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**EPCH ORGANIZED AN AWARENESS SEMINAR ON "UNDERSTANDING RISK RELATED TO INTERNATIONAL PAYMENT TERMS FROM OVERSEAS CUSTOMERS AND UCP600" IN HANDICRAFTS SECTOR AT KOLKATA HELD ON (SATURDAY) 28<sup>th</sup> DECEMBER'2013 AT CONFERENCE HALL, EPCH - ER OFFICE, AT 53/1, SAMBHUNATH PANDIT STREET, KOLKATA - 700 025**

EPCH organized an awareness seminar on "UNDERSTANDING RISK RELATED TO INTERNATIONAL PAYMENT TERMS FROM OVERSEAS CUSTOMERS AND UCP600" in handicrafts sector at Kolkata held on (Saturday) 28.12.2013. Shri R. N. Bose, Lecturer, Indian Institute of Foreign Trade (IIFT), an experience faculty and leading speaker on the subject addressed the faculty.

He made a detailed presentation on international payment terms and UCP600. More than 45 participants including members, aspiring entrepreneurs, university students, artisans, and NGOs took part in the seminar. The Asst. Director of DC (Handicrafts) Shri A. K. Hota and EPCH Member - Exporter Shri Aditya tekriwal were also present to address the seminar.

The faculty informed the participants that an experienced exporting firm extends credit cautiously. Good credit practices include being aware of any unfavorable changes in customers' payment patterns, refraining from going beyond normal commercial terms, and consulting with international banker and how to cope with unusual circumstances or in difficult markets. In international trade, problems involving bad debts are more easily avoided than rectified after they occur. The awareness seminar was organized to guide member exporters / participants towards managing & minimizing the risks through offering attractive payment terms.

During the presentation, Shri R. N. Bose discussed aspects like, indicative check list for LC examination on receipt and presentation, examination of bill of exchange, ICC Uniform Rules for Collection (URC 522), URC 522 - forms & Structure, SWIFT format for issuing LC and swift field code, several methods of Bills for collection (sight bill, usance bill of exchange etc), Uniform Customs And Practice For Documentary Credits 600 (UCP 600) etc. While explaining the risk related to payment terms, he also mentioned that the rules of the transaction is entirely depends on URC 522, UCP 600 and ISBP 745. He thoroughly briefed the in and out of terms of settlement and classification of risks to both buyers & sellers.

Shri A. K. Hota, Assistant Director, DC (Handicrafts) stated that the purpose of awareness on payment terms is boosting exports of handicrafts from India. He stated that one of the best methods after advance mode of payment for any business transaction is Letter of Credit (LC) mode, as buyer's bank guarantees payment to seller through seller's bank on presentation of required documents as per LC.

The major advantage of Letter of credit to a supplier is minimizing of credit risk. In an import and export trade, the geographical distance between importer and exporter is very far; hence ascertaining credit worthiness of buyer is a major threat. In a mode of Letter of credit, such risk can be avoided.

Documentary credits and the other methods of payments discussed in the seminar can limit the risks. However, in a company's domestic business, exporters occasionally encounter problems with buyers who default on their payment. When these problems occur in international trade, obtaining payment can be both difficult and expensive. Even when the exporter has insurance to cover

commercial credit risks, default by a buyer still requires the time, effort, and cost of the exporter to collect a payment. The exporter must exercise normal business precaution in exporting and exhaust all reasonable means of obtaining payment before an insurance claim is honored.

He further stated that the simplest (and least costly) solution to a payment problem is to contact and negotiate with the customer. With patience, understanding, and flexibility, an exporter can often resolve conflicts to the satisfaction of both sides. However, if negotiations fail and the sum involved is large enough to warrant the effort, a company should obtain the assistance and advice of its banker, legal counsel, and other experts.

Following major Questions were raised from the faculty:-

**Q. What is LC?**

**A.** A document issued by a bank stating its commitment to pay exporter, a stated amount provided the seller or exporter meets specific terms and conditions which is also called the documentary letters of credit. This is one of the most common payment methods in international trade.

**Q. What are advantages and disadvantages of LC and other Bills for collection?**

**A.**

1. Letters of Credit:

- Advantages to Exporter
  1. Reasonable assurance of payment
  2. Prompt payment
  3. Possible financing availability
- Disadvantages to Exporter
  1. Strict compliance is required
  2. More cumbersome
  3. More expensive than other methods of payment

2. Documentary Collections

- Advantages to Exporter
  1. Seller/banks control shipping documents
  2. In most cases, payment is more prompt than open account
  3. In most cases, collections are less expensive than letters of credit
  4. Usually, there are reduced processing requirements compared to letters of credit
- Disadvantages to Exporter
  5. Payment is not guaranteed
  6. Collection time is longer than letters of credit and cash-in-advance
  7. There is less document control with air shipments
  8. Release of documents occurs prior to payment under 'time' draft collections

**Q. What is the procedure for Obtaining L/C?**

**A.**

- Buyer and seller agree on the terms of a sale, seller requests buyer to arrange for his bank to open a L/C.
- The buyer's bank (issuing bank) prepares a L/C
- The buyer's bank then sends the L/C to its corresponding bank (buyer's bank), which is called the advising bank
- The advising bank forwards the L/C to the buyer for approval-- terms can be amended
- After final terms (agreed), goods shipped.

**Q. What are the major precaution in case of LC shipment?**

**A.**

- Proceedings after L/C expired.
- Late shipment

- Documents discrepancy
  - Amount differs with invoice
  - Amount in excess of L/C
  - Signatures missing
  - Drawn on wrong party

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