenever necessary.[1]

Bilateralism after the war, however, has changed its nature from that of prewar days. The governments realized that the bilateral agreements created exclusive attitudes among nations and thereby caused retaliatory actions by other countries, rather than benefiting party countries. In order to avoid such contradictions, governments are now jointly striving toward monetary and commercial multilateralism.

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[1]Brainard, Harry G., op. cit., p. 473.

Movements Toward Multilateral Agreements

Some of the European countries realized that trade cannot be expanded unless there is a flexible means of payment system.

After long negotiations and experimentations, member countries of the Organization for European Economic Co-operation (hereinafter called OEEC) established the European Payment Union (hereinafter called EPU).

The EPU functioned as a clearing house for the settlement of all trade and invisible transactions between the contracting countries,[1] and purposed to encourage multilateral trade. Each central bank reported the monthly surpluses or deficits to the Bank for International Settlements. The bank converted the balances into United States dollars, which was a basic monetary unit of the account. Then, such balance was used to offset the balance of the partner country. Each member country was given credit as a quota, and the settlement facilities were made available within the limit of the quota.[2]

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[1]Biclet, Ynes, The European Payment Union. (Paris: OEEC, 1956), pp. 39-42.

[2]Ibid., p. 43.

Through this mechanism, transferability or currencies of the member countries of the OEEC was established.

Such transferability encouraged the liberalization of trade. Consequently, many trade controls were eased and techniques and policies on exchange controls were simplified.[1]

Even though it is regional, the EPU established the convertibility of their currencies which was significant postwar achievement toward multilateralism.

Another trend toward the multilateral movement can be seen in a so-called Hague Club and Paris Club agreements.

A Hague Club agreement is a multilateral payment agreement signed between Britain, West Germany, Netherland and Brazil. The agreement was signed at the Hague on August 15, 1955. Under the agreement, Britain, West Germany, and Netherland can use either their own currency or any currencies of the other two countries against the payment to Brazil. While Brazil can pay her debts in either one of the currencies of those European countries. From the standpoint of Brazil, these three countries are treated

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[1]OEEC, Liberalization of Europe's Dollar Trade. (Paris: OEEC, 1957), p. 51.

as a unit of country or market.[1]

A Paris club agreement is one which was signed between Argentine and the EPU countries and negotiated at Paris.

The purpose of the Paris club agreement is the same as the Hague club. The EPU countries can pay either in their own currency or in any other member country's currencies, whereas Argentine pays in Pound Sterling against the payment to the EPU countries.

The significance of these agreements is that both Brazil and Argentine are now connected with the EPU through these agreements. Thus a convertible payment system has been established among these countries.[2]

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[1]The Bank of Tokyo, "Hague Club", Monthly Report of the Bank of Tokyo. Vol. 7, No. 11, 1955, p. 51.

[2]The Bank of Tokyo, "Paris Club", Monthly Report of the Bank of Tokyo. Vol. 9, No. 1, 1957, p. 77.

CHAPTER VI

THE ROLE PLAYED BY LETTERS OF CREDIT UNDER THE COMPENSATION AGREEMENTS

A Case Study in Japan

During the occupation period, the United States aid was almost 95% of the total income during this period, where Japan's foreign trade had been conducted under strict controls and she was entirely dependent on the United States economically.

The following table indicates the importance of the United States economic aid to Japan:[1]

Japan's Balance of Payments

1946-1949 (million $)

				Balance
Trade balance	-9.85	Special procurement	+ 0.67	
Service balance	-4.07	Government loan and the United States aid	+16.50	
		Others	+ 0.07	
Total	-13.92		+17.24	+3.32

[1]Ando, Morito, Foreign Exchange. (Tokyo: Yuhikahu Publishing Co., 1957), p. 685.

In the next five years, as shown in the following table, a considerable change has been made in the structure of her balance of payments. That is, the United States aid has decreased from 95% to 12%, while the special procurement has increased from 4% to 80%.[1]

Japan's Balance of Payments

1950-1955 (million $)

				Balance
Trade balance	-19.97	Special procurement[2]	+34.77	
Service balance	-11.77	Government loan and the United States aid	+ 5.65	
Errors & ommissions	-0.54	Others	+ 3.24	
Total	-32.28		+43.66	+11.92

It is not a sound policy to depend on a temporary income, such as foreign government aid or the special procurement, to maintain a nation's international payments.

In order to improve her balance or payments situation, the Japanese government adopted a foreign trade policy (1) to promote exports, (2) to secure dispensable

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[1]Ando, Morito, op. cit., p. 686.

[2]Special procurement includes sales goods and services to occupational personnel and sales of goods under special procurement program of the United States government, such as purchase of ammunition or other strategic materials.

imports to Japan for the purpose of manufacturing the goods for exports, and (3) to increase its reserve of foreign exchange holdings.[1] It was, however, very difficult to promote such a policy because of her limited foreign exchange holdings and scarce raw materials for production.

Such a difficult situation forced her to impose exchange and trade controls, and many payment and clearing agreements have been signed with other countries in the hope of realizing the afore mentioned basic trade policies. The number of these agreements has reached more than thirty in one time, but now decreased to twenty-five.[2]

In addition to these payments and clearing agreements, Japan arranged compensation transactions with several, to compensation agreement aims at offsetting each export transaction against an opposing import transaction so that the party in the export contract is also the party in the import contract. Under the agreement, the export price is set the same or larger than the import price.

The compensation agreements are permitted only under the following cases:[3]

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[1]Foreign Trade News Service, Foreign Trade Procedures. (Tokyo: Jitsugyono Nihonsha Publishing Co., 1956), p. 15.

[2]The Bank of Tokyo, "Contemporary Trade and Payment Agreement," Monthly Report of the Bank of Tokyo.

[3]Foreign Trade News Service, op. cit., p. 54.

1. In case where the transaction was deemed necessary for the development of new markets, and

2. Where the ordinary transaction is impossible due to the foreign exchange controls or trade policies of the country concerning exports or imports, as the case may be.

Special care is required in making such agreements lest they should harm the other trade and payment agreements. From this point of view, the compensation agreements cannot be signed with the following countries:[1]

1. The United States of America; because the policy of this country is to encourage freer trade, and there is no reason to restrict trade with the United States since payments are made in United States dollars.

2. Countries in pound sterling areas; the basic policy of payment agreements signed with the countries in this area is to expand trade and to eliminate the limited nature of trade policy.

3. Countries in open account countries; Japan made agreements with France, Netherland, Italy, Sweden, Finland, Greece, Turkey, Egypt, Argentine, Brazil, Indonesia, Philippins, Thailand, Formosa, and Korea, not to pay each transaction, but only for the balances occurred over

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[1]Yoshida, Hideo, Handbook of Foreign Exchange. (Tokyo: Diamond Publishing Co., 1953), p. 262.

the agreed amount in United States dollars.

If the compensation agreements are made with countries in this area, the volume of trade between the countries will decrease and such is not the original purpose of the open account agreements.

4. Countries with which trade and payment agreements are already signed.

There are few countries, therefore, with which Japan can sign compensation agreements.

So long as the number of the agreements are concerned, the compensation agreements are far less than payment and clearing agreements. However, the contribution made possible the opening of markets for Japan, and enabled her to expand trade with the countries where normal trade transactions are not established, and also to take Japan out of difficulties of the postwar years.

Payment Methods Under the Compensation Agreements

Originally a compensation agreement was a trade agreement between two countries to exchange one commodity for another without the use of foreign exchange.

The compensation agreements signed between Japan and other countries, however, require immediate payment for each transaction. The compensation agreements, therefore are the payment agreements as well as the trade agreements. The characteristics of these agreements are to offset the payments transaction by transaction, whereas usual payment agreements aim to offset a nation's trade as a whole.

The compensation agreements signed between Japan and other countries require that payments should be made by either one of the following letters of credit.

1. Back-to-back
2. Escrow
3. Tomas

1. Back-to-Back Letter of Credit:

A back-to-back letter of credit is sometimes called an ancillary credit, because a domestic credit is opened on the basis of an original foreign letter of credit. The former is backed up by the latter.

Under the compensation agreement, the export letter of credit is opened on the assumption that an import letter of credit may be opened as collateral against the export letter of credit, and vice versa. The back-to-back letter of credit in this sense is sometimes called reciprocal credit. The nature of the back-to-back letter of credit used under the compensation agreements is different from the one which is internationally known as back-to-back letter of credit.

There are two methods of payments under the back-to-back letter of credit. The one is export first, and the other import first.

A. Back-to-Back Letter of Credit, Export First:

In this case, the price of the export goods is settled by the irrevocable export letter of credit which is issued by a prime bank with a licence number under the compensation agreement.

The settlement for the import goods is made by the import letter of credit, the amount of which will become effective only when the export bill or draft is negotiated on the basis of collateral export letter of credit.

