



Activity Of Internatonal Trade With Letter Of Credit Payment Method

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ABSTRACT

The purpose of this research is to describe and analyze the activity of foreign trade transaction with letter of credit payment method. Method which is used in this research is with normative juridical method. The result of the research: Usability and roles of letter of credit in the foreign trade are: to facilitate the settlement of payment of export transaction, secure the funds provided by the importer to pay for goods and guarantee the completeness of the shipment document. Basically there are three main things that must be known to all parties, both of importers, exporters and banks or related parties are: the flow of goods delivery, the flow of documents and the flow of remittances or payment. The function of the bank s an intermediary of foreign payments: in foreign trade activities or international trade both from export and import.

INTRODUCTION

Documentary letter of credit in the beginning is not open by bank, but by the traders. Therefore, it is known with the name Merchants letter of credit which later developed into Bank letter of credit. Merchant letter of credit contain meaning that: the bank simply did not bind himself to beneficiary in opening the credit. Buyer is directly binding himself to seller to pay through the bank. In this case the bank not bound into seller, it is only forward the notification letter from the buyer to the seller that: for the seller have opened a credit on the bank. And will be paid if the seller issuing money orders over the buyer by submitting certain documents. In this form the seller invisible gets a guarantee from the buyer or from the bank that the payment is will really done. Between the buyer and the seller in the relationship Merchants letter of credit, element of trust each other and honestly is a main condition. Most of the seller is feeling safe only because there is a reality that: the buyer about the payment is get help from the bank. If the buyer not a good person both economic level, of course bank will refuse to give those help. Whereas Banker letter of credit is the buyer have involved the bank bound to the seller. The statement from the buyer that he will pay to the seller through the bank has been strengthened by the bank. In this meaning the bank has been bound himself to beneficiary (seller). In the regulation internationally is not same as in the beginning of payment ways. Known like documentary letter of credit, the beginning is not open by bank, but by traders. Therefore, it is known with name Merchants letter of credit which later developed become Bank letter of credit.

Documentary letter of credit in progress, ways of payment is bank is given a role to arrange a transaction of payment. All of the things which is related with payment of transaction is arranged by the bank, concerning documents must be submitted to the related bank. Next progress is” the buyer who open the credit, upon the mandate of the buyer”. The meaning in the form like this now called letter of credit. Therefore, the incidence by using bank service which called letter of credit because of the presence of a sense of distrust, between the buyer and the seller which cross the boundaries of the state that the buyer will pay number of agreed prices at the appointed time and the seller will send the goods as agreed. Payment method with documentary credit which is also known letter of credit is to fulfill the desire of exporter and importer in international transaction as below :

1. The seller desire to get a guarantee product is paid, besides that the payment received before owned of the goods is sent.
2. In the buyer party (importer) desire that the goods which they bought can be received in numbers, condition and schedule which has been agreed in the sales contract. And they’re desire to didn’t pay first before the goods is received, minimally they get guarantee will receive the goods that they ordered.

Both of two desires which seem contradictory can be met in the documentary credit or letter of credit payment method. Later revised at 993 become Uniform Custom and practice for documentary credits or UCP 600 which is still valid until today. Therefore, the writer interesting to researching with the formulation below:

1. Why the activity of foreign trading with the letter of credit payment method?
2. What is the function of the bank in the activity of foreign trading with the letter of credit payment method?
3. How the exporter which is need financial by not waiting when the payment from the foreign buyer?

To explain and analyzing activity of the foreign trading with letter of credit payment method.

METHOD

This research is use normative juridical method.

RESULTS AND DISCUSSIONS

Letter of Credit (L/C) is a payment tool and therefore a balance of rights and obligations of the parties in the letter of credit (L/C) must be maintained fairly and openly. Justice and openness in the implementation of Letter of Credit is a must because the core of L/C the realization of payment the amount of money worth as L/C. Because of that a balance of the right and the obligations of the parties in the letter of credit must be defended. The rights and the obligations each of parties is in accordance with the agreement based on the contract which is agreed all the parties, the amount of the payment which will realized as replacement of goods delivery, from receiver to applicant. Implementation of the rights and the obligations is realized with refereeing to each party agreements based on the contract. As well as the payment of fees in order the implementation the rights and the obligations. This is appropriate with the principle of contract freedom as in Indonesia regulated in Article 1338 Code of Civil Law.

