

Chapter 32 Documentary Credit

I. Objectives

- A. To gain an understanding of documentary credit and its unique feature
- B. To find out why documentary credit developed
- C. To gain an understanding of how the documentary credit operates
- D. To learn relevant words, expressions and structures

II. Introduction

Cash payment in international trade is rarely adopted; instead, non-cash payment is commonly used. Documentary credit is a very important means of payment. Payment by credit transfers the importer's obligation of payment to the bank, which ensures that the exporter can get payment safely and promptly. At the same time, the importer gets the shipping documents on time, against which the latter can take delivery of the shipment.

信用证支付方式是随着国际贸易的发展而逐步形成的。它在一定程度上解决了进出口人之间互不信任的矛盾；同时，也为进出口双方提供了资金融通的便利。所以，自出现信用证以来，这种方式发展很快，并在国际贸易中被广泛应用。当今，信用证付款已成为国际贸易中普遍采用的一种主要支付方式。

III. Main points of the text

- A. Although cash payment is ideal, the most widely used method is payment by documentary credit, where a bank's credit is adopted.
- B. How documentary credit operates.
- C.
 1. Documentary credit is the product of international business and the development of world business is an immense impetus to the evolution of documentary credit.
 2. Technological advance in banking, transportation and telecommunications makes possible the worldwide acceptance of credit operations.
 3. The unique and characteristic feature of the documentary credit is the bilateral security it offers to both exporter and importer.

IV. Background and terminology

1) open account: 记账赊销

In a foreign transaction, an open account is a convenient method of payment and may be satisfactory if the buyer is well established, has demonstrated a long and favorable payment record, or has been thoroughly checked for credit worthiness. Under open account, the exporter simply bills the customer, who is expected to pay under agreed terms at a future date.

2) credit: 信用

A contractual agreement for deferred payment in which a borrower receives something of value now, with the agreement to repay the lender at some date in the future as a result of a positive opinion by the particular lender concerning such borrower's and reliability.

3) documentary credit

A letter of credit, often abbreviated as an LC or L/C, and also referred to as a documentary credit, often abbreviated as DC or D/C, documentary letter of credit, or simply as credit, is a document issued mostly by a bank which provides an irrevocable payment undertaking to a beneficiary against complying documents as stated in the credit. This means that once the beneficiary or a presenting bank acting on its behalf, makes a presentation to the issuing bank or confirming bank, if any, within the expiry date of the LC, comprising documents complying with the terms and conditions of the LC, the issuing bank or confirming bank, if any, is obliged to pay irrespective of any instructions from the applicant to the contrary. In other words, the obligation to pay is shifted from the applicant to the LC issuing bank or confirming bank, if any.

Letters of credit are often used in international transactions to ensure that payment will be received. Due to the nature of international dealings including factors such as distance, differing laws in each country and difficulty in knowing each party personally, the use of letters of credit has become a very important aspect of international trade. The bank also acts on behalf of the buyer (holder of letter of credit) by ensuring that the supplier will not be paid until the bank receives a confirmation that the goods have been shipped.

V. Language points

- 1) beyond (one's) control: impossible (for one) to control 无法控制
He tried to brake the car, but it was beyond control.
他企图刹车，但是已经不起作用了。
We have done a lot to avoid unexpected events, but something is really beyond our control.
我们做了大量工作以避免不测事件发生，但有的事确实无法控制。
- 2) ship: to send goods somewhere by ship, plane, truck etc. 运送
A new engine was shipped over from the US.
从美国运过来一台新引擎。
We ship books to New York every month.
我们每月向纽约运送图书。
- 3) part with: to give something to someone else, although one does not want to 放弃，出让
The exporter isn't willing to part with his goods without being sure that he will get the payment on time.
在不确信能按时得到货款的情况下，出口商是不愿发货的。
To transfer to the branch company means that he will part with his high position.
调到分公司，意味着他将让出他的高职位。
- 4) bottleneck: a delay in one stage of a process that makes the whole process take longer 障碍:
Understaffing has caused a real bottleneck.
缺乏人手已经成为真正的障碍。
Is there any way of getting round this bureaucratic bottleneck?
有什么办法能绕过官僚机构这个障碍吗？

