

BANKING PRACTISE IN SHANGHAI AS REGARDS BILLS DRAWN D/A & D/P

When a bill drawn D/A, i.e. documents against acceptance is received, the bill is sent out to the drawee for acceptance and on it being returned properly accepted the documents are handed over to the drawee, who then is able to obtain delivery of the relative cargo.

After handing over the documents, the collecting Bank is in no way responsible for the cargo, and should the drawee refuse to pay the draft at maturity their only method of enforcing payment is by legal process.

It is therefore obvious that, unless the Shipper is fully conversant with the financial and moral standing of his client, he should not allow D/A facilities.

From this it might be argued that Shippers can only do business with small firms here, on C. O. D. terms; this is not so however.

To make explanation easier, it is best to take an imaginary transaction.

John Smith & Company of Shanghai order 100 cases of butter from Thomas Brown & Company, Vancouver, terms payment 60 days after sight. Thomas Brown & Company having shipped the butter hand to their Bankers a draft, payable 60 days after sight D/P, i.e. documents against payment, together with all shipping documents, drawn on John Smith & Company the Bank send this draft forward to their Agents in Shanghai for collection.

The draft is accepted here in the usual way and held until maturity.

Should John Smith & Company want to take immediate delivery of the goods they may, if known to the Shanghai Bank as a firm of good repute, do so under Trust Receipt, i.e. they sign a form undertaking to hold the goods to the order of the Bank and to pay the proceeds of sale to the Bank to meet the draft.

By delivering the goods in this manner the Shanghai Bank assume all responsibility for the payment of the draft, if for any reason John Smith & Company do not pay at maturity; Thomas Brown & Company and the Vancouver Bank, not having authorized the delivery of the cargo in this way, incur no risk whatever.

If, however, the Shanghai Bank are not prepared to grant Trust Receipt facilities, John Smith & Company may take partial deliveries of the cargo against proportionate payment; the amounts so paid being held by the Bank until the whole draft has been paid.

Here again the Shanghai Bank incur the risk of any shortage in payment, not the Shipper nor the Vancouver Bank.

C O P Y

HONGKONG AND SHANGHAI BANKING CORPORATION

SHANGHAI.

24th September 1925.

Dear Mr. Sparks,

You have asked me to write a short explanation of Letters of Credit.

The easiest way to do so, is by quoting an imaginary business transaction.

Smith & Co., of Shanghai having ordered merchandise from Brown & Co., London ask the Bank to request their London Office to negotiate the bills of Brown & Co. on themselves for a certain amount, provided that the bills are accompanied by complete shipping documents covering the merchandise ordered. This request is termed a Documentary Letter of Credit.

By this means, Brown & Co. receive cash for their goods as soon as they are shipped, but the Bank retain recourse on them, i.e., they remain liable to the Bank, until the bill is actually paid by Smith & Co.

The bills may be drawn at any usance, say for instance at 90 days after sight.

After the bill has been accepted, the documents may be delivered against Trust Receipt to Smith & Co. who thus can obtain possession of the goods and dispose of them, in time to meet the bill on or before due date; by so delivering the documents, the Bank would lose recourse on Brown & Co., so it

is clear that only responsible firms can look for Trust Receipt facilities.

If Brown & Co. are unwilling to be liable to the Bank, as stated, it is possible for Smith & Co. to get the Bank to open a 'without recourse' Letter of Credit, whereby Brown & Co. would receive cash in London without liability, but unless Smith & Co. are assured of their good faith, this form of Credit is not advisable, as there is nothing to prevent Brown & Co. from shipping inferior goods and getting paid in full for them.

For this reason the Bank does not encourage 'without recourse' credits.

I trust that this explanation will be of assistance.

Yours very truly,

D. B. Sparks, Esq.,

Shanghai.

C O P Y

HONGKONG AND SHANGHAI BANKING CORPORATION

to issue even a Documentary Letter of Credit, while not being in any way a guarantee for payment, is at any rate an expression of credit to the applicant.

21st May 1925.

D. B. Sparks, Esq.,

Yours faithfully,

Shanghai.

Dear Sir,

Sub-Manager

We refer to your query regarding the usual custom of the Banks, in Shanghai, in opening Letters of Credit.

As far as we are concerned, in a very large majority of cases, we open Documentary Letters of Credit, that is to say we authorise our Branch or Correspondent concerned to buy the drafts, up to a certain figure, of the beneficiary retaining full recourse against him, in the event of the drafts not being met on this side.

In a few cases, when the standing of the applicant is undoubted, and when the beneficiary is also well-known to us, we are prepared to open "without recourse" Credits, but we are by no means in favour of this practice.

