

UNDERSTANDING LETTER OF CREDIT

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ABSTRACT

English language is commonly used worldwide, but English for Specific Purposes might be used and understood easily by those who are involved in the field of study or business. One of them is the English language used in Letter of Credit (LC) is common for those who are involved in export/import business. Nevertheless, common people who are not involved in or well-informed about this kind of business might find it difficult to understand the content of LC, which is mostly written in businesslike English language. This paper is trying to provide the bridge to link the gab between the content of LC and their interpretation in terms of daily English language.

BACKGROUND

In the business world, especially in international trade, people can find some specific terms in foreign trade. One of them is Letter of Credit (LC) that will be analyzed further in this paper. LC can be defined as international trade agreement that connects Importer (Buyer / Applicant) and Exporter (Seller / Shipper / Beneficiary) and explains about the terms of payment to the bank. This kind of connection is also called as a sales contract. Usually, before the issue of LC between Exporter and Importer, they have to consider first whether Exporter and Importer agree with it or not. If both parties have agreed, LC can be made based on their agreement. The LC will contain about the currency code, amount of the goods price, latest date of the shipment, document required, and other that have to be fulfilled by the Exporter. If there is any correction with the content of LC in the future, the must be another agreement between Exporter and Importer to change it. When they have agreed to correct it, the bank will issue an amendment of the LC.

This LC is really useful for either Exporter or Importer. For the Exporter, as soon as the LC is issued, the goods are shipped and the documents are completed. They can get the fresh cash as soon as possible. While for the Importer, they can be sure that they get the goods ordered. The Exporter and Importer might have never met or known each other. They might have different cultural background. Even they might be separated in a distance between one another during the transaction.

Most of common people or general people who are not involved in business activities may not know about LC. Sometimes, a new businessman may know what LC is, but he may not know how to interpret its content. Even an experienced businessman could have no experience in reading, interpreting, and moreover, understanding the content of LC. Therefore, it is necessary to socialize the content of LC and also how to interpret and understand of the content. Based on this agreement, the writer is interested in discussing the content of LC and its understanding.

It is necessary to be noticed that the content of LC is using English language. Therefore, it also needs specific mastery of English in reading and writing LC because the content is not written in structured sentences but in phrases, which needs particular level of understanding.

DEFINITIONS OF LETTER OF CREDIT

Theoretically, there are some definitions of LC. O'halloran in Andhibroto (1992 : 37) stated that LC is an instrument issued by a bank on behalf of one of its customers authorizing an account under a certain condition stipulated in the credit. While in the same book, Henirus stated that

Letter of Credit is a written instrument issued by the buyer's bank, authorizing the seller to draw in accordance with certain terms, and stipulating in legal form that all such bills (drafts) will be honored. It sets forth under what terms and condition. The person in whose favor the letter has been opened may draw drafts against such credit, at the same time guaranteeing the payment of acceptance of such drafts if they comply with the letter's terms (Andhibroto : 1992 : 37).

In other case Andhibroto (1992 : 39) also stated that the International Chamber of Commerce (ICC) in Uniform Commerce and Practice (UCP) 500 defined LC as a written undertaking by a bank (issuing bank) at the request, and on the instructions of the buyer (applicant) to pay at sight or at determinable future date up to a state sum of money, within a prescribed time limit and against the stipulated document.

Moreover, UCP 500 revised it in 1993 that:

Exporter/seller may request a letter of credit when they unsure of the Importer's/buyer's ability to pay. Under a Letter of Credit, the issuing bank's creditworthiness is substituted for that of the Importer/buyer and

this security for the Exporter/seller is paramount. It is important to note that a Letter of Credit is not replacement of the need for a clear and concise contract of sale.

From the definition that have been mentioned previously, it can be concluded that LC can be defined as international trade agreement that connects Importer (Buyer / Applicant) and Exporter (Seller / Shipper / Beneficiary) and explains about the terms of payment to the bank.

TYPES OF DOCUMENT CREDIT

According to Gartside (1981: 346) and the Uniform Customs and Practice (UCP500) agree that there are two types of Letter of Credit, they are:

1. Revocable Letter of Credit

In this case, the Importer is free to modify or even cancel the credit without so much as giving notice to the Exporter. In other words, the credit may be amended or canceled under the guidance of the issuing bank at any moment and without any prior notice to the beneficiary.