The form of back-to-back, export first letter of credit will be:

a. When the collateral export letter of credit is issued, the following special instruction is attached to

the regular irrevocable letter of credit:[1]

> "This letter of credit shall be available to the extent of draft amount negotiated under the reciprocal letter of credit to be opened by.... (bank)....in favor of....for account of....for ....(amount)....covering shipment of....(goods) ....from....to....referring to Compensation Transaction Approval No..... Such amount shall be telegraphically advised to the beneficiary through....(bank)."

b. When the collateral export letter of credit has been accepted by the exporter:[2]

> "This letter of credit shall be available to the extent of draft amount negotiable under the reciprocal letter of credit No....for....(amount) ....issued by....(bank)..... Such amount shall be telegraphically advised to the beneficiary through....(bank)."

c. When the collateral export draft is negotiated by the bank:[3]

> "This letter of credit is the reciprocal letter of credit against....(bank)....credit No ...., for....(amount)....dated....."

B. Back-to-Back Letter of Credit, Import First:

This payment method is applicable in trade with the People's Republic of China and the U.S.S.R.. The mechanism under this system is just the opposite of the

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[1]The Bank of Tokyo, "Letters of Credit Under the Compensation Agreements," Monthly Report of the Bank of Tokyo. Vol. 8, No. 12, p. 45, December, 1956.

[2]Ibid.

[3]Ibid.

export first method. Namely, imports are settled by the import letter of credit which is an irrevocable form and carries licence number under the compensation agreement, only when the collateral export letter of credit is issued.

The special instruction to be attached to the import first back-to-back credit will be as follows depending on the case:[1]

a. When the collateral export credit has not yet been issued, the following will be attached:

> "This letter of credit shall not be available unless and until the reciprocal irrevocable letter of credit is established by a standard prime bank in favor of....for....(amount).... covering shipment of....from....to....referring to Compensation Transaction Approval No....(with other terms acceptable to beneficiary). Such availability shall be telegraphically advised to the beneficiary through....(bank)."

b. When the collateral export credit is received by the bank, the instruction will be as follows:

> "This letter of credit is the reciprocal letter of credit against....(bank)....credit No. ...for....(amount)....dated....."

In short, in either of these two cases, payments are made only when the collateral import or export letters of credit is issued.

2. <u>Escrow Letter of Credit</u>:

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[1]Nakai, Shozo, <u>Foreign Trade and Financing</u>. (Kyoto: Seki Publishing Co., 1950), pp. 192-3.

Escrow means to deposit money or other security with a third person. The depositor cannot withdraw his deposit, while the person for whom it is intended can receive the amount when he fulfils the conditions agreed upon between the two.[1]

The idea of depositing the money with the third party applied to a letter of credit is called escrow letter of credit.

There are also two kinds of payment methods under the escrow letter of credit. They are escrow letter of credit, import first, and yen escrow, import first.

A. Escrow Letter of Credit, Import First:

In this case, imports are settled by the escrow letter of credit on condition that negotiation of the import draft is limited to only the designated bank in Japan and the amount is available only for the export from Japan, whereas exports are settled by the domestic letter of credit issued by virtue of the escrow letter of credit.

This agreement is made between Japan and Iran, Afganistan, Spain, Uraguay, and some Middle Eastern countries.

The transaction may be illustrated as follows:

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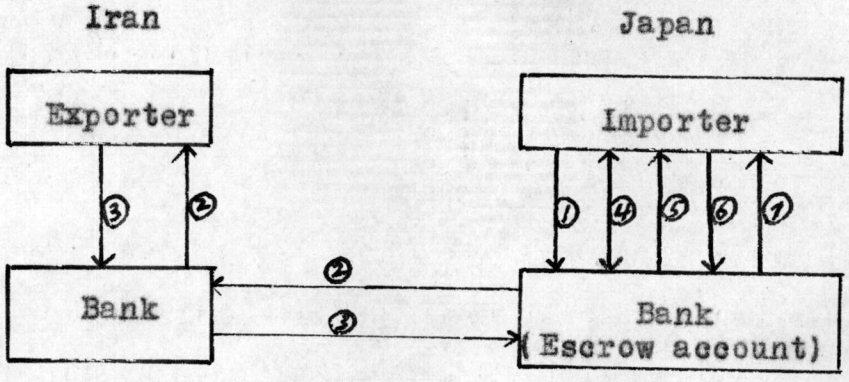
[1]Henius, Frank, op. cit., p. 290.



1. Application for the letter of credit.
2. Issue of the escrow letter of credit.
3. Sending the documentary draft with the credit
4. Payment against the documentary draft.
5. Issue of the domestic letter of credit for the export from Japan.
6. Presentation of the documentary draft with the domestic credit.
7. Payment from the escrow account

Theoretically, this transaction is a barter transaction. But it is difficult to keep the balance in escrow account, because exports and imports rarely balance as in the case of the payment agreements. Therefore it is provided that if a balance occurrs and if it is not more than $1,000.00, such can be paid in United States dollars, but if the balance exceeds this amount, the importer must get special permission from his government.

B. <u>Yen Escrow, Import First</u>:

This is used in the case of payment between the People's Republic of China and Korea.

Imports are settled when the amount is paid into the yen escrow account which is set up at the designated

exchange bank in Japan. The payment for the export is made from the yen escrow account in exchange for the documentary draft.

The following instruction is attached to the import letter of credit:[1]

> "The negotiation of draft under this letter of credit is restricted to....(bank in Japan).... and the proceeds of drafts shall be retained by ....(aforesaid bank)....in account entitled Private Import Escrow Account No.....which account shall be maintained until....and prior to such date shall be available to the beneficiary only for payment for....(goods)....from Japan for export to.....
>
> Such payments from the said account shall be made against the drafts drawn on....(aforesaid bank)....under domestic letter of credit established in favor of....(accountee of this credit) ....covering the aforesaid export.
>
> The domestic letter of credit shall be issued by....(aforesaid bank in Japan)....upon application by the beneficiary through....(overseas advising bank)....referring to Compensation Transaction Approval No...., the amount of which, however, shall in no event exceed the unobligated balance in the P.I.E. account.
>
> The outstanding balance of P.I.E. account, if any, due to the beneficiary shall be payable to the beneficiary against P.I.E. account No. ....when presented to the drawee on or before ...., if such balance shall be less than 1% of the agregate import draft amount or one thousand United States dollars, whichever is smaller."

As these instructions indicate, a private escrow account is set up in the name of other party under the

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[1]The Bank of Tokyo, "Escrow Letters of Credit," Monthly Report of the Bank of Tokyo. Vol. 8, No. 8, 1956, pp. 48-9.

escrow letter of credit payment method. But there is a tendency to apply the "escrow" idea to the bilateral payment agreements and also in the triangular trade.

For instance, in sugar imports from the Philippines, yen escrow has been used. A barter transaction with the countries in open account area is not permitted as mentioned before. But the Philippines prefer to trade on the basis of barter, so that the escrow payment method has been applied in the case of sugar import from this country.

In this case, the escrow account is opened at the Bank of Tokyo in the name of the Philippines government, but not in the name of a private trader. It is, therefore, a government to government escrow payment.

Another example is in the case of triangular trade between Japan, Pakistan and the United States.

Japan buys cotton from the United States, manufactures it and exports cotton products to Pakistan. The procedure is very complicated, but the following may explain the nature of the transaction:[1]

a. The Pakistan government receives a "purchase authorization" from the United States government. The Pakistan bank authorizes the Japanese government to issue a

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[1]*Ibid.*, pp. 49-50.

"sub-purchase authorization" so that she will be able to import cotton from the United States.

b. The Commodity Credit Corporation in the United States issues a letter of commitment to an authorized bank in the United States. The commitment informs the bank that the bank in Pakistan is the approved applicant for the importation of cotton from the United States. The Pakistan bank authorizes the Japanese bank to represent the Pakistan bank.

c. The Pakistan importer applies to his bank for a rupee letter of credit in favor of the exporter in Japan.

d. The bank in Japan negotiates the rupee letter of credit and sends it to the bank in Pakistan for collection.

e. The bank in Pakistan (the issuing bank of the credit) opens a rupee account under the name of the Japanese bank.

f. The exporter in Japan (the importer in relation to the United States) applies a dollar letter of credit in favor of the exporter in the United States on the basis of the sub-purchase authorization and the letter of commitment.

g. The exporter in the United States presents his draft to an authorized bank in his country. The negotiating bank receives reimbursement from the Commodity Credit Corporation. The bank notifies the bank in Pakistan and

asks to credit this transaction to the Foreign Operations Administration account of the United States.

h. The Pakistan bank debits the amount, which is due to the Japanese exporter, to the Foreign Operations Administration account.

Thus, Japanese traders can import cotton from the United States without paying for the transaction.

The application of the escrow payment method to the triangular trade is a new type of payment arrangement, and this is the first case of this kind.

3. Tomas Letter of Credit:

The Tokyo Merchandise Company initiated the transaction which accompanied such letters of credit. The name "Tomas" is taken from the initial letters of the company.

