

participation of a bank, one of the most trusted and respected neutral institutions.

In simple terms a letter of credit can be defined as a letter written by a bank at the request of a customer and addressed to the exporter through another bank. In complying with all the terms and conditions of this letter, the addressee will then obtain a sum of money. Furthermore, a letter of credit is a conditional written bank undertaking of payment. This payment is subject to the presentation of certain specified documents independent and separate from any other contracts. (See exhibit 14 at the end of PART III.)

The goods covered by the documents are of no concern to the banks involved in the transaction. Banks are only concerned with documents and that they be issued in accordance with the conditions specified in the letter of credit. Consequently, any disputes that may arise between buyer and seller regarding the product's colour, size, quantity etc. become irrelevant to the operation and must be resolved separately from the credit transaction. If all the terms and conditions of the letter of credit have been met by the seller, payment will be honoured in spite of any financially related problems that may arise on behalf of the buyer.

It must be mentioned that under exchange control regulations in some countries, a letter of credit is the only means for handling their imports.

PARTIES TO A LETTER OF CREDIT

There are three basic parties to a letter of credit:

1. The applicant (importer/buyer)
2. The issuing bank
3. The beneficiary (exporter/seller)

In addition to the three basic parties and depending on the conditions of the credit, others, mainly the advising bank, can be brought into the operation.

THE APPLICANT

The letter of credit is to be issued at the request and instructions of the applicant. The application (initiated by the buyer) for the issuance of the credit serves two purposes:

- a contract between the issuing bank and its customer whereby the customer (applicant) is promising to reimburse the bank the funds paid on his/her behalf, including all commissions, fees etc.

- the applicant's mandate to the issuing bank as to the terms and conditions of the letter of credit, based on the underlying sales contract between the buyer and seller.

The exporter's input on the terms and conditions of the agreement is very important. The letter of credit as a precision instrument, involves both buyer and seller fully understanding all the terms and conditions.

THE ISSUING BANK

The bank to which the buyer applies for the issuance of a letter of credit is known as the issuing bank. The issuing bank is the party that undertakes a conditional firm commitment to pay the beneficiary upon compliance with all the terms and conditions of the credit. The issuing bank's undertaking to pay is independent and separate from the contract for the sale of goods between the buyer and the seller and from the reimbursement contract between the applicant and the issuing bank.

The issuing bank is not obligated to translate letters of credit issued in a language other than the one of the exporting country, nor is it liable for misrepresented documents, signatures or falsifications. The letter of credit must be transmitted in writing and signed by the issuing bank.

THE BENEFICIARY

The beneficiary (exporter) is not obligated to act upon a letter of credit unless he/she is absolutely certain that the terms and conditions are acceptable. It must be emphasized that payment is conditional to absolute compliance with all terms and conditions outlined in the credit agreement.

An additional party involved in the transaction is the **ADVISING BANK**. The role of this bank is limited to the transmission of the credit to the beneficiary and this role may also be extended to that of the confirming bank. In this capacity, the confirming bank will be the party responsible for effecting payment. Generally, the issuing bank will nominate the advising bank, however, the beneficiary may request the appointment of the bank through which he/she wishes the credit be advised.

A letter of credit may be cancelled or terminated with the consent of all the parties concerned namely the applicant, the issuing bank, the confirming bank (if any) and the beneficiary.

REVOCABLE AND IRREVOCABLE LETTERS OF CREDIT

There are two distinct types of letters of credit; **Revocable** and **Irrevocable**. The flexibility of the letter of credit