- 5) wish for: to want something to happen or to want to have something, especially when it seems unlikely or impossible 盼望; 企求
She was like the sister I never had but always wished for.
她就像我一直希望有却从未有过的姐姐。
There is no point in wishing for a miracle.
光是盼着出现奇迹是无济于事的。
- 6) in essence: used when talking about the most basic and important part of something, especially an idea, belief, or argument 本质上
In essence his message was very simple.
从本质上说, 他的留言很简单。
In essence, both sides agree on the issue.
双方已在本质上就这一问题达成了一致。
- 7) conform to: to obey a rule or reach the necessary stated standard, or to do things in a traditional way 符合, 遵守
The driver didn't conform to traffic rules, so he got fined.
该司机未能遵守交通规则, 因而被罚款。
Conventions are not law, but people still conform to them.
习俗虽然不是法律, 但人们仍然遵守它们。
The quality and specifications must conform to the sample you sent us last month.
质量和规格必须与上个月贵方送给我们的货样相符。
- 8) set forth: to explain ideas, facts, or opinions in a clearly organized way in writing or in a speech 公布, 宣布, 提出
He set forth a good proposal, but it was turned down.
他提出了一项很好的建议, 却被拒绝了。
The *Financial Times* today sets forth the GNP of this year.
今天的《金融时报》公布了今年的国民生产总值。
- 9) on behalf of someone: as someone's representative 代表
Our monitor makes a speech on behalf of the whole class.
我们的班长代表全班发了言。
He attended the meeting on behalf of the chairman of the board.
他代表董事长参加了会议。
- 10) make use of: to use something that is available in order to achieve something or get an advantage for yourself 利用
If you make full use of your spare time to prepare for the exam, you will certainly pass it.
如果你充分利用业余时间准备考试, 你一定能通过。
People in this village make use of the coal mine, and many have made a fortune.
这个村的人们利用这个煤矿, 许多人已经发了财。
Many multinationals have made good use of China's reform and opening policy to enter her vast market.
许多跨国企业利用中国改革开放的政策进入她那广阔的市场。

- 11) expertise: special skills or knowledge in a particular subject, that you learn by experience or training 专门知识
- What he's bringing to the company is financial expertise.
他给公司带来的是金融方面的专门知识。
- His expertise was not equal to the task.
他的知识技能不能适应那项工作的要求。

Difficult sentences

- 1) "As we know, a buyer and a seller live far apart, international business is carried out beyond each others control and mutual trust is hard to established."
- 主句是由 and 连接的三个并列句，表示三项意义并列的事实：国际贸易中买卖双方相隔遥远，贸易的进行超出了双方的控制，也很难建立起互相信任。
- As we know 是一个由关系代词 as 引导的非限制性定语从句，as 指代的是主句所表达的意思，它的意思是“（主句表达的意思是）如我们所知”。
- 2) A contract often stipulates that payment is made by documentary credit agreed upon by both the buyer and the seller, who both wish for the superior credit standing of a large financial institution to stand between them.
- 此句中，that 引导的是一个宾语从句，其中“agreed upon by both the buyer and the seller”是过去分词短语，作定语修饰 documentary credit；由 who 引导的非限定性定语从句修饰 the buyer and the seller。
- 3) In most commercial transactions, the conditions will state that the seller is to submit the required documents usually relative to the shipment of the specified goods.
- 此句中，“that the seller is to submit the required documents usually relative to the shipment of the specified goods”是动词 state 的宾语从句，句中的谓语采用的是“be + 动词不定式”的结构，表示“要求”，例如：
- You are to come back before 9:00 pm.
你必须在晚上九点以前回来。
- They are to hand in their paper next Tuesday at the latest.
他们最迟须在下周二把论文交上来。
- “usually relative to the shipment of the specified goods.”是个形容词短语，作后置定语，修饰“the required documents”。

VI. Summary

Due to the difficulty in establishing trust between exporter and importer and to the drawback with documentary collection, documentary credit was developed, with which the bank's credit is used. It has become the most important means of payment in international trade because, by stipulating for payment by credit, the exporter is assured of payment provided he fulfills his obligation by making delivery as required by the credit, and the importer can be assured that he can get hold of the shipping documents, the title to the shipment, when he makes the payment.

VII. Comprehension questions

1. How do you think of cash payment?



2. How can we solve the problems the buyer and the seller confront in international trade concerning payment and delivery?
3. What is a documentary credit?
4. What's the unique feature of a documentary credit?
5. Under what condition will the bank pay?
6. Why can credit operations be accepted worldwide?