When a country adopts a quota system, barter system, or under certain trade agreements, it is difficult to find what kind of goods may be allowed for import and export, and when.

In such cases, either one of the parties cannot sign a sales contract owing to the uncertainty of the goods and the time of delivery, although those of other party have been decided.

In order to avoid difficulties and delay owing to such uncertainty, and at the time to assure the collateral

export and import, the party who cannot sign the contract is authorized to present a letter of guarantee which certifies that he will fulfil his obligation and the collateral transaction will be made in near future. Such custom has been developed in trade between Japan and the People's Republic of China.

Tomas letter of credit payment method is a modified type of payment similar to a back-to-back letter of credit system mentioned before. There are two different methods under which payments are made. The one is the tomas letter of credit import first, and another export first.

A. Tomas Letter of Credit, Import First:

This type of transaction is permitted only in the case where the export goods have not been decided, although the import goods are decided. The payment for the import goods will be made by an import letter of credit, which is to become effective after the confirmation of the letter of guarantee issued by the exporter's bank. Such letter of guarantee describes the terms on which the government will purchase the collateral export goods within a fixed date, and letter of credit will be issued after the license for the transaction is acquired.

The following instruction is attached to the

import letter of credit:[1]

> "The letter of credit becomes effective upon the Bank of...., London Office's receipt of Bank of China. London's confirmation that beneficiaries have presented to Bank of China, domestic branch their written guarantee certifying that beneficiaries will decide counter cargoes from Japan for the amount corresponding to the quantity of....(goods)....actually loaded for.... (accountee)....within six months and also indicate Compensation Transaction Approval No....."

This instruction is worded, because payments of the People's Republic of China are usually made through London banks.

B. Tomas Letter of Credit, Export First:

Under the circumstances where the import goods have not been selected, although the export goods have already been decided upon, the tomas letter of credit, export first, is issued in order to complete an obligation in the sales contract.

The exports are financed by an irrevocable letter of credit which will become effective after the letter of guarantee is confirmed by the bank.

In this case, the following will be added to the letter of credit:[2]

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[1]The Bank of Tokyo, "Letters of Credit Under the Compensation Agreements," op. cit., p. 46.

[2]Ibid., p. 47.

"This letter of credit becomes effective upon....(advising bank)....Japanese branch's receipt of your written guarantee that reciprocal credit(s) for....(amount)....will be opened within three months from your receipt of notification from....(advising bank)...., Japanese branch, of the establishment of this credit."

Both import first and export first tomas letters of credit are, as a rule, applied in the trade with the People's Republic of China and the U.S.S.R.

Back-to-back, escrow, and tomas letters of credit are used in particular types of trade, but each is designed to meet the respective trade need with these countries.

The compensation agreements are signed as a means of solving difficulties in a period of transition toward freer trade. But as a member of various organizations, such as the International Trade Organization and Bretton Woods, Japan is not expected to take any special measures, such as participating in compensation transactions. Such a limited trade policy will not stimulate freer trade. Therefore, special kinds of letters of credit such as described in this chapter will diminish as trade transactions become normal. However, it is quite probable that the kinds of letters of credit ordinarily used in normal foreign trade transactions would be substituted.

It is, however, interesting to learn some extended applications of letters of credit, and such will help us to understand the functions of letters of credit in

international finance in many aspects.

CONCLUSION

As a document providing assurance for payment, letters of credit have been internationally used in foreign trade financing.

Like other widely used commercial papers, such as bills of lading, trust receipts, checks, notes, etc., unification of practice, procedure, interpretation, terminology, and form of letters of credit was essential.

The Uniform Customs and Practice for Commercial Documentary Credit, the only standardized rules governing the use of letters of credit at the present time, have been adopted by many countries. Unfortunately, however, Britain has shown strong objection toward some provisions in the rules and thereby rejected their adoption. Their objection is that if they adopt these uniform rules, they will evidentally cause conflict between the courts decisions and the new practices.

This is one of the deadlocks toward the standardization of customs and practices of letters of credit. If the unification had been achieved and all the countries adopted the Uniform Customs and Practice, many conflicts could be avoided and a sound practice established. Such would undoubtedly make payments in foreign trade easier.

The case study of Japan presents the possibility of wider application of letters of credit in foreign trade financing, and at the same time it indicates that letters of credit function in many ways as a means of establishing greater assurance for payments.

Wider application of letters of credit to meet the particular needs such as Japan's may be necessary at this juncture toward free trade.

We must, however, know that the basic solution for the problems in foreign trade financing is to solve the dollar shortage and establish a freer trade system.

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APPENDIXES

STANDARD FORMS FOR THE OPENING

OF DOCUMENTARY CREDITS RECOMMENDED BY

THE INTERNATIONAL CHAMBER OF COMMERCE

Revocable Credit

By order of.....
for account of.....
we open revocable documentary credit No.....
in favour of.....
for a sum of.....maximum/about
available at sight/by draft at.....on you
against the following documents.....
covering.....(goods)
part shipments permitted/prohibited
credit valid until.....for presentation for payment/
acceptance with your (Head Office or Branch).
Please advise..by cable/mail or the opening of this credit.
Method of reimbursement.....
.....
Documents to be sent.....
.....

Confirmed Irrevocable Credit

By order of.....
for account of.....
we open irrevocable documentary credit No.....
in favour of.....
for a sum of.....maximum/about
available at sight/by draft at.....on you
against the following documents.....
covering.....(goods)
part shipments permitted/prohibited
credit valid until..for presentation for payment/acceptance
with your (Head Office or Branch).
Please advise...by cable/mail of the opening of this credit
adding your confirmation.
Method of reimbursement.....
.....
Documents to be sent.....
.....

Confirmed Irrevocable Negotiable Credit

By order of.....
for account of.....
we open irrevocable documentary credit No.....
in favour of.....
for a sum of.....maximum/about
against draft at sight/at.....on.....(Opening Bank or any
other Bank designated by it)
accompanied by the following documents.....
covering.....(goods)
part shipments permitted/prohibited
credit valid until.....for presentation for negotiation
with your (Head Office or Branch).
Please advise.....by cable/mail of the opening of this
credit adding your confirmation.

A LIST OF THE COUNTRIES WHICH ADOPTED THE
UNIFORM CUSTOMS AND PRACTICE AND THE
STANDARD FORMS OF LETTERS OF CREDIT
RECOMMENDED BY
INTERNATIONAL CHAMBER OF COMMERCE

Argentine	3 *	Korea	2 *
Austria	1 **	Luxemburg	1 **
Belgium	1 **	Mexico	2 *
Bolivia	1 *	Morocco	1 *
Brazil	2 *	Netherlands	1 **
Bulgaria	3 *	Dutch West Indies	1 **
Colombia	3 *	Norway	1 *
Costarica	2 *	Pakistan	3 *
Cuba	2 *	Peru	2 *
Czechoslovakia	3 *	Philippines	1 *
Denmark	1 *	Panama	3 *
Finland	1 *	Poland	3 *
France & French Union	1 **	Portugal	2 *
Germany	1 **	Rumania	3 *
Greece	2 *	Saar	1 **
Guatemala	3 *	Salvador	2 *
Haiti	2 *	Sweden	1 **
Honduras	2 *	Switzerland	1 *
Hungary	3 *	Tangiers	2 *
Indonesia	1 *	Turkey	2 *
Iran	1 *	U.S.A.	1 *
Israel	3 *	Urguay	2 *
Italy	1 **	U.S.S.R.	3 *
Belgian Congo	1 *	Yugoslavia	1 *
Japan	1 *		

1.....All the banks in the country officially adopted.
2.....A part of the banks in the country officially adopted.
3.....Unofficially adopted countries.
**....Countries adopted both the regulations and the forms.
*.....Countries adopted only the regulations.

The First National City Bank of New York

ESTABLISHED 1812

103

CABLE ADDRESS "CITIBANK"

55 Wall Street, New York 15, N.Y.

IRREVOCABLE STRAIGHT CREDIT

NEW YORK

EACH DRAFT DRAWN RELATIVE HERETO MUST BE MARKED: — DRAWN UNDER CREDIT NO.

GENTLEMEN:

AT THE REQUEST OF

AND FOR THE ACCOUNT OF

WE HEREBY OPEN IN YOUR FAVOR OUR IRREVOCABLE CREDIT NO.

FOR A SUM OR SUMS NOT EXCEEDING A TOTAL OF

AVAILABLE BY YOUR DRAFT(S) AT

ON US TO BE ACCOMPANIED BY:

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, THIS CREDIT IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR COMMERCIAL DOCUMENTARY CREDITS FIXED BY THE THIRTEENTH CONGRESS OF THE INTERNATIONAL CHAMBER OF COMMERCE.