The principle of contract freedom valid for L/C because L/C is a contract which is means the parties can arrange by themselves some clause in the L/C appropriate with their agreed in the sales contract and for the things out of the clause, subject to UCP and not subject to UCP. Assertion of both parties in the L/C is valid as a law for them.

As an international contract L/C born based on regulation from UCP 600 (Uniform Customs and practice for documentary credit 600) which is internationally valid, or based on agreement between issuing bank and receiver. And in realizing L/C as international contract both because UCP regulation or because agreement of one thing must be fulfilled that is: there is agreement of receiver which is realized in the form of submission by the recipient at the issuing bank. Issuing bank and receiver are legally bound since submission of the L/C documents from receiver to the issuing bank. As a means of payment L/C is paid by issuing bank to receiver which is submitting the documents of L/C from receiver to the issuing bank.

International trading transaction who made the payment of item prices by documentary collection, i.e. through the use of a document called money orders (bill of exchange). In this case the importer must pay the price of the goods after shipping documents arrived at the importer bank. Payment of those price goods exchanged with shipping documents, manifest (bill of lading) which is related. That's why without payment of the price goods, shipping documents will not granted by the bank. Without shipping document, manifest (bill of lading) in his hand, the importer can't take the related import goods. In practical there are two kinds of bill of exchange, there are clean bills and documentary bills. As the meanings of clean bills is bill of exchange which is no need other supportive documents. So don't need for example ownership document of those goods, like manifest (bill of lading). While other form is what is called as documentary bills, this kind of form is which is commonly practiced in this case is money order (bill of exchange) must be strengthened by other supportive documents, such as ownership documents of the goods or manifest. Letter credit or L/C is an international way of payment which is exporter receiving the payment without waiting for the news from abroad after the goods and the documents sent abroad to the buyer.

Letter of Credit (L/C) is: payment promise to pay from issuing bank to receiver which is the payment only can be done by issuing bank, if the receiver submitting the documents to the issuing bank which appropriate with the condition of (L/C). The function of the bank as a mediator foreign payment: in activity of foreign trading or international trading both from export or import evidently the function of the bank is very important, especially the function as mediator in the field of technical implementation of foreign payments. To implementing the mediator duty in the international trade transaction concerned, a bank can't work alone. Therefore those banks should to make correspondence relationship with foreign banks especially with primary bank (first class bank) i.e.: banks which are in the banking world and international trading no more doubted the bonafidity and financial morals.

Therefore the foreign banks, is likes agent from related banks. Then the relationship In question often known as Agency arrangement which regulate about ways of completion in respect of the interest of the respective banks. Those regulation need to held so the double traffic trade which relating the interests of both of their respective customers could be done easily and quickly. This is where the important function of the bank as a mediator in the foreign payment. Besides to accelerates and ease the implementation Correspondence relationship that is so means there is services usage from foreign bank, also can give benefit for the banks who was pointed as correspondence bank.

In order to including, good correspondence relationship, so it is needed some item of facilities/tools which called: control documents. This control document is meant to supervisory that relationship of both of the two related banks is really legal or authentic. It is so important in the assessment and test against the documents which is used in the transaction of the two of related banks. As for all sorts of control documents consists of:

1. List of authorized signatures (signature of authorized officials published in a book), thus the signatures is listed in the documents such as: letter of credit, bankers draft/cheques, mil transfer, debit and credit advices and other letter/document can be matched with the signature on that book.
2. List of term and conditions (published in the form of book or circular which is in it containing tariff or costs about interest of debit and credit of an account, transfer fee and reimbursement, documentary collection fee, L/C forwarding fee, confirmation of L/C, the change of L/C).