2. Irrevocable Letter of Credit

On the other hand, irrevocable LC can be neither amended nor withdrawn without the permission of the Exporter to whom it is granted; the Exporter can therefore rely on being paid. While UCP500 mentioned that this kind of LC constitute definite undertaking of the issuing bank provided that stipulated documents are presented and that the terms and condition of the credit are complied.

FUNCTION AND USAGE OF LETTER OF CREDIT

To avoid the risk or unexpected things in export process, exporter has to use LC for their security. According to Gartside (1981: 345), from the Exporter's point of view the documentary bill suffers from the defect that the foreign buyer may fail to honor the bill to avoid the risk a system of banker's commercial credit or documentary credits have been developed. That is the use of commercial Letter of Credit.

The Exporter requires the Importer to arrange a Letter of Credit, the purpose of which is to enable the Exporter to draw on a named bank which he presents the shipping documents, the

Letter of Credit against which the bill is drawn must state the maximum amount and the duration of the credit, the term of the bill and the shipping documents that are to be sent with the bill.

By using LC, the Exporter can be easier and faster in getting the money. Therefore, LC is very important to be used in export-import process as the function of LC is as the security and as the contract, which binds the Importer with the Exporter.

PROCEDURES OF LETTER OF CREDIT

The followings are the procedures of Letter of Credit, from making the sales contract until the process of the document at the advising bank.

1. Exporter and Importer make a sales contract. The sales contract mentions the payment of transaction that is arranged by using LC.
2. The Importer instructs the issuing bank to open LC on behalf of the Exporter.
3. After LC is issued, the issuing bank requests to the correspondent bank, which is in different place that is in Exporter's country to inform LC.
4. The advising bank tells Exporter that they have opened an LC.
5. Soon after Exporter accepted LC, Exporter can fulfill the terms contained in the LC. If Exporter

CONTENT OF LETTER OF CREDIT

The Letter of Credit discussed in this paper is taken from the one used at PT. Geristha Mulia, which its format is ruled by the International Chamber of Commerce (ICC) in Uniform Commerce and Practice (UCP) 500 reference 1993 and Uniform Rules and Reimbursement (URR) 525.

:27: SEQUENCE OF TOTAL
1/1
:40A: FORM OF DOCUMENTARY CREDIT
IRREVOCABLE
:20: DOCUMENT CREDIT NUMBER
6685112
:31: DATE OF ISSUE
031210
:31D: DATE AND PLACE OF EXPIRY
040301 INDONESIA
:51D: APLICANT BANK
BANK OF ATTICA S.A.

PAGRATIOU BRANCH 161 21 ATHENS, GREECE
:50: APLICANT
K. KIOUSSIS AND CO. O.E.
12 KLM NATIONAL ROAD ATHENS-LAMIA
METAMORFOSSI ATTIKIS
ATHENS-GREECE
:59: BENEFICIARY
PT GERISTHA MULIA
DESA NGABUL JURUSAN MANTINGAN
JEPARA KM. 9-CENTRAL JAVA
:32B: CURRENCY CODE, AMOUNT
EUR 10484
:39A: PERCENTAGE CREDIT AMOUNT TOLERANCE
20/00
:41A: AVAILABLE WITH BY
BNI AIDJASMG BANK NIAGA, PT. SEMARANG
BY PAYMENT
:43P: PARTIAL SHIPMENT
ALLOWED
:43T: TRANSHIPMENT
ALLOWED
:44A: LOADING ON BOARD/DISPATCH/ TAKING IN CHARGE AT/FROM
INDONESIA
:44B: FOR TRANSPORTATION TO
PIRAEUS
:44C: LATEST DATE OF SHIPMENT
040216
:45A: DESCRIPTION OF GOODS AND/OR SERVICES
GOODS AS DESCRIBED IN DETAIL IN PROFORMA INVOICE
GM31118
DD: 18.11.2003 FOR EUROS 10.484
DELIVERY TERMS : FOB INDONESIA
:46A: DOCUMENTS REQUIRED
1. COMMERCIAL INVOICE IN TWO ORIGINALS AND THREE COPIES. DULY
SIGNED AND STAMPED, BEARING THE BENEFICIARIES STATEMENT THAT
THE INVOICES AND SHIPPED GOODS ARE IN STRICT CONFORMITY TO
THOSE SPECIFIED IN THE PROFORMA INVOICE PROFORMA INVOICE
GM031118 DD 18/11/03 INDICATING SEPARATELY THAT THE PRICES ARE
THE CURRENT EXPORT PRICE. IT SHOULD ALSO STATE THE GROSS AND
THE NET WEIGHT OF GOODS.
2. FULL SET OF 'CLEAN ON BOARD' BILL OF LADING ISSUED OR ENDORSED
TO THE ORDER OF BANK ATTICA S.A. EVIDENCING SHIPMENT OF GOODS
FROM INDONESIA WITH DESTINATION PIRAEUS MARKED FREIGHT
PREPAID AND NOTIFY APPLICANT.
3. CERTIFICATE OF INDONESIA ORIGIN ISSUED BY THE COMPETENT
AUTHORITIES.