WE HEREBY AGREE TO HONOR EACH DRAFT DRAWN UNDER AND IN COMPLIANCE WITH THE TERMS OF THIS CREDIT, IF DULY PRESENTED (TOGETHER WITH THE DOCUMENTS AS SPECIFIED) AT THIS OFFICE ON OR BEFORE

YOURS VERY TRULY,

ASSISTANT CASHIER

COM 601A (L) REV. 11-56

904

The First National City Bank of New York

ESTABLISHED 1812

104

CABLE ADDRESS "CITIBANK"

55 Wall Street, New York 15, N.Y.

CONFIRMED IRREVOCABLE NEGOTIATION CREDIT

DATE

EACH DRAFT DRAWN RELATIVE HERETO MUST BE MARKED: DRAWN AS PER ADVICE

GENTLEMEN:

WE ARE INSTRUCTED BY

TO ADVISE YOU THAT IT HAS ESTABLISHED IN YOUR FAVOR ITS IRREVOCABLE CREDIT No.

FOR ACCOUNT OF

FOR A SUM OR SUMS NOT EXCEEDING A TOTAL OF

AVAILABLE BY YOUR DRAFT(S) AT

ON US TO BE ACCOMPANIED BY:

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, THIS ADVICE IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR COMMERCIAL DOCUMENTARY CREDITS FIXED BY THE THIRTEENTH CONGRESS OF THE INTERNATIONAL CHAMBER OF COMMERCE.

OUR ABOVE-NAMED INSTRUCTOR ENGAGES WITH THE DRAWER, ENDORSERS AND BONA FIDE HOLDERS THAT EACH DRAFT DRAWN UNDER, AND IN COMPLIANCE WITH, THE TERMS OF THE SAID CREDIT, AND ACCOMPANIED BY THE ABOVE-SPECIFIED DOCUMENTS WILL BE DULY HONORED IF NEGOTIATED ON OR BEFORE

WE CONFIRM THE SAID CREDIT AND HEREBY UNDERTAKE THAT EACH DRAFT DRAWN AND NEGOTIATED THEREUNDER WILL BE DULY HONORED BY THE DRAWEE THEREOF ON PRESENTATION.

YOURS VERY TRULY,

ASSISTANT CASHIER

COM 597A (L) 11-56
PRINTING OF 9-57

FORM A

The First National City Bank of New York

ESTABLISHED 1812

105

CABLE ADDRESS "CITIBANK"

55 Wall Street, New York 15, N.Y.

ADVICE OF AUTHORITY TO PAY

NEW YORK

ALL DRAFTS DRAWN MUST BE MARKED:
DRAWN AS PER ADVICE

DEAR SIRS:

WE ADVISE YOU THAT

HAVE AUTHORIZED US TO HONOR YOUR DRAFTS UNDER THEIR CREDIT NO.

FOR ACCOUNT OF

FOR A SUM OR SUMS NOT EXCEEDING A TOTAL OF

TO BE DRAWN AT

ON US TO BE ACCOMPANIED BY

DRAFTS SO DRAWN, WITH DOCUMENTS AS SPECIFIED, MUST BE PRESENTED AT THIS OFFICE NOT LATER THAN

EXCEPT AS OTHERWISE EXPRESSLY STATED HEREIN, THIS ADVICE IS SUBJECT TO THE UNIFORM CUSTOMS AND PRACTICE FOR COMMERCIAL DOCUMENTARY CREDITS FIXED BY THE THIRTEENTH CONGRESS OF THE INTERNATIONAL CHAMBER OF COMMERCE.

THIS ADVICE, WHICH IS SUBJECT TO REVOCATION OR MODIFICATION AT ANY TIME WITHOUT NOTICE TO YOU, CONVEYS NO ENGAGEMENT ON OUR PART OR ON THE PART OF THE ABOVE MENTIONED CORRESPONDENT AND IS SIMPLY FOR YOUR GUIDANCE IN PREPARING AND PRESENTING DRAFTS AND DOCUMENTS.

YOURS VERY TRULY,

ASSISTANT CASHIER

COM 512B (L) REV. 12-56

104

APPLICATION AND AGREEMENT FOR COMMERCIAL CREDIT

DATE _____ 106

TO THE CHASE MANHATTAN BANK,
INTERNATIONAL DEPARTMENT
EIGHTEEN PINE STREET
NEW YORK 15, N. Y.

PLEASE ISSUE AND ☐ ADVISE BY WIRE ☐ FORWARD BY MAIL ☐ DELIVER TO US FOR TRANSMISSION TO BENEFICIARY YOUR IRREVOCABLE CREDIT (THE "CREDIT") AS FOLLOWS:

IN FAVOR OF _____
(NAME) (COMPLETE ADDRESS)

UP TO THE AGGREGATE AMOUNT OF _____

FOR ACCOUNT OF _____
(NAME) (COMPLETE ADDRESS)

AVAILABLE BY DRAFTS AT _____ DRAWN AT YOUR OPTION ON YOU OR ANY OF YOUR
(INDICATE TENOR)

CORRESPONDENTS FOR _____% OF THE INVOICE VALUE WHEN ACCOMPANIED BY THE FOLLOWING DOCUMENTS:

DOCUMENTS REQUIRED: PLEASE INDICATE BY CHECK (X)

☐ COMMERCIAL INVOICE

☐ CONSULAR INVOICE OR SPECIAL CUSTOMS INVOICE, IN DUPLICATE

☐ MARINE/WAR INSURANCE CERTIFICATE OR ☐ MARINE/WAR INSURANCE COVERED BY US

☐ OTHER DOCUMENTS _____
(IF SPECIAL DOCUMENTS ARE REQUIRED, PLEASE SPECIFY NAME OF ISSUER)

_____

☐ FULL SET OF "ON BOARD" OCEAN BILLS OF LADING RELATING TO SHIPMENT

FROM _____ TO _____
(PLEASE SPECIFY COUNTRY ONLY)

DRAWN TO ORDER OF **THE CHASE MANHATTAN BANK** MARKED NOTIFY ABOVE ACCOUNT PARTY

RELATING TO _____
(Please specify commodity only, omitting details as to grade, quality, price, etc.)
(Commercial invoices presented may be referred to for description of the commodity; General description in other documents will be accepted)

DRAFTS MUST BE DRAWN AND NEGOTIATED NOT LATER THAN _____

SPECIAL INSTRUCTIONS _____

_____

_____

The *terms and conditions* on the following three pages are hereby made part of this application and agreement for commercial credit and are accepted.

In conformity with U. S. Treasury foreign assets control regulations, we warrant to you that no commodity to be imported is of Chinese, North Korean or Tibetan origin.

_____
(NAME)

_____
(ADDRESS)

_____
(TITLE)

PLEASE SIGN OFFICIALLY

Terms and Conditions of Application and Agreement for Commercial Credit

In consideration of the issuance by The Chase Manhattan Bank ("the Bank") of the Credit substantially in accordance with the Application appearing on the first page hereof, as requested by the Applicant (being the signer of said Application), the Applicant hereby agrees with the Bank as follows:

1. As to drafts, cable or written demands for payment, receipts, or acceptances (any such instrument being hereinafter sometimes called an "instrument") under or purporting to be under the Credit, which are payable in United States currency: (a) in the case of each sight draft, demand or receipt, to reimburse the Bank, at its office, on demand, in United States currency, the amount paid thereon, or, if so demanded by the Bank, to pay to the Bank, at its office, in advance in such currency, the amount required to pay the same; and (b) in the case of each acceptance, to pay to the Bank, at its office, in United States currency, the amount thereof, on demand but in any event not later than one business day prior to maturity, or, in case the acceptance is not payable at the Bank, then on demand but in any event in time to reach the place of payment in the course of ordinary mail not later than one business day prior to maturity.

2. As to instruments under or purporting to be under the Credit, which are payable in currency other than United States currency: (a) in the case of each sight draft, demand or receipt, to reimburse the Bank, at its office, on demand, in United States currency, the equivalent of the amount paid at the Bank's then current selling rate of exchange in New York for cable transfers to the place of payment in the currency in which such draft, demand or receipt is payable, with interest from the date of payment of the instrument, or if so demanded by the Bank, to pay to the Bank, at its office, in advance, in United States currency, the equivalent of the amount required to pay the same; and (b) in the case of each acceptance, to pay to the Bank, at its office, on demand but in any event sufficiently in advance of maturity to enable the Bank to arrange for cover to reach the place of payment not later than one business day prior to maturity, the equivalent of the acceptance in United States currency at the Bank's then current selling rate of exchange in New York for cable transfers to the place of payment in the currency of the acceptance. If for any cause whatsoever there exists at the time in question no rate of exchange generally current in New York for effecting cable transfers of the sort above mentioned, the Applicant agrees to pay the Bank on demand an amount in United States currency equivalent to the actual cost to the Bank of settlement of the Bank's obligation to the holder of the instrument or other person, however and whenever such settlement shall be made by the Bank, including interest on the amount payable by the Applicant, from the date of such settlement to the date of the Applicant's payment to the Bank. The Applicant will comply with any and all governmental exchange regulations now or hereafter applicable to the Credit or instruments or payments relative thereto, and will pay the Bank, on demand, in United States currency, such amount as the Bank may be required to expend on account of such regulations.