From this book can be matched fees charged by that bank of foreign correspondence according to the ones listed therein.

3. Test key arrangement (agreement between the bank about usage of words or test numbers). Telegram connection between the banks in delivery order or announcement. For one of or both of parties containing a risk. Generally must be guaranteed the certainty and the truth. That guarantee usually consists of words or numbers with a meaning which is secretly. Which is the arranged depend on various kinds depend on the content of the telegram or the news. Those words or numbers named test words or test cyhers. While approval between those banks about usage of test words or test numbers called: test key arrangement. This guidance contains instruction the way to arrange test number a received telegram. Test key which used in the telegram connection s owned by one of the bank only.
4. Codes. In order to save the news which is delivered by wire/telegram express/telex, it is also for saving the cost. There are several banks whose send the codes which is will used by them for certain transaction, for example: opening of L/C, telegraphic transfer. If those banks have a password it is also can be done based on the password on this book.
5. Specimen. Securities. As a saving action, several of foreign banks there are also who send for example: securities such as letter of credit, bank money order, cheque (banker drafts/banker cheques), international money order, traveler cheque.

By those samples expected will heightening related bank awareness, against a possibility of the existence of fake documents that are widely circulated. Correspondence bank usually designated by our banks after considering the factors as below:

1. The extent of export and import activities which is done by related customers.
2. Moral and financial from the related correspondence bank.
3. The large amount of credit facilities which possible to given by correspondence bank in case there is confirmed L/C or over draft against L/C.
4. General description about capability service from the related correspondence bank.

Letter of credit is a payment contract, while the basic contract is “sales contract” with respect to the separateness between letter of credit and basic contract there is a theory which named absolute payment theory, this theory is based on American and England court ruling. By issuing letter of credit it is mean that the buyer has fulfilled his obligations based on sales contract, to pay the seller and based on L/C. The seller only has rights to get the payment through issuing bank and can't sue the payment to the buyer. Because of L/C is considered an absolute payment.

For the seller interest (exporter) in order the goods is delivered after the price is paid, while the buyer (importer) have a vested interest in the price is paid after the goods received. Then the payment system is required by documentary credit. In this case a payment is done through the bank as a mediator, without waiting for the goods arrived first or the document arrived. This obligation is done with the importer obligations to open letter of credit (L/C) in the bank of the state where the buyer (importer) live, to then by the bank forwarded to the bank of the seller (exporter) state. Payment system by this L/C nowadays is widely accepted among international trading traffic.

The usage and role of L/C in the international trading is to make easy export transaction repayment, to save the cost which is provided by importer to pay the goods and guarantee completeness of shipping document.

Basically there are three main things that should to known all the parties both of importer, exporter and bank or related party that is: goods delivery flow, documents delivery flow and money deliver or the payment. As for the documents which are usually uses are:

1. Financial document, money order (bill of exchange/draft)
2. Shipping document, manifest/bill of lading. Supporting documents:

Trade invoice is a document which is made by the seller and addressed to buyer which is have function as information or legal statement about the goods that on sale, containing: date of invoice,

date of delivery, amount that the buyer must pay, numbers and details of the goods, price per unit, terms of delivery (FOB, CF, CIF), shipping name, port of loading of goods, port of goods destination (commercial invoice).

Certificate or supporting document from the invoice which is explaining the correctly and detail about content of every single pack of goods and how the goods packed (packing list and specification).

Packing list and specification (packing details in generally) is used for export goods which is packed by crate or carton which mention the contents of each crate or carton.

Document or shipping detail Certificate or document which is explains about the good weight such as: bruto, cutting, netto with details of scales, size of each crate or packing shipped. This certificate is use for importer.

- a. To determine the weight of the goods
- b. Prepare everything for implementation of freight transport from the origin port to determined destination port (certificate of weight) Certificate of quality, this document explain the quality of the product which exported.

Checking certificate is a document which issued by third party which is independent and by the importer requirement which purposed to make sure that the goods which delivered by supplier, both of quality or amount is guaranteed and match with mail order.