4. PACKING LIST IN THREE COPIES MENTIONING THE GROSS AND NET WEIGHT OF EACH PACKAGE, THE MARKS AND NUMBERS AND THEIR CONTENT.

:47A: ADDITIONAL CONDITIONS

INSURANCE WILL BE COVERED BY THE APPLICANTS ACCORDING TO THEIR STATEMENT

:71B: CHARGES

ALL YOUR CHARGES OUTSIDE APPLICANT'S BANK. ARE ON BENEFICIARIES ACCOUNT

:48: PERIOD FOR PRESENTATION

DOCUMENTS TO BE PRESENTED WITHIN 15 DAYS AFTER THE DATE OF ISSUANCE OF THE TRANSPORT DOCUMENT, BUT WITHIN THE VALIDITY OF THE CREDIT.

:49: CONFIRMATION INSTRUCTIONS

WITHOUT

:78: INSTRUCTION TO THE PAYING / ACCEPTING / NEGOTIATING BANK

WE SHALL COVER YOU FOR THE AMOUNT OF EUR 10484,00 UPON RECEIPT BY US YOUR TESTED TELEX/SWIFT MENTIONING INDISPENSABLY OUR ABOVE INDICATED DOC CREDIT NO, ADVISING PRESENTATION AT YOURWORKING DAYS FROM THE DATE OF RECEIPT OF YOUR TELEX/SWIFT.

:57A: ADVISE THROUGH BANK

BNIAIDJASMG BANK NIAGA, PT. SEMARANG

:72: SENDER TO RECEIVER INFORMATION THIS DOC. CREDIT IS SUBJECT TO ICC

UCP 500 (REV 1993) AND TO ICC

URR 525 FOR REIMBUSMENT

THIS CREDIT IS VALID ONLY WHEN USED IN CONJUNCTION WITH OUR NOTIFICATION OF LC ADVICE NO. 901111875025-S DATED 15/12/03

INTERPRETATION AND UNDERSTANDING THE CONTENT OF LETTER OF CREDIT

Code No.	Content of Letter of Credit	Interpretation of The Content of Letter of Credit
27	SEQUENCE OF TOTAL 1/1	The sequence of LC is 1/1. It shows the number of pages of the LC.
40A	FORM OF DOCUMENTARY CREDIT IRREVOCABLE	Form of Documentary is irrevocable. It means that Importer, Bank, or Exporter can change the document LC when they have made agreement to change the content of LC.
20	DOCUMENT CREDIT NUMBER 6685112	It means that the document number of LC is 6685112
31C	DATE OF ISSUE 031210	It means that the document credit or LC was issued of December 10 th , 2003. In this case,