3. To pay the Bank, on demand, the Bank's commission at such rate as the Bank may determine to be proper, and all charges and expenses paid or incurred by the Bank in connection with the Credit, and interest where chargeable. Interest payable hereunder shall be at the rate customarily charged by the Bank at the time in like circumstances.

4. If the Bank delivers to or upon the order of the Applicant any of the property and/or documents covered by the Credit, or which may be held by the Bank or for its account as security hereunder, prior to the Bank's having received reimbursement in full with respect to the relative instrument(s), to sign and deliver to the Bank a Trust Receipt or Trust Receipts as defined in and complying with the requirements of the Uniform Trust Receipts Law of the State of New York, or if other law is applicable, then in accordance therewith, and a Statement of Trust Receipt Financing in the form specified in the relative statute, and to pay all filing fees, it being understood that any such delivery of property and/or documents will be made by the Bank in reliance upon this agreement, and that the Bank's rights as specified herein shall be in addition to and not in limitation of its rights under applicable law. Upon any transfer, sale, delivery, surrender or endorsement of any bill of lading, warehouse receipt or other document at any time(s) held by the Bank, or for its account by any of its correspondents, relative to the Credit, the Applicant will indemnify and hold the Bank, and any such correspondent(s), harmless from and against each and every claim, demand, action or suit which may arise against the Bank, or any such correspondent(s), by reason thereof.

5. That, except as otherwise expressly provided in this Application and Agreement or as the Bank and the Applicant may otherwise expressly agree with regard to, and prior to the Bank's issuance of, the Credit, the "Uniform Customs and Practice for Commercial Documentary Credits Fixed by the Thirteenth Congress of the International Chamber of Commerce" shall in all respects be deemed a part hereof as fully as if incorporated herein and shall apply to the Credit. Notwithstanding the foregoing, any action, inaction or omission taken or suffered by the Bank, or by any of its correspondents, under or in connection with the Credit or the relative instruments, documents, or property, if in good faith and in conformity with such foreign or domestic laws, regulations, or customs as the Bank or any of its correspondents may deem to be applicable thereto, shall be binding upon the Applicant and shall not place the Bank or any of its correspondents under any resulting liability to the Applicant, and the Applicant agrees to hold the Bank and its correspondents indemnified and harmless against any and all loss or liability, including reasonable counsel fees, howsoever arising from or in connection with the Credit.

6. That, except in so far as instructions may be given by the Applicant in writing expressly to the contrary with regard to, and prior to, the Bank's issuance of the Credit: (a) the Bank and any of its correspondents may receive and accept as "Bills of Lading" under the Credit, any document(s) issued or purporting to be issued by or on behalf of any carrier which acknowledge(s) receipt of property for transportation, whatever the specific provisions of such document(s); (b) any bill of lading issued by or on behalf of an ocean carrier which indicates that goods have been shipped may be accepted by the Bank as an "on board" ocean bill of lading; (c) although shipment(s) in excess of the quantity called for under the Credit are made, the Bank may honor the relative instrument(s) in an amount or amounts not exceeding the amount of the Credit; and (d) documents of insurance under the Credit need not be for an amount of insurance greater than the amount paid by the Bank under the Credit.

7. That in the event of any extension of the maturity or time for presentation of instruments or documents, or any other modification of the terms of the Credit, at the request of the Applicant, or in the event of any increase in the amount of the Credit at the Applicant's request, this agreement shall be binding upon the Applicant with regard to the Credit so increased or otherwise modified, to instruments, documents and property covered thereby, and to any action taken by the Bank or any of its correspondents in accordance with such extension, increase or other modification.

8. That the user(s) of the Credit shall be deemed agents of the Applicant and neither the Bank nor its correspondents shall be responsible for: (a) the use which may be made of the Credit or for any acts or omissions of the user(s) of the Credit; (b) the existence of the property purporting to be represented by documents or any difference between the character, quality, quantity, condition or value of the property and that purporting to be represented by documents; (c) the time, place, manner or order in which shipment is made; (d) the validity, sufficiency, or genuineness of documents, or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, fraudulent or forged; (e) partial or incomplete shipment, or failure or omission to ship any or all of the property referred to in the Credit; (f) the character, adequacy, validity or genuineness of any insurance or for the solvency or responsibility of any insurer or for any other risk connected with insurance; (g) any deviation from instructions, delay, default or fraud by the shipper or anyone else in connection with the property or the shipping thereof; (h) the solvency, responsibility or relationship to the property of any party issuing any documents in connection with the property; (i) delay in arrival or failure to arrive of either the property or any of the documents relating thereto; (j) delay in giving or failure to give notice of arrival or any other notice; (k) any breach of contract between the shipper(s) or vendor(s) and the consignee(s) or buyer(s); (l) failure of any instrument to bear any reference or adequate reference to the Credit, or failure of documents to accompany any instrument at negotiation, or failure of any person to note the amount of any instrument on the reverse of the Credit, or to surrender or take up the Credit or to send forward documents apart from instruments as required by the terms of the Credit, each of which provisions, if contained in the Credit itself, it is agreed may be waived by the Bank; or (m) errors, omissions, interruptions or delays in transmission, or delivery of any messages, by mail, cable, telegraph, wireless or otherwise, whether or not they may be in cipher; that the Bank shall not be responsible for any act, error, neglect or default, omission, insolvency or failure in business of any of its correspondents; that the occurrence of any one or more of the contingencies referred to in the preceding clauses of this paragraph shall not affect, impair or prevent the vesting of any of the Bank's rights or powers hereunder or the Applicant's obligation to make reimbursement; and that the Applicant will promptly examine all documents and instruments delivered to it by the Bank and will promptly notify the Bank of any claim of insufficiency or irregularity.

9. To procure promptly any necessary import, export or other licenses for the import, export or shipping of the property shipped under or pursuant to or in connection with the Credit, and to comply with all foreign and domestic Governmental regulations in regard to the shipment of such property or the financing thereof, and to furnish such certificates in that respect as the Bank may at any time(s) require, and to keep the property adequately covered by insurance in amounts, against risks and in companies satisfactory to the Bank, and to assign the policies or certificates of insurance to the Bank, or to make the loss or adjustment, if any, payable to the Bank, at its option, and to furnish the Bank, if demanded, with evidence of acceptance by the insurers of such assignment. Should the insurance upon such property for any reason be unsatisfactory to the Bank, the Bank may, at the Applicant's expense, obtain insurance satisfactory to the Bank.

10. That, as security for the payment or performance of any and all of the Applicant's obligations and/or liabilities hereunder, absolute or contingent, and also for the payment or performance of any and all other obligations and/or liabilities, absolute or contingent, due or to become due, which are now, or may at any time(s) hereafter be owing by the Applicant to the Bank, or which are now or hereafter existing, the Applicant hereby: (a) recognizes and admits the Bank's ownership in and unqualified right to the possession and disposal of any and all shipping documents, warehouse receipts, policies or certificates of insurance and other documents accompanying or relative to instruments drawn under the Credit and in and to any and all property shipped under or pursuant to or in connection with the Credit, or in any way relative thereto or to any of the instruments drawn thereunder (whether or not such documents, goods or other property be released to or upon the order of the Applicant on trust or bailee receipt), and in and to the proceeds of each and all of the foregoing; (b) pledges to the Bank and/or gives the Bank a general lien upon and/or

right of set-off against, all right, title and interest of the Applicant in and to the balance of every deposit account, now or at any time hereafter existing, of the Applicant with the Bank, or any other claims of the Applicant against the Bank, and in and to all property, claims, demands, or rights and interests in any thereof of the Applicant, or any evidence thereof, which have been or at any time shall be delivered to or otherwise come into the Bank's possession, custody or control, or into the possession, custody or control of any of its agents or correspondents for any purpose, whether or not for the express purpose of being used by the Bank as collateral security or for safekeeping or for any other or different purpose, the Bank being deemed to have possession, custody or control of all such property actually in transit to or set apart for the Bank or any of its agents, correspondents or others acting in its behalf, it being understood that the receipt at any time by the Bank, or any of its correspondents, of other security, of whatever nature, including cash, shall not be deemed a waiver of any of the Bank's rights or powers hereunder; and (c) agrees at any time and from time to time, on demand, to deliver, convey, transfer or assign to the Bank additional security of a value and character satisfactory to the Bank, or to make such payment as the Bank may require.

