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DOCUMENTARY (LETTERS OF) CREDIT

- Documentary Credit is a written undertaking by a bank (issuing bank) given to the seller (beneficiary) at the request, and in accordance with the buyer's (applicant) instructions, whereby the issuing bank undertakes to make a payment, accept a time draft of a specific value, within a prescribed time, and against specified documents. The documents are usually those used in foreign trade, like Commercial Invoice, Bill of Lading, Insurance Document, Certificate of Origin, Inspection Certificate, Certificate of Weight, Certificate of Conformity, etc.

- Documentary Credit offers sufficient guarantees to an exporter and importer, and involves the trust requirement more or less according to the used drafts and strength of relations and bonds that link exporters and importers. The trust should be confined to trading basics, like the exporter's shipment of goods according to the stipulated rather than different specifications or shipping different goods.

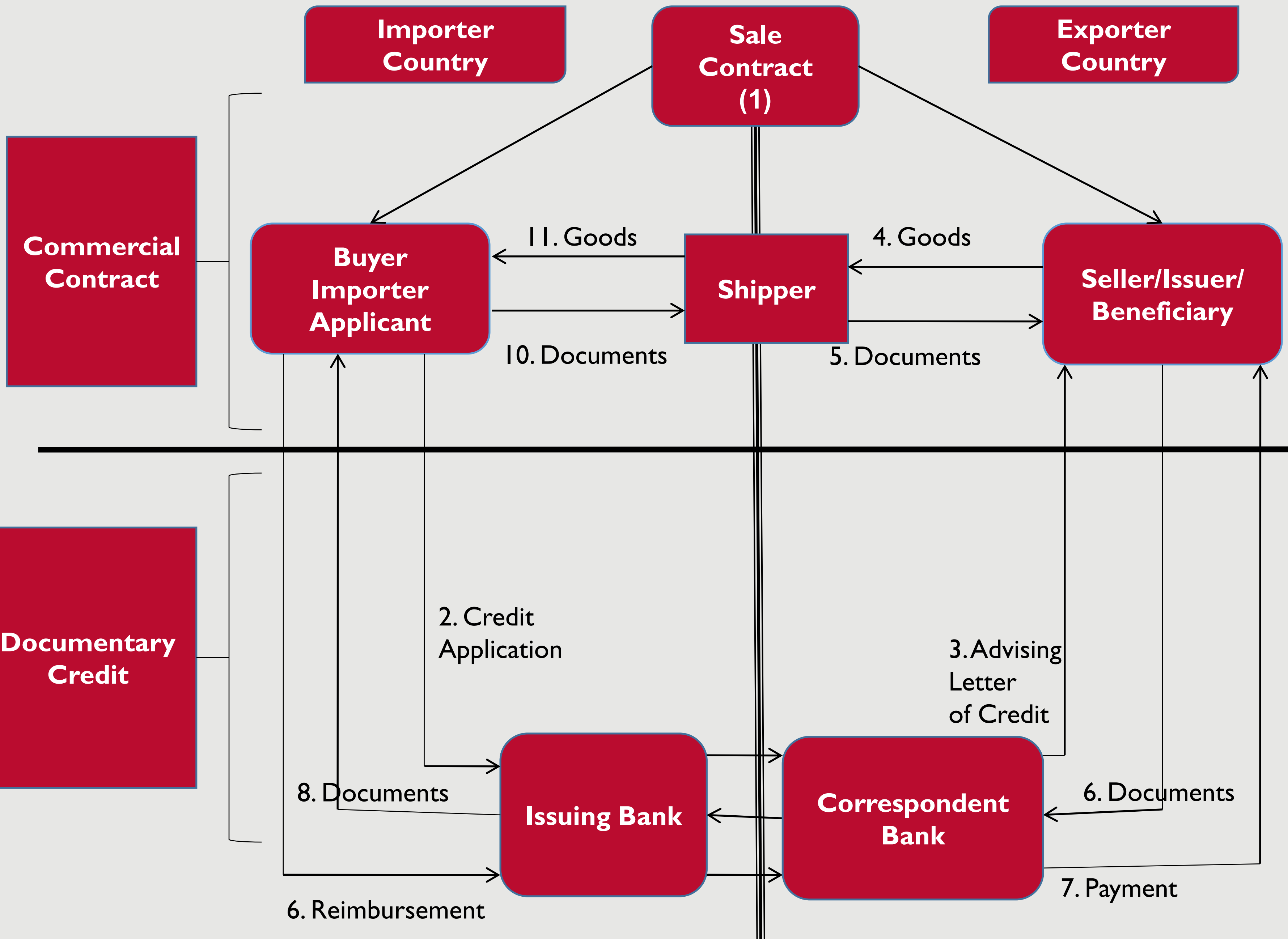
PARTIES INVOLVED IN DOCUMENTARY CREDIT TRANSACTION

1. Importer/Buyer is called Credit Applicant before opening credit, and Opener of Credit after it is opened.
2. Exporter/Seller is called (Credit) Beneficiary.
3. Issuing Bank issues the letter of credit and undertakes to pay, accept or negotiate documents.
4. Advising Bank informs the beneficiary of the terms of credit. It can be the Issuing Bank if it informs the beneficiary directly, or Correspondent Bank if it is in the beneficiary's country.

