V.2.5 - Payment of contract price through documentary credit

An agreement by the parties to payment through Documentary Credit (Letter of Credit, L/C) means any arrangement, however named or described, whereby a bank (the "Issuing Bank") acting at the request and on the instructions of a customer (the "Applicant") or on its own behalf,

i) is to make a payment to or to the order of a third party (the "Beneficiary"), or is to accept and pay bills of exchange (Draft(s)) drawn by the Beneficiary, or
ii) authorizes another Bank to effect such payment, or to accept and pay such bills of exchange (Draft(s)), or
iii) authorizes another Bank to negotiate,

against stipulated document(s), provided they appear, on their face, to be in compliance with the terms and condition of the credit, to be determined according to international standard banking practices as reflected in the UCP issued by the International Chamber of Commerce.

Commentary:

1 Opening a documentary credit (letter of credit, L/C) has become a usual way of payment by buyers/importers in international trade. The abstract and binding undertaking of the issuing bank, often confirmed by a bank in the country of the seller/exporter, to pay the contract price if the documents provided for in the L/C agreement between the parties are presented to the bank by the seller/exporter and are considered to be "clean on their face", is almost as good as a cash payment by the buyer and provides security for the seller/exporter who can be sure to receive his money while the goods are still in transit to the buyer/importer.

2 Almost all documentary credit transactions are governed today by the Uniform Customs and Practices for Documentary Credits (UCP) which are formulated and published exclusively by the International Chamber of Commerce (ICC) in Paris, France. Because of their global and longstanding use and recognition, the UCP must be considered as part of transnational law.