11. That upon the failure of the Applicant at any time to keep a margin of security with the Bank satisfactory to the Bank; or upon the death of the Applicant; or if any of the obligations and/or liabilities of the Applicant to the Bank shall not be paid or performed when due; or if the Applicant shall become insolvent (however such insolvency may be evidenced) or commit any act of insolvency, or make a general assignment for the benefit of creditors; or if the Applicant shall suspend the transaction of its usual business or be expelled or suspended from any exchange; or if an application is made by any judgment creditor of the Applicant for an order directing the Bank to pay over money or to deliver other property; or if a petition in bankruptcy shall be filed by or against the Applicant; or if a petition shall be filed by or against the Applicant or any proceeding shall be instituted by or against the Applicant for any relief under any bankruptcy or insolvency laws or any laws relating to the relief of debtors, readjustment of indebtedness, reorganization, composition or extensions; or if any governmental authority, or any court at the instance of any governmental authority, shall take possession of any substantial part of the property of the Applicant or shall assume control over the affairs or operations of the Applicant; or if a receiver shall be appointed of, or a writ or order of attachment or garnishment shall be issued or made against, any of the property or assets of the Applicant; thereupon, unless the Bank shall otherwise elect, any and all obligations and liabilities of the Applicant to the Bank, whether now existing or hereafter incurred, shall become and be due and payable forthwith without notice or demand; and the Applicant, as to property in which the Applicant may have any interest, expressly authorizes the Bank to sell immediately, without demand for payment, without advertisement and without notice to the Applicant, all of which are hereby expressly waived, any and all such property, arrived or to arrive, at private sale or at public auction or at brokers' board or otherwise, at the Bank's option, in such parcel or parcels and at such time or times and at such place or places and for such price or prices and upon such terms and conditions as the Bank may deem proper, and to apply the net proceeds of such sale or sales, together with any balance of deposits and any sums credited by or due from the Bank to the Applicant in general account or otherwise, to the payment of any and all of such obligations and/or liabilities. If any such sale be at brokers' board or at public auction, the Bank may itself be a purchaser at such sale, free from any right of redemption, which the Applicant hereby expressly waives and releases.

12. That the Bank's rights and liens hereunder shall continue unimpaired, and the Applicant shall be and remain obligated in accordance with the terms and provisions hereof, notwithstanding the release and/or substitution of any property which may be held as security hereunder at any time(s), or of any rights or interest therein. No delay, extension of time, renewal, compromise or other indulgence which may occur or be granted by the Bank, shall impair the Bank's rights or powers hereunder. The Bank shall not be deemed to have waived any of its rights hereunder, unless the Bank or its authorized agent shall have signed such waiver in writing. No such waiver, unless expressly as stated therein, shall be effective as to any transaction which occurs subsequent to the date of such waiver, nor as to any continuance of a breach after such waiver.

13. That the word "property" as used in this agreement includes goods and merchandise and any and all documents relative thereto, securities, funds, choses in action, and any and all other forms of property, whether real, personal or mixed and any right or interest therein.

14. That if the Applicant is a banking institution, the Applicant hereby appoints the Bank as its agent to the extent of issuing the Credit in accordance with, and subject to, the foregoing Application and Agreement for Commercial Credit and these Terms and Conditions.

15. That if the Applicant is a partnership, the obligations hereof shall continue in force, and apply, notwithstanding any change in the membership of such partnership, whether arising from the death or retirement of one or more partners or the accession of one or more new partners; and that the obligations hereof shall bind the heirs, executors, administrators, successors and assigns of the Applicant, and all rights, benefits and privileges hereby conferred on the Bank shall be and hereby are extended to and conferred upon and may be enforced by its successors and assigns.

16. That this agreement and all rights, obligations and liabilities arising hereunder shall be governed by, and construed in accordance with, the laws of the State of New York.

UNIFORM CUSTOMS AND PRACTICE FOR COMMERCIAL DOCUMENTARY CREDITS FIXED BY THE THIRTEENTH CONGRESS OF THE INTERNATIONAL CHAMBER OF COMMERCE

GENERAL PROVISIONS.

The provisions, definitions, interpretations, etc. contained in the following Articles are to be understood as uniform directions applying to all commercial documentary credits including authorities to pay, accept, negotiate or purchase, unless otherwise expressly agreed.

It is essential that instructions embodied in commercial documentary credits be complete and precise in every way and any attempt to include technical terms or cumbersome details should be discouraged in order to guard against the possibility of confusion and misunderstanding.

The beneficiary of a credit can in no case avail himself of the legal relations existing between Banks, or between the applicant for the credit and his Bank.

A.—FORM OF CREDITS.

Article 1.—Commercial documentary credits are essentially distinct transactions from sales contracts, on which they may be based, with which Banks are not concerned.

Article 2.—Commercial documentary credits may be either:

a) revocable or

b) irrevocable.

Article 3.—All credits, unless clearly stipulated as irrevocable, are considered revocable even though an expiry date is specified.

Article 4.—Revocable credits are not legally binding undertakings between Banks and beneficiaries. Such credits may be modified or cancelled at any moment without notice to the beneficiary. When a credit of this nature has been transmitted to a branch or to another Bank, its modification or cancellation can take effect only upon receipt of notice thereof by such branch or other Bank, prior to payment or negotiation, or the acceptance of drawings thereunder by such branch or other Bank.

Article 5.—Irrevocable credits are definite undertakings by an issuing Bank and constitute the engagement of that Bank to the beneficiary or as the case may be, to the beneficiary and bona fide holders of drafts drawn thereunder that the provisions for payment, acceptance or negotiation contained in the credit, will be duly fulfilled provided that the documents or as the case may be, the documents and the drafts drawn thereunder comply with the terms and conditions of the credit.

When the issuing Bank instructs another Bank to confirm its irrevocable credit and when the latter does so, the confirmation implies a definite undertaking of the confirming Bank as from the date on which it gives confirmation.

In case of credits available by negotiation of drafts, the confirmation implies only the undertaking of the confirming Bank to negotiate drafts without recourse to drawer.

Such undertakings can neither be modified nor cancelled without the agreement of all concerned.

When a correspondent is instructed by cable or telegram to notify a letter of credit, the issuing Bank must send the original of the said letter of credit to the said correspondent if it is intended to put the document itself into circulation. If any other procedure were followed, the issuing Bank would be responsible for all consequences which may result therefrom.

Article 6.—Irrevocable credits may be advised to the beneficiary through an advising Bank without responsibility on the latter's part.

Article 7.—When a Bank is instructed to issue, confirm or advise a credit similar in terms to one previously issued and the credit to which reference is made contains amendments, it shall be understood that the details of the credit being issued, confirmed or advised will be transmitted to the beneficiary inclusive of the amendments, unless instructions to the contrary are contained in the instructions.

Article 8.—In the event of the period of validity of a credit not being stipulated in an order to issue or confirm an irrevocable credit, the Bank may advise the beneficiary of the credit for information only, and this implies no responsibility on the part of the Bank doing so. The credit will only be issued or confirmed later when supplementary details on the duration of validity have been received.

B.—LIABILITY.

Article 9.—Banks must examine all documents and papers with care so as to ascertain that on their face they appear to be in order.

Article 10.—In documentary credit operations, all parties concerned deal in documents and not in goods. Payment, negotiation or acceptance against documents in accordance with the terms and conditions of a credit by a Bank authorized to do so binds the party giving the authorization to take up the documents and reimburse the Bank making the payment, negotiation or acceptance.

If the documents, on their face, are not as stipulated by the terms and conditions of the credit, the issuing Bank must, upon receipt of the documents, determine, on the basis of the documents alone, whether or not to claim that payment, negotiation or acceptance was not made in accordance with the terms and conditions of the credit.

If such claim is to be made, notice to that effect, stating the reasons therefor, must be given by cable or other expeditious means to the Bank demanding reimbursement and such notice must state that the documents are being held at the disposal of such Bank or are being returned thereto. The issuing Bank shall have a reasonable time to examine the documents.

Article 11.—Banks assume no liability or responsibility for the form, sufficiency, correctness, genuineness, falsification or legal effect of any documents or papers, or for the description, quantity, weight, quality, condition, packing, delivery or value of goods represented thereby, or for the general and/or particular conditions stipulated in the documents, or for the good faith or acts of the consigner or any other person whomsoever, or for the solvency, standing, etc. of the carriers or insurers of the goods.

Article 12.—Banks assume no liability or responsibility for the consequences arising out of delay and/or loss in transit of any messages, letters, and/or documents, or for delay, mutilation or other errors in the transmission of cables, telegrams, or other mechanically transmitted messages, or for errors in translation or interpretation of technical terms, and Banks reserve the right to transmit credit terms without translating them.

Article 13.—Banks assume no liability or responsibility for consequences arising out of the interruption of their business either by a decision of a public authority, or by strikes, lockouts, riots, wars, acts of God or other causes beyond their control. On credits expiring during such interruption of business, Banks will be able to make no settlement after expiration unless specifically authorized.

Article 14.—Banks are authorized to make provision for credits with other Banks, for the account and at the risk of the applicants for the credits.

Banks utilizing the services of another Bank assume no liability or responsibility (unless they themselves are at fault) should the instructions they transmit not be carried out exactly, even if they have themselves taken the initiative in the choice of their correspondent.

The applicants for the credit are responsible to the Banks for all obligations imposed upon the latter by foreign laws and customs.

C.—DOCUMENTS.