PARTIES INVOLVED IN DOCUMENTARY CREDIT TRANSACTION

5. Draft or Document Buyer/Negotiating Bank can be the issuing bank (or another) that receives documents and pays their values.
6. Paying Bank pays the credit amount, and is often the issuing bank, or Confirming Bank; and the issuing bank's correspondent makes the advice and confirmation.

Normally, the provisions and rules of Uniform Customs and Practice for Documentary Credits (UCPDC) issued by the International Chamber of Commerce apply to all the parties involved in the documentary credit.



Importer Country
Sale Contract (1)
Exporter Country
Commercial Contract
Buyer Importer Applicant
11. Goods
Shipper
4. Goods
Seller/Issuer/ Beneficiary
10. Documents
5. Documents
Documentary Credit
2. Credit Application
3. Advising Letter of Credit
8. Documents
Issuing Bank
Correspondent Bank
6. Documents
7. Payment
6. Reimbursement

DOCUMENTARY CREDIT EXECUTION STAGES

FIRST

- Opening a documentary credit is agreed upon under the terms of the purchase contract concluded between the exporter (seller) and importer (buyer). Credit conditions may be set out in detail under the payment term in the contract. It is noteworthy that banks consider themselves bound by the conditions of the credit they open and absolved from any obligation or liability incurred in connection with the execution of the contract between the seller and buyer.

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Article 9 Documentary Letters of Credit

The following procedures are to be considered when opening documentary letters of credit to cover the international procurement contracts (importing goods, implementing projects, and purchasing services) when contracting with Arab and foreign companies:

- **Article 9/ First:** The competent ministry (entities not connected with a ministry, or region) has to undertake the necessary procedures for opening a letter of credit after issuing the award, official signing of the contract, and obtaining the performance bond.

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- **Article 9/ Eleventh**: The contracting ministry, entity not connected with a ministry, or region should monitor its account opened in foreign currency, so that the fund balance should be sufficient to cover the amount of the documentary credit for executing a certain procurement contract. That is, no contract should be given to a foreign entity before checking the availability of sufficient fund balance in foreign currency to cover the amount of the documentary credit for executing the contract.

SECOND

To execute the terms of the contract, the importer/buyer (letter of credit applicant) submits a request to their bank to open the credit by filling out the Credit Application and signing the bank's general conditions to open the documentary credit.

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Article 9/ Second: The opening of the documentary credit should be in accordance with the UCPDC through an authorized bank in Iraq as per relevant bank forms (Application Forms and Opening Documentary Credit Contract) to be included in the financial conditions of importing in addition to other conditions contractually agreed on by both contracting parties (seller and buyer).

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Article 9/ Three: Opening documentary credit procedures should consider the following:

A. Identifying the credit beneficiary's (seller) name and full address.

B. Description of the goods required and reference should be made to the contract number and date.

C. Determining the required credit amount in number and writing.

D. Reference to the type of commercial sale under the international commercial terms (Incoterms), to be specified based on (Free On Board (FOB)/Cost, Insurance and Freight (CIF)/Cost and Freight (CFR)/Carriage and insurance Paid to (CIP)) or other and in accordance with the contract terms.

E. Specifying the mode of shipping (by land, air, sea, or other) and final destination.

F. Stating partial shipment acceptance or not.

G. Stating transshipment use or not.

H. Setting the documentary credit duration and expiry date according to the terms of the contract.

I. Determining the delivery time under the contract.

J. In case the documentary credit requires extension, the warranties or sureties duration should be extended for to the same period.

THIRD

The issuing bank opens the documentary credit in its records and prepares Opening Credit form at the client's request and according to the instructions contained in the Documentary Credit Application form. The issuing bank sends the (Opening (Letter of) Credit) form to its correspondent (bank) in the exporter country/seller (beneficiary). Once receiving the letter of credit, the correspondent bank advises the exporter/beneficiary on the credit conditions, the correspondent bank here is called the Advising Bank.

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Article 9/Third: The payment conditions and the method applied to pay off the installments them should be indicated in accordance with the conditions stipulated in the contract between both parties (buyer and seller). The exact mode of payment of the dues should be determined and the type of documents to be submitted by the seller should be specified to receive the dues.

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Article 9/ Third/O: The buyer (credit applicant) pays the charges for the procedures of opening the letter of credit (inside Iraq). The seller (beneficiary) pays the charges for and profits from opening the letter of credit (outside Iraq). Preferably, all the costs (inside and outside Iraq) be charged to the seller's account, and it is to be noted in the credit statement.

FOURTH

The beneficiary supplies the goods agreed on within the term of credit validity, and makes sure the specifications of the goods, shipping conditions, and insurance match the issued and prepared documents, and the documents match the credit conditions. The beneficiary then submits the documents to the advising bank that examines and ensures their compliance with the credit conditions advised to the beneficiary, which later buys or pays their value. In this case, it is called the negotiating bank, and the advising bank is not necessarily the same bank that buys the documents.

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Article 9/Fourth: Specifying and ratifying the instruments and documents required for documentary credits, and negotiating them under the UCPDC. The buyer may need other documents, such as Certificate of Weight, Inspection Certificate, Certificate of Origin, Consular List, or other, and it should be noted in the letter of credit.