In the case you mention, we understand that the beneficiary has not done business with Shanghai before; in this event, we think it very unlikely that a Bank would issue any but an ordinary Documentary Letter of Credit.

We would point out that the fact that a Bank is prepared

to issue even a Documentary Letter of Credit, while not being in any way a guarantee for payment, is at any rate an expression of trust in the applicant.

Yours faithfully,

Sub-Manager

HONGKONG & SHANGHAI BANKING CORPORATION

Post Box No. 151

Shanghai, 31st May, 1925.

The Chinese will buy anything when only its usefulness is demonstrated.

China is distinctly a "Price Market", and goods based on "Price", yet more and more is "quality" being demanded, and though "Cheap Goods" are in the greater demand, there is also a market for the highest class of products.

China is the most competitive market in the world - goods

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Yours faithfully,

(Signed) Sub-Manager.

C H I N A A S A M A R K E T

The Chinese will buy anything when once its usefulness is demonstrated.

As yet China is distinctly a "Price Market", and goods are mainly purchased on "Price", yet more and more is "quality" being considered, and though "Cheap Goods" are in the greater demand, there is also a market for the highest class of products manufactured.

China is the most competitive market in the world - Goods from every country are offered and sold.

There need be no fears however, for the future of foreign trade in China, for until China can become an important industrial nation, she must be a gigantic buyer of foreign manufactured products.

N O T E:

Although China, with four hundred millions of people, offers an exceptional market, the writer has found that the goods he carries, and in fact the majority of Canadian and American made goods, have to be offered to the foreign population, which comprises only about three hundred thousand, for the reason that the North American manufacturer is economically unable to compete in price with other countries. Nevertheless the adoption of foreign customs, dress, etc., by the Chinese, makes China an attractive market.

Those manufacturers who are willing to cultivate the market which, though small at first, holds out every prospect of becoming an extremely lucrative field for the enterprising merchant, will surely reap that benefit from the future trade to which their efforts and co-operation in that trade's expansion and development shall have justly entitled them.

The market conditions of China as stated above, apply as well to the balance of the Far East countries where the uneducated native predominates.

FACTS RE EXPORT TRADE.

SAMPLES.

GOODS CANNOT BE SOLD IN THE FAR EAST WITHOUT SAMPLES.

Samples must be arranged so that color, quality, etc. can BE SEEN. In cases of perishable goods, such as canned fruits, fish, etc., a sample of the original can or package, with assortment of labels pertaining to the respective sizes, must be supplied along with the PRODUCTS themselves, put up in some sort of a glass or transparent container (not necessarily the exact size of original package)

In cases of heavy products - a small sample of the wood, iron or other material, should be furnished along with photographs, catalogues, etc.,

SIZE OF ORDERS,

Manufacturers will bear in mind that the first orders are "TRIAL", or "SAMPLE" orders, and are necessarily small. Buyers must naturally see that the goods they buy come up to sample, if so, the future business is assured. (Mfgr's verb. sap)

Manufacturers will also bear in mind that their goods are unknown, and have therefore to be INTRODUCED FIRST.

Any manufacturer unwilling to accept small initial orders and assist in the OPENING of NEW ACCOUNTS should not interest himself in the work that the writer is undertaking.

SUBSTITUTION OF GOODS.

Manufacturers must ship exactly what order calls for and NOT substitute other merchandise in any way. If the prices the goods are sold at, or if goods are not in stock nor cannot be produced within the time called for - CANCEL all or ANY PART of order.

PRICES.

Prices "F.O.B." and "C.I.F." (China Ports) should be quoted the writer upon all goods offered. WEIGHTS and MEASUREMENTS of cases, number or amount of articles to the case, etc., as well as full information regarding the goods themselves. All special features and "TALKING POINTS" should also be given.

Prices quoted the writer must be "FIRM" for 60 days or until cable advices are forwarded of any change in same.

PACKING.

See that your cases are strong (not less than 5/8" lumber should be used). Your insurance will not cover losses if surveyor's report "not securely packed, frail cases, etc."

MARKING.

Clearly mark cases as ordered. Number same upwards, otherwise one cannot obtain Customs drawback for duty when cargo is re-exported to other ports.

On invoice, for sundry merchandise, detailed contents of each case must be given. This is not necessary, however, when shipment comprises only one class of goods. (Adherence to these suggestions facilitates clearance through Customs.)

F.O.B. SHIPMENTS.

Unless special instructions are given to the contrary, it is to be understood that shipper is to Prepay all freight and insurance charges and debit same to consignee on invoice.

