

LETTER OF CREDIT (L/C)

akreditiv

- a letter issued by a bank entitling the bearer to draw funds up to a specified maximum from that bank or its agencies
- a letter addressed by a bank instructing the addressee to allow the person named to draw a specified sum on the credit of the addressor bank

Def. = an inter-bank communication about shipment and payment
Irrevocable L/C – most commonly used method of payment for imports

- Exporters: sure that they will be paid when the goods are dispatched
 - Importers: have proof that the goods have been despatched according to their instructions
1. importer and exporter agree a sales contracts and the terms of the **Documentary Credit**
 2. importer asks their bank to open a documentary credit in exporter's favour
 3. importer's bank (*issuing bank*) sends a **L/C** to a bank in the exporter's country (*the advising bank*)
 4. exporter presents the **shipping documents** (e.g. **B/L**) to the advising bank as proof that the shipment has been **dispatched**. If everything is in order, they (the exporter) are paid
 5. advising bank sends the document to the issuing bank
 6. advising bank sends the documents to the importer, who uses them to obtain **delivery of the goods**