FIFTH

When the bank receives the documents, it examines them and makes sure they conform outwardly to each other and to the credit conditions, regardless of how well they accord with the specifications of the commodities shipped, and the shipping terms. Banks deal with documents only rather than goods (according to the UCPDC). Making sure the documents match the credit conditions, the aforementioned bank pays their value and credit it to his issuing bank account or withdraw it from the account of its correspondent, i.e. covering bank, and then the advising bank sends the documents to the issuing bank.

SIXTH

When the bank receives the documents, it examines them again and makes sure they conform outwardly to each other and to the credit conditions, and then charge the credit amount, expenses and commissions to its client's account, and sends them to the client to obtain clearance for their goods from the port.

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Article 9/Eleventh/H: When supplying devices, equipment or any commodity that needs warranty for installment, operation or maintenance, it should be taken into account to keep a certain percentage of the credit amount for covering that, but it should be stated in the documentary credit terms of payment.

DOCUMENTARY (LETTERS OF) CREDIT CLASSIFICATION

There are several types of letters of credit that can be classified technically, fiduciarily and administratively.

TECHNICAL DOCUMENTARY CREDITS

1. **Revocable Documentary Credit**: It is a documentary credit the bank can cancel or amend at the request of the credit applicant, at any time, and without prior notice to the beneficiary. However, once the documents are submitted to the advising bank and the beneficiary receives their value, the credit becomes irrevocable or unmodifiable unless all concerned parties without exception agree otherwise. Therefore, we see some banks do not consider this type a documentary credit but a revocable notice. This type of credits is definitely in the interest of the importer because it gives them maximum flexibility, and on the other hand, involves maximum risk to the exporter.

2. **Irrevocable Documentary Credit**: It is a documentary credit whereby the credit applicant and issuing bank commit to pay the credit amount against the required documents submitted by the beneficiary, ostensibly proving their fulfillment of the credit conditions within the validity period. The credit applicant and/or issuing bank may not retract from their commitment to payment under the credit conditions by cancelling or modifying it. If the credit should be modified for any reason, the consent of all parties concerned without exception should be obtained. The irrevocable documentary credit is the commonest and most used. The issuing bank should explicitly state in the letter of credit it is irrevocable. Yet, in the absence of such a provision, the credit will be regarded as under the UCPDC.

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Article 9/ First: By adopting the procedures required for opening an irrevocable and unconfirmed letter of credit, and according to the applicable regulations issued by the Council of Ministers in this regard.

Article 9/ Third/G: In cases where the seller insists on opening an irrevocable and confirmed letter of credit, the confirmation charges will definitely be to their account.

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Article 9/ Third:

L/ Any modification to or extension of the irrevocable letter of credit is definitely disallowed except after obtaining the two contracting parties' approval.

M/ The irrevocable letter of credit may not be cancelled unless a written request is made by the credit applicant provided that the credit beneficiary (seller), or requested by the correspondent bank at the request of the seller (credit beneficiary), provided the buyer's written consent is presented.

3. **Irrevocable and Confirmed Documentary Credit:** As this type of credits is irrevocable, the issuing bank asks the advising bank to add its confirmation when it advises the beneficiary. Generally, banks apologize for not confirming irrevocable credits because they can be cancelled without notifying any of the concerned parties. Consequently, when the bank adds its confirmation, it becomes obliged to pay the credit charge when the beneficiary submits the documents that meet their terms, regardless of the financial situation of the credit applicant and issuing bank. Accordingly, banks charge a special commission for granting them credit conformation facilities. This is the best type of credits where the exporter can get guarantees for paying the value of the exported goods, but in turn it is an additional burden on the importer, as they should pay the additional confirmation expenses that increase the cost.

4. **Revolving Letter of Credit:** It is a revocable or irrevocable credit whose conditions allow to renew or roll over its value without the need to amend the rest its conditions. The value can be renewed in time or in value. If the credit is replenished over a period, its value is automatically renewed at the beginning of the period, regardless of its balance at the end of the previous period. The credit may stipulate the value renewal cumulatively, that is adding the unused value of the previous period to the credit amount after renewal. If the credit is renewed in value, it will be replenished once its whole value or part of it is used. The irrevocable credit, which requires shipping the goods and thus paying over specific periods within its validity duration, is not a revolving credit, but an irrevocable letter of credit that allows partial shipments.

5. **Advance Payment (Red Clause) Credit:** It is an irrevocable letter of credit that includes a provision that authorizes the issuing bank, advising bank, or confirming bank (if confirmation is added) to give advances to the beneficiary prior to submission of the documents, per clear and accurately detailed instructions. The issuing bank demands the red clause credit details from the applicant to save them any liability for translation or interpretation of its instructions related about that provision. It was named Red Clause because banks traditionally have put it in the letter of credit in red ink to draw the issuing bank's attention to the special nature of the credit. These facilities may be directly from the client's (credit applicant's) account, or authorized by the advising bank or confirming bank by granting the beneficiary a loan worth the credit amount or part of it granted on standby credit, which is repaid from the credit amount allocated by the advising bank for the beneficiary after submitting the documents. Often the lending conditions are attached to bank guarantees offered by the credit beneficiary who pays them in the event of failure to ship the merchandise before the credit expiry.