F.O.B. (Free on Board) (Named Point)

CONDITIONS OF "F.O.B." SHIPMENTS.

(a) Seller must:-

- (1) Place goods on or in cars or lighters.
- (2) Secure railroad bill of lading.
- (3) Be responsible for loss and/or damage until goods have been placed in or on cars or lighters at forwarding point, and clean bill of lading has been furnished by the railroad company.

(b) Buyer must:-

- (1) Be responsible for loss and/or damage incurred thereafter.
- (2) Pay all transportation charges including taxes, if any.
- (3) Handle all subsequent movement of the goods.

N O T E: The writer endeavors, whenever possible, to sell his goods F.O.B.

C.I.F. SHIPMENTS.

Shipper to prepay all freight and insurance charges (to destination) these charges being for his own account.

C.I.F. (Cost - Insurance - Freight)

C. - Cost of goods, packing, cases, etc.

I. - Marine Insurance.

F. - Freight from factory to foreign port (Inland & Ocean)

CONDITIONS OF "C.I.F." SHIPMENTS.

(a) Seller must:-

- (1) Make freight contract to pay freight charges sufficient to carry goods to agreed destination.
- (2) Take out and pay for necessary Marine Insurance.

CONDITIONS OF "C.I.F." SHIPMENTS (Cont'd.)

(3) Deliver to buyer or his agent clean bills of lading to the agreed destination, and insurance policy and/or negotiable insurance certificate.

(4) Be responsible for loss and/or damage until goods have been delivered alongside the ship, and clean ocean bill of lading and insurance policy and/or negotiable insurance certificate have been delivered to the buyer or his agent. (Seller is not responsible for the delivery of goods at destination, nor for payment by the underwriter of insurance claims.)

(5) Provide war risk insurance where necessary for buyers account.

(b) Buyer must:-

(1) Be responsible for loss and/or damage thereafter, and must make all claims to which he may be entitled under the insurance, directly on the underwriters.

(2) Take delivery and pay costs of discharge, litorage, and landing at foreign port of destination in accordance with bill of lading clauses.

(3) Pay foreign customs duties and wharfage charges, if any.

F.A.S. SHIPMENTS.

Meaning Free along side Vessel. Conditions governing same as F.O.B. shipments, except that F.A.S. ensures cargo "Along Side Vessel."

PARCEL POST SHIPMENTS.

Parcel Post Receipts AND invoices MUST be mailed at the same time goods are forwarded.

A duplicate invoice must be enclosed WITH goods.

Parcel Post Receipts are accepted in the same way as a Bill of Lading when presented against a Letter of Credit.

Goods ordered shipped TO a bank for buyer means that the bank will receive the goods, notify buyer, collect payment and will remit to shipper. (In shipments of this character, Parcel Post Receipts, Invoices, etc., are to be mailed directly to the Bank with letter stating for whom the goods are consigned.)

TERMS.

All orders WITHOUT EXCEPTION, are sold D/P (Documents against payment.)

LETTERS OF CREDIT.

(Carefully note Bankers letter on this subject.)

L/C WILL BE ESTABLISHED WHEN:

The writer is advised by the bank that a DOCUMENTARY LETTER of CREDIT would be advisable. (Banks practically refuse to issue

these letters for amounts under \$1,000.) If the Bank advise that a L/C, in their opinion, is not necessary, NONE IS OBTAINED. (M^{rs}. have the right to reject or accept any order.)

L/C WILL NOT BE ESTABLISHED IN THE CASE OF:-

Old established firms whose credit is undoubted and who are able to supply their requirements without establishing a L/C. Though the order may be for a large amount NO L/C WILL BE ESTABLISHED for such firms (Bank references are attached to all orders and m^{rs}. have option of accepting or rejecting same.)

DRAFTS.

(a) Forward NO draft unless full documents are attached (through Bill of Lading, Ins. Policy or Certificate, Invoice, etc)

(b) Drafts must be drawn through Bank as specified in order. (This is of VITAL IMPORTANCE, as buyers "Settle Exchange" with their Bankers for their purchases, at the time same are made. Drafts presented by Bank other than the one specified in order will not be recognized.

(c) Drafts should NOT be presented to buyer until arrival of goods. In order to accomplish this, drafts should go on same ship, but as this is not always possible, a "Sight" Draft marked "Hold until arrival of goods" will suffice. (If draft is presented before arrival of goods, drawee will refuse same, draft is then protested, for which charges are debited to drawer.)

