

Export Negotiation

What is Export Negotiation?

When the seller has shipped the cargo to the buyer's country, he will prepare and consolidate all documents that are called for under the Letter of Credit (LC). Once this is done, seller will present the documents to a bank. The process whereby the bank examines the documents and claims proceeds and the willingness to give value, i.e. advance or discount the transaction to and on behalf of the seller, is known as Export Negotiation.

Key Principles Governing the use of Letter of Credit

There are generally three key principles governing the use of LC:-

1. Banks deal in documents only and not the underlying goods.
2. The rule of strict compliance to the terms and conditions of the LC.
3. The rule of independence which implies that the LC is independent from the sales contract or other agreement between the parties.

Ways for Seller to Secure Payment under Letter of Credit

Choice of the Issuing Bank

Choose an LC issuing bank that you are familiar with, reputable and have a sound financial standing to minimise the risk of non-payment.

Knowledge on LC Operations

LC operations are guided by the Uniform Customs and Practice for Documentary Credits (UCP). A good understanding of the rules in UCP will help the parties to understand their roles and rights in the LC.

Request for LC Confirmation

If the seller is not comfortable with the issuing bank, he may request the LC to be confirmed by a bank in his domicile country, and such confirmation normally comes with a confirmation fee. When a LC is confirmed, the confirming bank will give a separate undertaking to pay the seller if he fulfils all the terms and conditions of the LC.

LC to Call for Simple Documentation

In order to comply with the LC terms and conditions, the seller should ensure that those documents called for in the LC are simple in description and easy to produce. As far as possible, the seller should avoid having to obtain documents from third parties, such as the buyer's agent or the buyer's signature.

Accuracy in Preparing Documents

It is important to ensure that the wordings in all documentation submitted to the bank are accurate and consistent so as to avoid subsequent disputes or discrepancies.

Request for LC Amendment

If the seller feels that the terms and conditions of the LC may not be fulfilled, he should request the buyer to amend the LC prior to shipment to avoid future discrepancies.

Control Title to the Goods

A prudent seller should not let the buyer possess the title to the goods until he has been paid under the LC. This is to avoid the situation whereby the buyer, in possession of the goods, has less incentive to waive documentary discrepancies resulting in delay in payment to the seller. This can be done by the transport document made out or consigned to the order of the issuing bank. In order for the buyer to get the goods, he has to accept the documents and get the bank's endorsement on the transport document in his favour in order for the goods to be released to him.

Keep Track of Important Dates

There are three important dates to observe in the LC, namely the latest shipment date, presentation period and the LC expiry date. Besides compliance of the dates, seller should ensure that he has sufficient time to correct errors made on the documents submitted.

Checklist to Avoid Documentary Discrepancies

Documentary discrepancies are the main cause of delays in getting payment under the LC. To avoid such delays, the seller may perform the following checks prior to the presentation of documents:-

- Terms and conditions, description of goods, amount and unit price stated in the LC correspond to the agreed sales contract
- There are no unusual, unacceptable or ambiguous terms and conditions in the LC.
- All names and addresses are shown correctly.
- All documents called for under the LC are obtainable.
- The LC amount is sufficient to cover all costs to be borne by the seller under the sales contract.
- Ensure that the latest shipment date, presentation period and LC expiry date allow sufficient time for shipment, presentation and amendment of documentary errors.

Common Documentary Discrepancies

- Presentation of documents after LC expiry date.
- Shipment of goods made after the stipulated latest shipment date.
- Documents presented after the stipulated presentation period or more than 21 days after the shipment date (if presentation period is not indicated in the LC).
- Short or over shipment.
- Bill of exchange drawn on the wrong party or bear the wrong tenor.

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- Description of goods and shipping terms in invoice differs from the LC.
- “On Board” notation on the bill of lading is not dated.
- Port of loading/discharge on the bill of lading differs from the LC.
- Transport document does not indicate whether freight is prepaid or payable at destination.
- Incomplete documents presented.
- Absence of signature or endorsement on financial, commercial, shipping and/or insurance documents.

Trade Financing on Export Documentary Credit

After the seller has submitted his documents to the Bank (for the case of sight bill) or obtained acceptance on the bill of exchange by the issuing bank (for the case of term bill), he may request for bills purchased/discounting to obtain working capital prior to getting payment from the issuing bank. In the event of default in payment or documents being rejected by the issuing bank, the Bank may seek reimbursement from the seller.