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Article 9/ Third/N:

In case a percentage of the credit amount is paid in advance, a bank guarantee should be received in the same currency of the credit, provided through an accredited bank in Iraq.

Article 9/Eleventh/C:

In case a percentage of the total credit amount is paid in advance where the advance amount may be paid to the seller only after the receipt of a legal bank guarantee worth the given advance amount in the same currency of the credit. This surety should be unconditional, i.e. on demand, whereby the buyer can withdraw the surety without notice or a court order.

6. **Transferable Credit:** It is an irrevocable letter of credit whose (first) beneficiary can transfer once to one beneficiary or more (second beneficiary). This type of credits is used when the (first) beneficiary is a mediator that agrees with the importer to provide them with goods they buy from one or more sources. This credit allows the first beneficiary to transfer their rights and obligations or part of them to the real exporters without having to open a letter of credit or more in favor of the exporters. The credit transfer expenses, though, are defrayed fully by the beneficiary unless otherwise provided for in the credit. The credit is transferred under the same basic conditions, but the first beneficiary that transfers the credit is entitled to amend it as follows:
   - The first beneficiary may replace the credit applicant's name with their name to ensure that the original applicant will not know the actual exporters.
   - The credit value may be reduced, allowing the first beneficiary to realize a profit, which is the difference between the original credit amount and the transferred credit.
   - The credit term can be shortened so that the first beneficiary can present the documents received by the bank for its benefit from the second beneficiary within the original credit term.

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Article 9/ Eleventh/B:

It is not permitted to open a transferable letter of credit, except transfers for the manufacturing entities stated in the contract.

7. **Back-to-Back Credit / Counter Credit:** The importer may refuse to open a transferable letter of credit, or the second beneficiary may attach conditions that are not in the transferable letter of credit. If the first beneficiary is able to supply the goods, they should open a credit in favor of another exporter that is capable of exporting the required goods. This involves two types of collateral credits:
   - A. **Back-to-Back Credit:** whereby the beneficiary requests from the advising bank to open a back-to-back credit with security of an advised credit. In general, banks are reluctant to open credits of this kind if the beneficiary is not one of their clients with specific facility limits.
   - B. **Counter Credit:** whereby the beneficiary requests from the advising bank or any bank to open a credit counter to the import credit without considering the latter a guarantee for the credit to be opened by the bank within the facility limits offered to it.

8. **Standby Letter of Credit:** Under this type of credits, the issuing/advising bank undertakes to compensate the beneficiary financially for the withdrawals not in excess of a certain amount, within a specified period, against the beneficiary's delivery of prescribed documents. The required documents, based on the guarantee, usually include Beneficiary Certificate that evidences the credit opener's (applicant's) failure to fulfil their obligations. This kind of credits is bound by the UCPDC that oblige the issuing bank to pay upon receipt of documents meeting the credit conditions. It is noted here that the undertaker cannot amend or cancel the credit without the consent of the beneficiary, and they are not entitled to object or stop the payment under the credit.

9. **Deferred Payment Letter of Credit:** Under this type of credits, the exporter (beneficiary) grants payment facilities to the importer by opening a deferred payment letter of credit (DPLC). DPLC is an irrevocable credit whereby payment is made after the date of withdrawal or documents presentation. The issuing bank takes the risks of its credit applicant client throughout the duration of the facilities. The advising bank advises the credit conditions to its issuing client without any fiduciary responsibility.

CREDIT RATING OF LETTERS OF CREDITS

When any bank issues a credit for one of its clients, it takes a credit decision in favor of that client. The bank undertakes under the issued credit to pay or accept the credit amount, regardless of the client's ability to pay in the future. Banks classify documentary credits that they issue into Secured Credits guaranteed with the value of the goods by which imported, and that the bank can sell to cover its dues in the event of the client's bankruptcy; and Unsecured Credits. Credit analysis used for calculating creditworthiness the bank requires to fulfil before issuing the credit depends on the following:

A. Credit Amount
B. Type of Merchandise
C. Shipping Documents
D. Insurance Documents

ISSUANCE OF LETTERS OF CREDIT

Banks issue their documentary credits as special forms designed in line with the design of the Credit Application Form completed by the applicant with data, and the instructions required by the credit issuance. Credit Application Form includes, and thus data and basic instructions, the following:

1. Full Name and Address of Beneficiary;
2. Credit Amount;
3. Credit type;
4. Description of Goods;
5. Required Documents;
6. Shipping Fees;
7. Shipping and Destination Ports; and
8. Expiry Date

DELIVERY TERMS

Dispatching goods from one country to another is part of the business process that may face some risks if they sustain shortage, damage, or no delivery for any reason. This leads lack of trust between the importer and exporter, and going to court. Perhaps the key difficulties that could face the importer and exporter are those resulting from inadequate information about the delivery terms, which are diverse and differently defined.