(d) Terms on order may state - "D/P Sight Draft 30-60-90 Days" (It is necessary to meet the terms that other Manufacturers offer, and many buying firms will accept only these terms. As manufacturers can "Sell" their drafts to any of the local Banks, regardless of the time specified (30, 60 or 90 days) the time so specified makes but little difference. By selling (in reality discounting their drafts) manufacturers obtain full payment for their shipment before the goods have left their city, and the Bank's discount or "Buying Rate" will about equal the discount that any manufacturer allows for cash.

N O T E:

With but one exception (a manufacturer who has abundance of surplus funds) all my manufacturers sell their drafts.

BANK REPORTS.

Copies only of Bank Reports or Opinions on buying firms are forwarded to manufacturers. It is impossible to secure more than one original report: this original is forwarded to, and placed on file with: These original opinions can be secured upon application to the same.

USUAL IMPORT DOCUMENTS.

Shipments to China should be accompanied by negotiable copies of Bill of Lading, Insurance Policy and the shippers invoice. It is of considerable advantage to include with the other documents a copy of the PACKING LIST, as this aids materially in passing cargo through Customs.

CUSTOMS ENTRY.

The Chinese Maritime Customs require that invoices and other documents must be presented when application is made to pass import merchandise through the Customs, and while it is possible to secure cargo without such papers by giving the steamship company a Letter of Guarantee, which must be countersigned by a local Bank, the consignee in China is invariably caused considerable delay and inconvenience if the invoices, bills of lading, etc., are not in his hands when the cargo arrives. It is absolutely essential, therefore, that documents be mailed so as to reach ports of entry not later than the merchandise which they cover.

The Customs usually allow fifteen days from the date of the arrival of the vessel for cargo to be cleared through the Customs. Should entry not be made before this fixed time, the cargo is stored in bonded warehouses at the expense of the consignee.

If, through the neglect of the shipper, the invoices, bill of lading, etc., do not reach the consignee before the arrival of the goods, he often claims FROM SHIPPER the amount of expenses incurred when the cargo is placed in bonded warehouses.

CONSULAR INVOICES AND CERTIFICATES OF ORIGIN.

Are NOT required for shipments to China.

TRADE MARKS AND PATENTS.

No satisfactory treaties have as yet been concluded with China for the protection of foreign Patents and Trade Marks. These however, may be registered with the Maritime Customs, which will, if permanent treaties are established, give such as are registered the preference over those later filed.

Picture trade marks are preferred over those made up from a word, monogram or phrase.

ADVERTISING.

Effective advertising can be accomplished in China through Native and English Newspapers - Posters - Calendars - Signs and so forth.

CORRESPONDENCE.

Copies of all correspondence and invoices MUST be forwarded to the writer so that he be conversant with all matters should difficulties arise.

CABLE CODES.

Manufacturers should advise writer what code they have adopted and for economy in cabling code all words possible.

POSTAGE.

Manufacturers should see that sufficient postage is placed upon all letters to a foreign country (Rate at present to the Orient is ten cents, minimum.)

I N S U R A N C E. (As applied to shipping.)

MARINE INSURANCE.

The fact that ocean steamships are exempt from every form of liability, with the exception of negligence of some kind or another, throws the onus of bearing all other risks incident to the transportation of merchandise upon either the shipper or consignee and thus renders Marine Insurance an absolutely essential protective measure.

There are various kinds of Marine Insurance and the varieties should be thoroughly understood before insurance is effected.

The ordinary printed form of Marine Insurance policy in use by Insurance Companies nowadays only covers the risk of damage caused by "Perils of the Seas," and it must be remembered that the risks of ordinary leakage and breakage, pilferage, deterioration, etc., are not covered unless specially included by additional clauses written, typed, stamped on or affixed to the policy.

The risk of fire is a "Peril of the Seas," and is covered by the ordinary marine policy until the goods are safely landed at the port of destination. Insurance Companies are usually willing to extend this risk; however, by the insertion of a special clause covering the goods against fire whilst on wharf, quay, or Custom House at port of destination for a certain specified number of days, (Maximum of 30 days.)

AVERAGE - in the insurance usage of the word means DAMAGE.

GENERAL AVERAGE

A general average loss is one arising out of sacrifice made, or extraordinary expenses incurred for the preservation of the ship, cargo and freight money, for the benefit of all interests. This is assessed rateably against all property involved.

PARTICULAR AVERAGE

A particular average loss is a partial loss of the subject matter insured, caused by a peril insured against and which is not a general average loss. Particular average, instead of being contributed for by the general body of those who are interested in the adventure, falls entirely upon the owner of the property deteriorated by the damage.

F. P. A. (Free of Particular Average.)

The "F.P.A." clause frees the underwriter from liability to pay "Particular Average" unless the ship is stranded, sunk, burned or in collision.