Article 15.—Unless otherwise instructed, Banks consider themselves authorized to honour the documents which they judge necessary, if presented in a suitable form, viz.:

a) In Maritime traffic:
Full set of Sea or Ocean Bills of Lading in negotiable and transferable form;
Transferable Policy or Certificate of Insurance;
Invoice.

b) In Inland traffic:
Full set of Inland Waterway Bills of Lading in negotiable and transferable form, or
Inland Waterway Consignment Note, or
Railroad Consignment Note, or
Counterfoil Waybill, or
Railroad Bills of Lading in negotiable and transferable form;
Transferable Policy or Certificate of Insurance;
Invoice.

c) In Postal traffic:
Postal Receipt; or
Certificate of Mailing issued by the Postal Authorities;
Transferable Policy or Certificate of Insurance;
Invoice.

d) In Airway traffic:
Air Mail Receipt or Air Transportation Waybill or
Air Consignment Note or Receipt;
Transferable Policy or Certificate of Insurance;
Invoice.

Banks have the right to waive insurance papers on proof satisfactory to them that the insurance is covered.

Article 16.—Except as stated in Article 23, the date of the Bill of Lading, or date indicated on the reception stamp of the Railway or Inland Waterway Bills of Lading or Consignment Notes, Counterfoil Waybills, Postal Receipts, Certificates of Mailing, Air Mail Receipts, Air Transportation Waybills, Consignment Notes or Receipts, Trucking Companies Bills of Lading, or other shipping documents will be taken in each case to be the date of shipment of the goods.

Article 17.—Proof of payment of the freight will be considered sufficient if the words "freight paid" or "freight prepaid" or words of similar import appear by stamp or otherwise on the shipping documents. If the shipping documents contain the words "freight pre-payable" or "freight to be prepaid" or words of similar import, they will not be accepted as constituting evidence of the payment of freight.

Article 18.—Shipping documents bearing reservations as to the apparent good order and condition of the goods and the packaging may be refused.

A clean shipping document is one which bears no superimposed clauses expressly declaring a defective condition of the goods or packaging.

The following should not be considered such reservations: a) clauses which do not expressly state that the goods or packaging are unsatisfactory, e.g. "second-hand cases", "used drums", etc.; b) clauses which emphasize carriers' non-liability for risks arising through the nature of the goods or the packaging; c) clauses which disclaim on the part of the carrier knowledge of contents, weight, measurement, quality, or technical specification of the goods.

Unless otherwise specified in the credit or inconsistent with any of the documents presented under the credit, Banks may honor documents stating that freight or transportation charges are payable on delivery.

Bills of Lading.

Article 19.—When Sea or Ocean Bills of Lading are required, the following may be accepted:

a) "Received for Shipment", "Alongside", "Shipped" or "On Board" Bills of Lading.
b) "Port" or "Custody" Bills of Lading for shipments of cotton from the United States of America.
c) "Through Bills of Lading" issued by steamship companies or their agents.

Regardless of the type of Bills of Lading required by a credit (including "Shipped" or "On Board" Bills of Lading), Bills of Lading which, apart from printed clauses, permit transshipment enroute, may be accepted provided the entire voyage is covered by one and the same Bill of Lading. If expressions such as "direct shipment", "without transshipment" or "transshipment not permitted" are used in credits, Bills of Lading which do not specifically indicate that the merchandise is to be transshiped may be accepted.

Article 20.—Bills of Lading issued by forwarding agents will be refused, as also Bills of Lading for shipment by sailing vessels.

Bills of Lading which are issued under and are subject to the conditions of a Charter Party are only accepted under special instructions to that effect.

Article 21.—Banks have the right to refuse Bills of Lading mentioning the stowage of goods on deck but may accept such Bills of Lading when the documents presented include an insurance policy or certificate mentioning that the goods are stowed on deck.

Article 22.—When shipment by steamship is required, Banks may consider themselves authorized to accept Bills of Lading for shipment by motor vessels or vice-versa.

Article 23.—When a shipment is stipulated "On Board", the loading on board can be evidenced by means of a notation signed or initialled on behalf of the carrier. If the Bill of Lading is presented after the ultimate shipment date specified in the credit, the said notation must be dated and this date shall be considered as the date of loading on board and shipment.

Article 24.—Banks have the right to require that the name of the beneficiary of the credit appears on the Bill of Lading as shipper or endorser.

Railway Bills of Lading, etc.

Article 25.—Banks will consider Railway or Inland Waterway Bills of Lading or Consignment notes, Counterfoil Waybills, Postal Receipts, Airway Bills or Receipts, or Trucking Bills of Lading as regular when they bear the reception stamp of the carrier, or issuer, or when they bear a signature.

Article 26.—When an attestation or certificate of weight is required in the case of railway transport, Banks may refer to the indications contained in the shipping documents, on condition that weighing has been duly witnessed by means of a weight stamp or other official means. A weight attestation will only be required on special request.

Article 27.—If, in the case of shipment by rail, by inland waterway, by truck, by air, or by post, the name of the beneficiary does not appear on the transport documents, Banks may require them to be countersigned by him.

Insurance.

Article 28.—Policies and Certificates of Insurance issued by companies or their agents or by brokers or by underwriters are acceptable.

Unless otherwise specified, such insurance must be issued in the currency of the credit and Banks may, in their discretion, refuse any Insurance Policies or Certificates presented if they bear a date later than the date of shipment as evidenced by the shipping documents.

Article 29.—The minimum value insured must be the C.I.F. value of the goods as evidenced by the documents tendered, but in no case should it be less than the amount of the drawings under the credit, or than the amount of the commercial invoice if the latter is higher.

Article 30.—Failing instructions as to the risks to be covered or when a credit stipulates that insurance cover "usual risks" or "customary risks" or insurance requirements of similar import, Banks may accept insurance documents as tendered without responsibility on their part.

Article 31.—When a credit stipulates "Insurance against all Risks" Banks can in no way be held responsible if any particular risk is not covered.

When a credit provides for insurance "with particular average" Banks may accept insurance policies or certificates which indicate that such particular average is subject to a franchise unless it is specifically indicated in the credit that the Particular Average Insurance must be issued "irrespective of percentage"

Invoices.

Article 32.—Invoices must be made out in the name of the applicant for the credit or in the name of any other person as required in the credit.

Payment of such Invoices may be refused if they have been issued for an amount in excess of the credit amount.

Article 33.—The description of the goods in the Commercial Invoice must correspond with the description in the credit. Wherever the goods are described in the remaining documents, description in general terms will be acceptable.

Other Documents.

Article 34.—When other documents are required, such as: Warehouse Receipts, Delivery Orders, Consular Invoices, Certificates of Origin, Certificates of Weight, of Quality or of Analysis etc., without further definition, Banks may accept such documents as tendered without responsibility on their part.

D.—INTERPRETATION OF TERMS.

Article 35.—The terms "about", "circa" or similar expressions are to be construed as allowing a difference not to exceed 10% more or less applicable, according to their place in the instructions, to the amount of the credit or to the quantity or unit price of the goods.

When the credit does not specify quantity in terms of packing units or containers or individual items, a difference of 3% more or less will be allowed on the total quantity specified in the credit, even if the terms of the credit call for a fixed weight or measurement, unless the credit expressly stipulates that the quantity specified may not be exceeded or reduced.

Partial Shipments.

Article 36.—Unless otherwise expressly stipulated, Banks may pay, accept or negotiate for partial shipments, even though the credit mentions the name of a vessel and when partial shipment is made by that vessel.

Article 37.—If shipment by instalments within given periods is specified, each instalment shall be treated as a separate transaction. The instalment not shipped within a given period cannot be added to subsequent shipments and is considered as *ipso facto* cancelled. Banks may, however, pay against documents for subsequent shipments provided they are made within the given periods.

Maturity or Validity.

Article 38.—All irrevocable credits must stipulate an expiry date for payment, acceptance or negotiation notwithstanding the indication of a date of shipment.

Article 39.—The words "to", "until", "till" and words of similar import applying to dates of maturity for payment, acceptance, negotiation or shipment are understood to include the date mentioned.

Article 40.—When the stipulated expiry date falls on a Sunday or legal or local holiday, or upon any other closing day for the Banks, the last day of the period of validity will be extended until the first following business day. This does not apply to the last day for shipment which must be respected whatever the day.

Article 41.—The validity of a revocable credit, if no date is specified, will be considered to have expired six months from the date of the notification sent to the beneficiary by the Bank with which the credit is available.

Shipment, Loading or Dispatch.

Article 42.—"Prompt", "immediately", "as soon as possible", etc.: these terms and others of similar import, are to be interpreted as a request for shipment within thirty days from the notification to the beneficiary, unless a date has been stipulated.

When the words "departure", "dispatch", or "loading" are used in Commercial Documentary Credits for the fixation of the latest date for shipment of the goods, and unless specific evidence in respect thereto is required, the Banks will consider these words as synonymous to "shipment", and they may be guided by the date appearing upon the Bills of Lading or other shipping documents.