The International Chamber of Commerce in its INCOTERMS bulletin No. 460 of 1990 mentioned a number of significant delivery terms used in international trade and identified the responsibility of parties for each term with respect to the costs and risks resulting from loss or damage. These terms were divided into four groups:

GROUP E

This includes the first delivery term called Ex Works (EXW). This term means the seller is responsible for supply of the goods at its factory site or warehouses, but does not assume responsibility for loading them into a vessel the buyer should secure. The buyer also bears all the costs and risks of transporting the goods from the seller's factory site or warehouses to destination. Under this term, the seller does not shoulder the responsibility for securing the export requirements, such export permit, origin certificate cost, consular ratification fees, and other duties and costs necessary to clear the goods in the exporter's country.

GROUP F

This group includes the following three terms:

1. **Free Alongside (FAS):** The seller's responsibility under this term ends by delivering the goods alongside the ship on the quay or placing them onto barges or lighters that transfer cargos to ships at sea. The buyer should meet the official export requirements, such as export permit and other, and bear any expenses or demurrage caused by the ship delay in freighting the goods in addition to the costs of loading the goods onto the ship.
2. **Free on Board (FOB):** The buyer's obligation starts when the goods pass through and get lifted by crane to the edge of the ship.
3. **Free Carrier (FCA):** Here the seller's obligation ends when they deliver the goods to the carrier at a point agreed on by the seller and buyer, and the seller will remain responsible for fulfilling the export requirements, such as export permit, etc.

GROUP C

1. **Cost and Freight (CFR):** This term is used exclusively in transactions conducted by sea, whereby the seller bears the costs of goods carriage to the shipping port and charge for transporting goods to the destination; while the buyer is also liable for any damage or loss of goods or any increase in freight rates may occur. The buyer's liability begins with passage of the goods and lifted by a crane to the edge of the ship at the port, and the seller bears the costs of preparing the official export documents, such as export permit, etc.
2. **Cost, Insurance and Freight (CIF):** Under this term, the seller's, incurs the same obligation of the previous term plus the insurance premium on goods, and the insurance coverage is minimum and any additional coverage requested by the buyer should be paid by the buyer herself/himself.

3. **Carriage Paid To (CPT):** This term applies in various modes of transport, regardless of the type of transport means, whereby the seller's obligation ends upon delivery of the goods in the carrier warehouses and paying the costs of their freight to the destination. The buyer's obligation starts once the goods are delivered in the carrier's warehouses. The seller has to fulfill the export requirements, such as export permit, etc.
4. **Carriage and Insurance Paid TO (CIP):** This condition is similar to the previous condition CPT, but the seller is further obliged to pay the insurance charges on goods during their transportation to the destined place.

GROUP D

1. **Delivered At Frontier (DAF):** The seller's obligation under this term ends at a point before the agreed on border customs. This condition is mostly used when shipping the contracted goods by trucks or trains, and can be used in other shipping methods. The buyer's obligation begins upon their receipt of the goods at the specified point.
2. **Delivered Ex Ship (DES):** This term is used in maritime transactions, whereby the seller's obligation ends when they deliver the goods on board the ship at the port of destination without paying fees in the destined country. The difference between (CRF) and (DES) terms is that under the latter the seller bears the risks of shortage or loss of the goods while being transported to the port of destination, or any expenses incurred on the ship late arrival to the port.

3. **Delivered Ex Quay (DEQ):** This term is used exclusively in nautical transactions, whereby the seller's obligation ends when the goods are put at the disposal of the buyer onto the destination port quay. If it is agreed that the buyer should pay the customs duties, "Duty Unpaid" is to be added; and if the agreement that it should be paid by the seller, "Duty Paid" is added.
4. **Delivered Duty Paid (DDP) & Delivered Duty Unpaid (DDU):** These two terms are used in commercial transactions conducted by any transportation means. The difference between the DAF and these two terms is that the seller's obligation under DAF ends when the goods are put at the buyer's disposal at the agreed point before the buyer's country border station. The seller's obligation under DDP term starts as the goods transit the buyer's country border station to the destination agreed on in the contract, after the payment of customs duties and goods clearance charges, whereas under DDU the buyer should pay the customs duties and clearance charges.

BILLS OF LADING (BOL)

Bill of Lading is a document issued by a company authorized to do shipping business. The BOL includes the receipt of goods to be transported from one area to another, and used for the following purposes:

1. RECEIPT OF GOODS

It is a written document that acknowledges the receipt of the items to be transported. The bill of lading (BOL) form is similar to the check form in use and it is not hard to get and sign on behalf of the agent or forge their signature. Banks are not responsible for checking signatures on BOLs, and shipping companies are not either for the contents of their shipments, since they identify the cargos as reported by the shipper. The responsibilities of the shipping company and bank pertaining bills of lading as follows:

- The bank and shipping company will not be liable if the shipped goods are different from the goods defined in the bill of lading.
- The bank and shipping company will not be liable if the bill of lading is signed by an unauthorized person from the shipping company.
- If the bill of lading is signed by an authorized person from the shipping company and the goods were proven as missing, the shipping company will be liable, but the bank will not.

2. SHIPPING CONTRACT

It involves the terms agreed upon between the shipper and shipping company to transport the goods and deliver them to the consignee. International laws consider the carrier liable for all defects in and damage to the goods except act of God, force majeure, or risks of war that the shipping company cannot control. The company is also responsible for loading, carrying, and unloading goods from the vessel and placing them under the ship crane. If the carriage of goods was On Deck, most of the shipping company's responsibility disappears and the company will not be liable for any defect in or damage to the goods because freighting on deck poses several risks to the cargos and the shipping company cannot take on liability for.