Things that need to be considered in the checking certificate are:

- a. Name of surveyor
- b. Description and amount of goods
- c. Other information which is relate with L/C
- d. Signature of surveyor company's officials

Certificate of information which state the origin of the goods that exported, this information letter can issued by exporter and become attachment of commercial invoice or issued by third party and usually chambers of commerce shall be listed the complete description of goods which exported, signed by the officials of chambers of commerce ad stamped. The function is for determine import duty for the goods that imported (certificate of origin)

Certificate of origin, this document is informing the state of origin of the goods which exported. Main purpose from this document is to gain the rights for levy of customs duties for imported products in the state of importer or to prove that the product is produced in the state of exporter. This document is important because to determine the entry fee in the state if importer. It is required by custom duty in the state of importer to make easy the levies of import duty and statistical purposes. This document should be containing complete description about the products which exported, by attached invoice which is passed consul of importer state which exist in the exporting country. This passing is given against the information which contained in the invoice which is given by the seller/beneficiary to them. Thus it happen the consular invoice, this invoice mention name and nationality from the ship which is carrying those goods, port of charge, and port of destination.

Certificate of origin is an information letter of the origin of the goods which is one of the functions is to determine import duty for the goods that imported. This document can be issued by the government or exporter.

Certificate of origin is stated about origin of the goods which confirms that the goods that exported are really produced from the country of exporter or from certain country as the requested by L/C. In Indonesia the issuer of this document usually by the government in this case is Ministry of Industry and Trade, or association of businessman for example KADIN (Chambers of Trade and Industry).

Insurance Certificate is an information letter which is given the insurance party that explaining that the certain goods has been held closing insurance (insurance certificate) first sheet from this letter will be made a shipping document, as an evidence that the goods has been insurance.

Example: Case illustration

Short Term Financing Guaranteed Commodities

Shipments or Bill of Lading serves as a sign of ownership of shipped goods. Therefore, if the exporter is pressed for funding needs and can not wait for payment from overseas buyers.

For example, the Negotiable Bill of Lading case, exporters can "negotiate" the bill of lading of goods they export to a bank or non-bank financial institution at a discount (lower price of L / C due to reduced deposit interest). Exporters who negotiate the bill of lading delegate ownership of the goods to a bank or non-bank financial institution, which provides loans or purchases the shipment documents. Thus the bank has ownership rights over the exported goods. The subsequent fund disbursement process is the Bank or the non-Bank Financial Institution concerned submitting bill of lading, draft exporter (draft) and other documents to the importer. Then means of payment with Letter of Credit (L / C) issuing bank, provided that the L / C importer pays or accepts draft receipt of bill of lading and other documents. Furthermore, importers remove goods from the port. If for any reason on the importer is unwilling to pay or approve a draft (draft), a Bank or a non-Bank Financial Institution that buys or provides a guarantee of negotiable bill of lading can collect goods from the port and sell them on the free market. If the amount of the proceeds is not sufficient to cover the loan amount, they may or may not charge the remainder to the exporter. This depends on the terms of the bill of lading guarantee agreement that has been agreed by both parties previously.

CONCLUSION AND SUGGESTION

Foreign trading activity with letter of credit payment method:

1. The usage and role of L/C in the foreign trading is: to make easy export transaction repayment, saving funds which is provided by importer to pay the goods and guarantee completeness of shipping documents. Basically there are three main things which should known all the parties both of importer, exporter and bank nor other related party that is: goods delivery flow, documents delivery flow and remittance or the payments.
2. Bank function as a mediator of foreign payment: in the activity of foreign trading or international trading both of export or import.
3. If the exporter needs the funds needed, exporter can "sell" mail delivery to bank or non-bank financial institution with discount price: with short-term financing guarantee commodity. The exporter who sell shipping mail transferring the ownership to the bank which gives the loan or purchasing of delivery document. The next funding disbursement process is the related bank or non-bank financial institution delivery shipping document, exporter draft and other documents to the importer.

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