Presentation.

Article 43.—Documents must be presented within a reasonable time after issuance. Paying, negotiating or accepting Banks may refuse documents if in their judgment, they are presented to them with undue delay.

Article 44.—Banks are under no obligation to accept documents outside their banking hours.

Extension.

Article 45.—Any extension of the period for shipment shall extend for an equal period the time fixed for presentation or negotiation of documents or drafts, but an extension of a date for presentation or negotiation of documents or drafts shall not extend a time fixed for shipment unless expressly stated.

Date Terms.

Article 46.—The terms "first half", "second half" of a month shall be construed respectively as from the 1st to the 15th, and the 16th to the last day of each month, inclusive.

Article 47.—The terms "beginning", "middle", or "end" of a month shall be construed respectively as from the 1st to the 10th the 11th to the 20th, and the 21st to the last day of each month, inclusive.

Article 48.—When a credit is opened by an opening Bank requesting that the credit be advised or confirmed as good "for 1 month", "for 6 months", or the like, but the opening Bank has not specified the date from which the time is to run, the advising or confirming Bank may advise or confirm the credit as terminating at the end of the corresponding period from the date of its advice or confirmation.

E.—TRANSFER.

Article 49.—A transferable or assignable credit is a credit in which the paying or negotiating Bank is entitled to pay in whole or in part to a third party or parties on instructions given by the first beneficiary.

A credit can be transferred only on the express authority of the opening Bank and provided that it is expressly designated as "transferable" or "assignable". In such case the credit can be transferred once only (that is to say that the third party or parties designated by the first beneficiary are not entitled to retransfer it) and on the terms and conditions specified in the original credit, with the exception of the amount of the credit, of any unit price stated therein, and of the time of validity or of shipping, any or all of which may be reduced or curtailed. In the event of any reduction in amount or unit price, a transferer may be permitted to substitute his own invoices for those of the transferee, for amounts or unit prices greater than those set forth in the transferee's invoices, but not in excess of the original sum stipulated in the credit, and upon such substitution of invoices, the transferer may draw under the credit for the difference between his invoices and the transferee's invoices.

Fractions of a transferable or assignable credit (not exceeding in the aggregate the amount of the entire credit) may be transferred separately provided partial shipments are not excluded, and the aggregate of such transfers will be considered as constituting only one transfer of the entire credit.

Authority to transfer a credit includes authority to transfer it to a beneficiary in another place whether in the same country or not, unless otherwise specified (*). During the validity of the credit as transferred, payment or negotiation may be made at the place to which the credit has been transferred.

Bank charges entailed by transfers are payable by the first beneficiary unless otherwise specified.

No transfer shall be binding upon the Bank which is to act thereunder except to the extent and in the manner expressly consented to by such Bank, and until such Bank's charges for transfer are paid.

(*) In the United States, when credits are transferred to a beneficiary in another place whether in the same country or not, the credits may be changed from one requiring payment on or before a certain date to one requiring negotiation on or before that date, and during the validity of the credit as transferred payment or negotiation may be made at the place to which the credit has been transferred.

Adherence of the United States banks, which have subscribed to these regulations, is effective January 1, 1952

NOTE: *In the U.S.A. the Definitions of Export Quotations, which are now in wide use, are known as the "Revised American Foreign Trade Definitions*—1941" *adopted July* 30, 1941.

Distributed by

Bankers' Association for Foreign Trade (U. S. A.) *and* **Committee on Foreign Banking New York, N. Y.**

THE CHASE MANHATTAN BANK

EIGHTEEN PINE STREET

INTERNATIONAL DEPARTMENT
COMMERCIAL L/C DIV.

NEW YORK 15, N. Y.

TO

108

TRUST RECEIPT No.

WE ENCLOSE THE FOLLOWING DESCRIBED DOCUMENTS RELATIVE TO LETTER OF CREDIT NUMBER

FOR ACCOUNT OF

COVERING SHIPMENT OF

PER S/S

FROM

TO

	INVOICE	INSURANCE CTF.	CONSULAR INV.	B/L	PAR. POST RECEIPT	DELIVERY ORDER	FORWARDERS RECEIPT	CTF. OF ORIGIN	SPECIF.	INSPECTION CTF.	WEIGHT CTF.
DOCUMENTS ENCLOSED											

MARKS AND NUMBERS	REMARKS

SPECIMEN

PLEASE RETURN THE ATTACHED TRUST RECEIPT OFFICIALLY SIGNED. SEE REVERSE SIDE.

F. X. 144 7-56

It is understood that neither we nor any of our agents here or abroad will be responsible for the validity, correctness and/or genuineness of the documents purporting to relate to this credit; nor for the quality, quantity, and/or arrival of the merchandise described in such documents.

COPY OF TRUST RECEIPT

The undersigned (hereinafter called the "Trustee") hereby acknowledges receipt from The Chase Manhattan Bank, New York, N. Y., (hereinafter called the "Entruster") of the documents listed on the obverse hereof representing the goods therein specified, a security interest as defined in the Uniform Trust Receipts Law of the State of New York, in both said documents and said goods remaining in or hereby passing to the Entruster.

In consideration of such receipt and other valuable considerations, the Trustee agrees to hold said documents and goods in trust for the Entruster and subject to its security interest, to be used promptly by the Trustee without expense to the Entruster for the purpose of selling said goods or manufacturing and selling said goods, but for no other purpose and without liberty to pledge the same.

The Trustee agrees to account by delivering to the Entruster, immediately upon the receipt thereof by the Trustee, the proceeds of the sale of such goods in whatever form received, to be applied by the Entruster under the terms of its Letter of Credit of which the number is noted on the obverse hereof issued for the Trustee's account and/or to the payment of any obligations for which said goods and documents are security or were security before this transaction and of any obligations arising as part of this transaction and of any renewals of any such obligations. If such proceeds be notes, bills receivable, acceptances, or in any form other than cash, they shall not be so applied by the Entruster until paid; the Entruster, however, to have the option at any time to sell or discount such items and so apply, conditionally upon final payment of such items, the net proceeds thereof.

The Trustee agrees to pay all charges in connection with said goods, documents, and any proceeds thereof, and will at all times hold said goods, documents, and proceeds separate and apart from the property of the Trustee and will definitely show such separation in all its record and entries.

The Trustee will at all times keep said goods fully insured at the Trustee's expense in favor of, and to the satisfaction of the Entruster against loss by fire, theft, and any other risk to which said goods may be subject. The Trustee will deposit the insurance policies with the Entruster upon its demand.

The Entruster may at any time cancel this trust and bailment and take possession of said goods, manufactured or unmanufactured, and any documents representing the same (until delivery of said goods and documents to the purchaser(s) pursuant to a sale hereby authorized and the receipt by the Trustee of the proceeds of such sale) and the proceeds of any sale, wherever said goods, manufactured or unmanufactured, documents, or proceeds may then be found. As to the articles manufactured by style or model, the Trustee's interest therein may be forfeited, at the election of the Entruster, in the event of any default on the part of the Trustee, against cancellation to the extent and as provided by law of the Trustee's then remaining indebtedness with respect to such articles.

The Trustee agrees that the Entruster assumes no responsibility for the correctness, validity, or genuineness of the documents released to the Trustee hereunder or for the existence, character, quantity, quality, conditions, value, or delivery of any goods purported to be represented by any of such documents.

No waiver of any rights or powers of the Entruster or consent by it shall be valid unless in writing signed by it. The rights and powers herein given the Entruster are in addition to those otherwise created.

THE CHASE MANHATTAN BANK

EIGHTEEN PINE STREET

INTERNATIONAL DEPARTMENT 2
COMMERCIAL L/C DIV.

NEW YORK 15, N. Y.

FROM

TRUST RECEIPT No.

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FOR ACCOUNT OF

COVERING SHIPMENT OF

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TO

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DOCUMENTS ENCLOSED											

MARKS AND NUMBERS	REMARKS

SPECIMEN

PLEASE OFFICIALLY SIGN THE TRUST RECEIPT APPEARING ON THE REVERSE HEREOF, AND RETURN THIS FORM TO US.

F. X. 144 7-56

TRUST RECEIPT

DATE_____

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The Trustee will at all times keep said goods fully insured at the Trustee's expense in favor of, and to the satisfaction of the Entruster against loss by fire, theft, and any other risk to which said goods may be subject. The Trustee will deposit the insurance policies with the Entruster upon its demand.

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The Trustee agrees that the Entruster assumes no responsibility for the correctness, validity, or genuineness of the documents released to the Trustee hereunder or for the existence, character, quantity, quality, conditions, value, or delivery of any goods purported to be represented by any of such documents.

No waiver of any rights or powers of the Entruster or consent by it shall be valid unless in writing signed by it. The rights and powers herein given the Entruster are in addition to those otherwise created.

_____

OFFICIAL SIGNATURE OF TRUSTEE

Typed By

Georgie Tonneson