3. TITLE OF OWNERSHIP

This can be an ownership document because it is used as a loan security, provided that the content and text of which entitle the holder to own the goods therein. The bill of lading too can be a title of ownership, as long as it enables the bank to receive the goods and disallows another to receive them, unless they decide so.

Types of Bill of Lading

1. STRAIGHT BILL OF LADING

Bill of Lading (BOL) will be considered straight if its text shows that the goods (shipped to them) without including the words (to the order). In this case, the BOL is an ownership instrument, but not negotiable. In order that the BOL can be a guarantee for the bank, the goods should be shipped to the bank directly, and in English it will worded as (consigned to the order). In such case, the goods can be delivered only to the bank or to a third party upon the delivery order issued by the bank. The shipping company or its agents should hand over the consignment to the consignee against proving identification without presenting the BOL, given they are the owner of the goods. This uncommon type is used only in a few cases when banks fear the negotiable BOLs being stolen.

2. NEGOTIABLE BILL OF LADING

Negotiable (not straight) Bill of Lading contain the words (to the order) when specifying the consignee, i.e. the English words (consigned to the order) are followed by the consignee's name. This BOL is negotiable by endorsement, where the shipping company delivers the goods in exchange for receiving an original copy of the BOL showing (to the order). This BOL is considered can be a guarantee for the bank if all the original copies issued for it are presented to it. The BOL can be issued in the following forms:

To [the] order [of]/ To order of the shipper/ To order of the buyer/ To order of the bank in the shipper's country/ To order of the bank in the buyer's country

3. CHARTER PARTY BILL OF LADING

It is a BOL issued under vessel charter agreement or part of it, and put at the disposal of the shipper. The contract includes all the conditions relating to the goods to be carried, freight, and demurrage. This BOL does not state all the shipping details, but merely indicates that the shipping terms are subject to contract of affreightment.

4. CLEAN BILL OF LADING

The shipping company is responsible for delivery of the goods in the same state received by the ship. So, if there is a patent defect in the goods or their packaging, a text or a note on the defect will be introduced into the BOL to evade responsibility. For example, the BOL may contain these words (bags have holes) or (rusty iron bars). If the BOL does not have any notes, it is called Clean Bill of Lading, yet if it includes any reservations, it is called Claused Bill of Lading.

5. FORWARDER'S BILL OF LADING

The BOL may be issued by a company not owning the vessel but a licensed shipping company, like clearing firms. This BOL in this case is issued by a forwarder and the it is called Forwarder's Bill of Lading. This document is not acceptable in foreign trade unless the credit stipulates that because the BOL and its terms do not make a commitment on the part of the ship owners and do not constitute a waybill in the full sense.

6. THROUGH BILL OF LADING

If the BOL issued covers carriage by two different freighters as two separate vessels, it is called Through Bill of Lading (TBOL) because it covers more than one ship. The BOL will be issued by the shipping company whose vessel will carry the goods during part of the trip, and undertakes to complete the trip aboard another ship per the BOL text. Should a credit require the provision of a TBOL, it should permit modifying the shipping mode term.

AIRWAY BILL/ AIR CONSIGNMENT NOTES

Airway Bill is similar to Bill of Lading (BOL) and it is issued by an airline or its accredited agents. However, Airway Bill is not considered a title instrument, because the goods are shipped on behalf of the consignee directly and delivered to them delivery order issued by the airline or its agents, rather than under the original BOL. Therefore when opening credits, banks stipulate Airway Bill indicate that the goods should be in the name of the credit opening bank.

INVOICE

Invoice is an accounting document under which the seller is required to pay the value and costs of the goods agreed to be shipped. In some countries, the customs authorities demand certified invoices that show finer and greater details. Invoices are of the most important documents that the bank should ensure accuracy in their examination.

CERTIFICATE OF ORIGIN

It is a certificate issued by Chambers of Commerce and contains the country where the goods were issued originally. In some countries, this certificate is demanded by the customs authorities that may impose a fine on the goods imported from a country other than that of origin. This certificate may require to be ratified by one of the consulates of the importer's country in the event there were laws, regulations or instructions banning import from certain countries. The details of this certificate should match the other details of the documents on the one hand, and the credit conditions on the other, so that the advising bank can pay.

WEIGHT CERTIFICATE

Certificate of Weight (COW) is issued by a competent company licensed to do weighing activities. The certificate indicates the date and place of weighing and the goods weight. This COW is required when shipping goods in bulk, where weight is the only benchmark for preparing invoices by the exporter. Goods are weighed when they are packaged and shipped, making demand for this certificate not necessary in the case of packaged goods. Under UCPDC, advising banks accept any duly signed COW unless the letter of credit (L/C) requires this certificate to be issued by a certain company named in the L/C. The bank should make sure when checking the documents that this certificate conforms with the rest of documents and complies to the credit conditions.