		date setting is Year-Month-Date.
31D	DATE AND PLACE OF EXPIRY 040301 INDONESIA	Date and place of expiry is 040301 in Indonesia. It means that the document credit is not valid after March 1 st , 2004 in Indonesia.
51D	APPLICANT BANK BANK OF ATTICA S.A. PAGRATIOU BRANCH 161 21 ATHENS, GREECE	Applicant bank is an issuing bank that makes and issues LC for the importer. In this case, the bank that issued the LC is Bank of Attica S.A. Pagratiou Branch 161 21 in Athens, Greece.
50	APPLICANT K. KIOUSSIS AND CO. O.E. 12 KLM NATIONAL ROAD ATHENS-LAMIA METAMORFOSSI ATTIKIS ATHENS-GREECE	Applicant is the Importer or the one who orders or buys the Exporter's goods. In this case, the Importer is K. Kioussis and Co. O.E. 12 KLM National Road Athens, Lamia Metamorfossi Attikis in Athens Greece.
59	BENEFICIARY PT GERISTHA MULIA DESA NGABUL JURUSAN MANTINGAN JEPARA KM. 9-CENTRAL JAVA	Beneficiary is the Exporter or the one who has the goods to be sold to Importer. In this case, the Exporter is PT. Geristha Mulia, which is addressed in Desa Ngabul Jurusan Mantingan Jepara KM. 9 – Central Java.
32B	CURRENCY CODE, AMOUNT EUR 10484	The amount of Free on Board (FOB) is about EUR 10484
39A	PERCENTAGE CREDIT AMOUNT TOLERANCE 20/00	The percentage of tolerance credit amount is 20%. It means that the Importer is given tolerance credit of total amount not more than 20%.
41A	AVAILABLE WITH BY BNI AIDJASMG BANK NIAGA, PT. SEMARANG BY PAYMENT	To negotiate the LC, the Exporter can choose the bank addressed in the LC that is Niaga Bank and BNI Bank in Semarang.
43P	PARTIAL SHIPMENT ALLOWED	Partial shipment is allowed. It means that the Exporter can send the goods not at once but gradually.
43T	TRANSSHIPMENT ALLOWED	Transshipment is allowed. It means that the vessel is permitted to change vessel (with the connecting vessel) at other foreign port.
44A	LOADING ON BOARD / DISPATCH / TAKING IN CHARGE AT/FROM INDONESIA	Loading port must be from Indonesian port (any port in Indonesia)
44B	FOR TRANSPORTATION TO PIRAEUS	The delivery port is Piraeus, Greece as the destination port in Importer's Country.
44C	LATEST DATE OF SHIPMENT 040216	Shipment is not permitted after February 16 th , 2004 from Indonesian port.

45A	DESCRIPTION OF GOODS AND/OR SERVICES GOODS AS DESCRIBED IN DETAIL IN PROFORMA INVOICE GM31118	LC is made based on the description of goods in proforma invoice GM31118. In which it must be fulfilled by the Exporter during the process of export-import, and it must be appeared in the document of export according to LC. The goods must be the same as the one described in the proforma invoice.
46A	DOCUMENTS REQUIRED	The document required must be fulfilled by the Exporter for the presentation at the bank.
	1. COMMERCIAL INVOICE IN TWO ORIGINALS AND THREE COPIES. DULY SIGNED AND STAMPED, BEARING THE BENEFICIARIES STATEMENT THAT THE INVOICES AND SHIPPED GOODS ARE IN STRICT CONFORMITY TO THOSE SPECIFIED IN THE PROFORMA INVOICE PROFORMA INVOICE GM031118 DD 18/11/03 INDICATING SEPARATELY THAT THE PRICES ARE THE CURRENT EXPORT PRICE. IT SHOULD ALSO STATE THE GROSS AND THE NET WEIGHT OF GOODS.	The Commercial Invoice (CI) is made into 2 (two) originals and 3 (tree) copies, signed and stamped by the Exporter. The CI is made according to the proforma invoice number GM031118 DD 18/11/03. The proforma invoice should state that the prices mentioned in the document are the current export price. The document should mention the gross weight and the net weight of the goods.
	2. FULL SET OF 'CLEAN ON BOARD' BILL OF LADING ISSUED OR ENDORSED TO THE ORDER OF BANK ATTICA S.A. EVIDENCING SHIPMENT OF GOODS FROM INDONESIA WITH DESTINATION PIRAEUS MARKED FREIGHT PREPAID AND NOTIFY APPLICANT.	Bill of Lading (BL) should mention 'clean on board' in the document which means that the goods and container brought must be in good condition or not broken. BL is endorsed or authorized by applicant bank, it is evidencing that the shipment delivered the goods from Indonesia to Piraeus, Greece.
	3. CERTIFICATE OF INDONESIA ORIGIN ISSUED BY THE COMPETENT AUTHORITIES.	Certificate of Indonesia Origin or Certificate of Origin (COO) is issued by competent authority that is the department of trade.
	4. PACKING LIST IN THREE COPIES MENTIONING THE GROSS AND NET WEIGHT	Packing List (PL) is made in 3 (three). The document should mention the gross weight and the net weight of each package, the