TYPE, ANALYSIS, INSPECTION, AND PHYTOSANITARY CERTIFICATES

Type and Analysis Certificates are issued by specialized laboratories that examine a sample of the goods and issue a certificate of the examination results. This certificate is required when importing consumer goods in bulk according to specific nutritional specifications identified in the letter of credit. This certificate is the only way to prove the accord of the shipped goods with the specifications. The Inspection Certificate is issued by a specialized company that check the shipped goods and ascertain their state, and this certificate may replace Type and Analysis Certificates and requested instead of them in case of certain types of goods. The Phytosanitary Certificate is issued by official or private laboratories; it attests the healthiness of the imported goods, and is usually required when importing meat, fish and chicken.

TRUST RECEIPTS

The exporter and importer may agree on the delivery of good in one of the exporting country ports and the importer through forwarders should manage shipping. In this case, the exporter may refuse payment be made per credit against bill of lading, as the importer's agents may be late in shipping execution for any reason. In this case, the two parties may agree that the exporter should authorize the issuing bank to request the bill of lading and/ or trust receipts.

In general, this type of arrangements is rare, as the importer may prefer to give up the task of shipping for the exporter particularly; and paying the credit amount per trust receipts increases the fiduciary risk of the credit and thus the cash guarantees that may be required for its issuance.

DELIVERY ORDER/CONSIGNMENT NOTE

It is a by-endorsement negotiable order issued by shipping companies or their agents in the importer's country, by which the company's office in the port of destination is asked to put the goods under the consignee's disposal. Delivery Order is issued when the bill of lading is straight, i.e. non-negotiable, and issued in all cases of Airway Bill. Since banks require that straight bills of lading or airway bills be issued on their behalf to ensure the rights conferred as part of the facilities for the credit applicant, shipping companies send delivery orders to banks, which in turn endorse them in favor of their credit applicant customers.

EXECUTIVE REGULATIONS OF GOVERNMENT CONTRACTS 2008

Article 9/Sixth:

The competent ministry, non-ministerial entity, or region will monitor the shipping and delivery of goods and get the seller's notice on the shipment details, taking the following into consideration:

A. Completing the customs clearance procedures for the delivered goods and equipment to facilitate delivery to the warehouses.

B. Completing the clearance and loading procedures for air and land shipping as soon as possible, and within the set allowances to avoid demurrages due to delayed receipt of the goods delivered to the airport or customs.

C. Completing ship unloading procedures for sea shipping, as soon as possible and within the set allowances to avoid demurrages due to the delay in unloading the vessel cargos, and considering that as important and urgent.

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Article 9/Seventh:

The equipment and paraphernalia used in warehouses should be prepared to complete the procedures for unloading and initial receipt of the delivered materials without delay, recording the status of the received goods to guarantee the insurance rights.

Article 9/Eighth:

Finalizing the follow-up of the procedures for engineering inspection of the received materials and issuance of Inspection and Acceptance Certificate, during the period specified in the contract and as of the date of materials receipt.

Insurance in Documentary Credits

FIRST: SHIPPING RISKS INSURANCE POLICIES

Insurance Policy is a contract under which the insurance company undertakes to indemnify the insurance applicant (insured) in full or in part against the loss incurred as a result of malfunction or damage that may inflict their shipped goods during shipment under provisions agreed upon. The provisions include the insurer's payment of specific insurance costs, and sea freight can cover the perils of the sea and usually include ship sinking or entire loss, General Average, or partial damage of the goods as a result of:

- Fire
- Jettison
- Breakage and Leakage
- Inherent Vice (e.g. Spoilage)
- Ordinary Tear and Wear
- Damage due to Strikes, Riots, and Civil Commons (SR&CC)
- Loss caused by confiscation by hostile parties in war, e.g. Free of Capture and Seizure (FC&S)

The following are the most important types of insurance policies:

1. MARINE INSURANCE POLICY

It covers total or partial loss of the goods as a result of jettison to keep the ship from sinking or grounding under Jettison Clause, which entails General Average covered by all the insurance companies insuring the cargos on the concerned ship. This type of policies covers the minimum acceptable sea shipping risks, but does not cover any partial loss suffered by the goods from normal perils of the sea.

2. FREE OF PARTICULAR AVERAGE (FPA)

This policy covers the basic risks covered by regular policy in addition to its coverage of partial loss in one case, i.e. Ship in Disaster as declared by its owners; and the ship is announced to be in disaster when running aground or colliding with another vessel. If part of the goods shipped was damaged consequently, the covering insurance company will indemnify the policyholder for the partial loss according to the policy terms. If the partial loss was from any other cause, this policy would not cover it.

3. WITH AVERAGE (WA)

This policy covers total loss, overall loss and all sorts of partial loss from the perils of the sea. Coverage of specific perils, such as fire, theft, breakage, leakage, or all of them can be added to this kind of policy. This type is the least the issuing banks can accept in terms of freight coverage insurance under documentary credits.

4. ALL RISKS

This policy covers all the perils of sea freight mentioned above except three perils: Inherent Vice, e.g. damage of foodstuffs cargo as a result of initial decay before shipment, Strikes, Riots, and Civil Commons (SR&CC), and Free of Capture and Seizure (FC&S). Any insured entity wants to cover their goods shipping against any of these risks, they should mention them explicitly, so that the insurance companies will cover them by issuing supplements appended to the original policy, called Riders. The coverage of these risks may be added to With Average (WA) as well. In general, banks demand policy against all the perils not included in light of the shipping mode, roads, sea ports, air, or land expected to pass through.

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Article 9/ Third/Q:

The insurance should cover All Risks, and is to be stated in the letter of credit, whether the insurance is covered by the seller or buyer provided that it covers the value of the goods based on CIP or CIF.

SECOND: INSURANCE VALUE

To safeguard their rights and the credit applicant's rights, banks usually demand the value of the policy coverage equal the full value of the goods based on CIF at the minimum. This is because the insurance company pays a part proportionate with the value of the goods covered in the event of partial loss.

THIRD: LOSS AVERAGE

Insurance Policy may cover certain loss, but it may stipulate that the indemnity will be paid if the loss exceeds a certain percentage or a fixed amount; and this percentage is called Franchise. If the policy is subject to a loss percentage equal to 3%, i.e. subject to 3% Franchise, the company will not pay any indemnity unless the loss percentage exceeds 3%. There are two types of loss percentage: Deductible and Non-deductible. In the first type, the agreed loss percentage is deducted from the entire loss amount incurred. In other words, if the loss percentage was 3% and an actual 8% loss was incurred, the insurance company would pay only 5% compensation.

THIRD: LOSS AVERAGE CONTINUED

In the second type, the entire loss amount will be paid if it exceeds the percentage, i.e. if it was 3% loss, and the actual loss was 8%, the insurance company would pay 8% of the goods value. The insured may require, at the request of the issuing bank, the policy not be subject to any loss rate, and in this case the policy will be issued on this basis of Irrespective of Percentage, which means if there was a loss percentage in the very policy form, the coverage would not apply if the words (Irrespective of Percentage) were included in the policy.

FOURTH: INSURANCE COVERAGE

Insurance Policy covers the shipping risks incurred from the issuance of the policy, until the arrival of the goods at the place of receipt. One of the new provisions in the insurance business is from Warehouse to Warehouse under which the goods are insured from the exporter's warehouses discharge till arrival at the importer's warehouses. Further, a relatively emerging provision in the maritime insurance business is the Marine Extension Clause, which keeps the insurance policy valid in case of contingent storage of the goods in specific ports due to ship’s inability to complete its voyage or because of loaded ship seizure in certain ports owing to compelling circumstances, like wars.

FIFTH: INSURANCE POLICIES AND CERTIFICATES

An importer may apply for an open insurance policy to cover their various import operations during a specified period. In this case, they apply for an insurance certificate for each import separately. However, the issuing banks generally reject such a certificate unless it contains all the necessary data.

SIXTH: WAR RISKS CONDITIONS

1. **War Cancellation Clause "Goods":** The coverage granted against the war risks under the Institute of London Underwriters clauses can be canceled by the company or the insured except the risks that come into effect according under the stated clauses before the cancellation comes into force. Cancellation becomes effective only after a definite period from midnight on the first day of the cancellation notice issued or received by the company.
2. **War Risks Rate Adjustment Clause:** The insurance rates against war risks in the insurance policy are subject to adjustment at any time when hostilities, civil unrest, or the like break out anywhere in the world. The applicable rates are those that are prevailing at the time of shipping and set by the London-based War Risk Rating Committee.

SEVENTH: CLAIM CONDITIONS

If the goods are destroyed or damaged, the insured should submit a written claim with a registered letter to the carrier or their agent, notifying them of shortage, damage, or loss, and retains the right to seek compensation with a copy of the letter to the insurance company. If the insured fails to make the claim described above within the legal period, they forfeit their right to claim for any compensation from the insurance company and the latter will be exempted from any obligation.

EIGHTH: INSPECTION

Insurance companies play a key role in ensuring the rights of importers by covering some of the risks that involve the imported goods. However, securing the imports does fully guarantee the importer's rights, as there are several risks not covered by insurance policies, including omissions, errors, fraud, and deception practiced by some exporters, with regards to type, quality, quantity, weight, or packaging of imported goods, in addition to cheating, swindling and forgery in marine shipping.

EIGHTH: INSPECTION CONTINUED

Here comes the need for specialized advisory, technical, neutral entities that secure the importer's rights vis-à-vis the exporter or shipper, and they ensure importer's receipt of genuine merchandise that match the required specifications. Inspection, as an importing term, means a competent, technical, and neutral authority's examination and/or check and/or test and/or analysis of a particular commodity to ensure the commodity compliance with its required specifications agreed on between the importer and exporter. Inspection, in maritime shipping, also means competent, technical, and impartial authority's investigation of the vessel ownership and professional qualification of its owners.

EXECUTIVE REGULATIONS OF GOVERNMENT CONTRACTS 2008

Article 9/Ninth:

A. In case of receiving a delivery showing defects or non conformity to the required technical specifications, the test and approval committee established by the contracting entity, has to issue a certificate of specification mismatch and respectively inform the seller, without delay, for the purpose of replacing the said items.

B. In case of missing items or items with total or partial damage, the test and approval committee has to issue a mismatch report for the said items and to inform the seller with the details of the missing or damaged items for compensation when the sale is based on (CIF or CIP) since the insurance is covered by the seller.

C. In case the insurance is covered by the buyer and there is damage or missing items in the arrived delivery, a mismatch report is therefore to be issued and it must inform the National Insurance Company for the purpose of assuring the compensation.

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