	OF EACH PACKAGE, THE MARKS AND NUMBERS AND THEIR CONTENT.	names of goods and the number of goods (quantity).
47A	ADDITIONAL CONDITIONS INSURANCE WILL BE COVERED BY THE APPLICANTS ACCORDING TO THEIR STATEMENT	This additional condition should explain that the goods would get insurance covered by the applicant during the exporting process according to their agreement.
71B	CHARGES ALL YOUR CHARGES OUTSIDE APPLICANT'S BANK, ARE ON BENEFICIARIES ACCOUNT	All payment or charges outside responsibilities of the applicant's bank (outside the agreement in LC) are the responsibilities of beneficiary's account.
48	PERIOD FOR PRESENTATION DOCUMENTS TO BE PRESENTED WITHIN 15 DAYS AFTER THE DATE OF ISSUANCE OF THE TRANSPORT DOCUMENT, BUT WITHIN THE VALIDITY OF THE CREDIT.	Period for presentation is 15 days after date of issuance of shipment date has been decided in LC, or during the validity of the credit. When it is over 15 days, the Exporter will be given a penalty.
49	CONFIRMATION INSTRUCTIONS WITHOUT	Without confirmation instruction means that that the beneficiary can present at the bank anytime without confirm to the applicant first within the validity of the credit at the bank addressed in LC.
78	INSTRUCTION TO THE PAYING / ACCEPTING / NEGOTIATING BANK WE SHALL COVER YOU FOR THE AMOUNT OF EUR 10484,00 UPON RECEIPT BY US YOUR TESTED TELEX/SWIFT MENTIONING INDISPENSABLY OUR ABOVE INDICATED DOC CREDIT NO, ADVISING PRESENTATION AT YOUR WORKING DAYS FROM THE DATE OF RECEIPT OF YOUR TELEX/SWIFT.	Instruction in paying /accepting/negotiating bank shall be covered by negotiating bank after the receipt of the complete documents from the beneficiary. It means that the negotiating bank should give the money first to the beneficiary before the negotiating bank sends the telex to the issuing bank to accept the money. The advising bank will accept the money after sending the telex within working days from the date of the receipt of the telex/swift.
57A	ADVISE THROUGH BANK BNI AIDJASMG BANK NIAGA, PT. SEMARANG	The advising bank is the one that received the LC from the foreign bank, which is also called as the negotiating bank. In this case, the advising bank is Niaga Bank and BNI Bank in Semarang.
72	SENDER TO RECEIVER	The sender inform to the receiver about this

	<p>INFORMATION THIS DOC. CREDIT IS SUBJECT TO ICC UCP 500 (REV 1993) AND TO ICC URR 525 FOR REIMBUSMENT</p>	<p>document credit is subject to UCP (Uniform Commerce and Practice) 500 (rev 1993) and to ICC (International Chamber and Commerce) in URR (Uniform Rules and Reimbursement) 525 for reimbursement or compensation.</p>
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CONCLUSION

Based on the analysis of LC that has been presented in the interpretation and understanding of LC it can be concluded that there are some points to be noticed and thought further. They are as follows:

- a. Particularly, in export-import documents there are some specific terminologies used to refer to something while in general they can mean different things. For example: *applicant* means the Importer, when generally it means those who apply for a job. In other case, we can find the terminologies like *issuing bank* or *applicant bank*, and also *advising bank* or *negotiating bank* that are involved in export-import process.
- b. The format writing of the date in Letter of Credit is also different from the one in common documents. For example: DATE OF ISSUE 031210 means that the document was issued on December 10th, 2003. Therefore, the writing system is Year – Month – Date, while generally it is written as Date – Month – Year.
- c. The messages written in LC are mostly written in ungrammatical sentences, but the priority the conveyance of the information points. For example: FOR TRANSPORTATION TO PIRAEUS means that the destination port is Piraeus. In other case, CONFIRMATION INSTRUCTION WITHOUT means that the beneficiary can settle their responsibility to the bank addressed at anytime without any confirmation with the Applicant first.
- d. The language in LC is basically using the business language, which is subject to the regulations of ICC (International Chamber and Commerce). It is to make the uniformity all LC used in international trade. That is why the English language used in LC is different from the one used in general communication. Therefore, the English language used in LC is conventional, as it is used specifically for this document.

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