W. A. (With Average)

In a "W.A." policy the "F.P.A." clause is cancelled and the underwriter is liable whether or not the vessel is stranded, sunk, etc.

Note:- All policies, whether "F.P.A." or "W.A.", cover the risk of General Average.

F.P.A.E.C. Clause - (Free of Particular Average English Conditions.

"Warranted free from average unless General, or the ship be stranded, sunk, burned, or in collision."

F.P.A.A.C. Clause - (Free of Particular Average American Conditions.

"Warranted free from Particular Average UNLESS caused by stranding, sinking, burning or collision." (This clause differs from the "F.P.A.E.C." clause in that the loss MUST be caused by one of the above mentioned casualties.)

S. P. A. (Subject to Particular Average.)

OPEN POLICIES.

Those who are constantly shipping goods generally make arrangements either with a company or broker to cover all the risks they wish to protect for a certain period of say, 6 or 12 months, by means of what is known as an "Open Policy."

These policies are issued for a specified amount and as shipments go forward the amount of each shipment is declared until the total cover is exhausted or the policy expires by effluxion of time.

When the declarations are made to the underwriter or broker, a corresponding endorsement is made on the policy and a certificate is issued by the Company.

Frequently Importers in foreign countries have their own sources for insurance and instruct the shippers to declare the values of shipments to the company with which they are transacting business. This notification is all that is required to be made by the shipper, who is thus absolved from any liability, having fulfilled his instructions.

IN CASE OF LOSS.

In case of loss no proof of value is required under a marine policy, the insured's valuation being accepted in case of a total loss, while in the case of partial loss, the amount is determined by comparison of the sound and damaged value with the insured value as noted.

COLLECTION OF LOSSES.

For the collection of losses the following evidence is required:-

(a) That the goods were actually shipped for which a Bill of Lading will suffice.

(b) To prove title to the insurance, which is done by the policy, which must bear the necessary endorsement if to be collected by any other than the insured.

(c) The amount of damage incurred.-This is usually a sworn document from Lloyd's Agent, the Underwriters Agent, or an official statement of the Custom House authorities, certified to by the resident Consul of the country from whence the shipment originated.

(d) Cause of damage, which is usually obtained from the Captain's protest.

COLLECTION OF LOSSES - (Cont'd.)

(e) Copy of invoice.

The production of these documents renders settlements easy of accomplishment.

REMARKS.

RIGHT INSURANCE IS NO MORE COSTLY THAN CARELESS INSURANCE

Expertly informed brokers of marine insurance can be found in any city and town.

If you are doing an export business, no matter how small, it would be well to look into the question of insurance.

INSURANCE

If goods are fragile, brittle or costly, insure against breaking, pilferage and theft. It will cost a trifle more, but it is worth it to you.

When shipping cargo of exceptional value, where the ship's responsibility is limited to a certain value per case, consult shipping agents re freight. (Protection can be obtained by payment of an "ad valorem" freight rate.)

THE FOLLOWING ARTICLE HAS BEEN PREPARED
FOR THE WRITER BY AN OFFICER OF ONE OF
THE LEADING BRITISH BANKS OF SHANGHAI AND
THE FAR EAST.

EASTERN IMPORTING AND BANKING PRACTICES.

The primary object of this article is to enlighten Manufacturers in a concise manner on the methods adopted by banks in the Far East.

The main artery of China Trade with the British Empire has always been the Yangtze Basin. As Shanghai, at the mouth of this river is the largest and most prosperous Treaty Port in China, it will be sufficient to confine our consideration to the methods adopted by Banks in that city.

It should be understood by manufacturers that their buyers will be eventually Chinese whose minds think differently to our own, and are invariably pregnant with speculative instincts. With this important point in view the wisest course to adopt is to deal with old established Banks which by experience are thoroughly acquainted with local affairs and conditions and more especially are in touch with reliable and trustworthy Chinese merchants.

There are two methods by which Banks assist and finance importers, which briefly summarised are as follows:-

1. Bills for collection.

Documents covering goods are sent direct by the exporter to the Eastern Bank's Branch or to his Bankers to be forwarded to the Far East for collection at the time of shipment of goods. It is absolutely essential that shippers draw their bills in accordance with the exact terms of the order.

If a bill does not state clearly the currency in which proceeds must be remitted the buyer has every right to withhold payment, generally involving cable expenses and needless correspondence.

2. Bills drawn under documentary credits.

Documents handed to a Bank's Branch and sold for cash at the time of shipment.

With Bills for Collection the exporter merely forwards a complete set of documents attached to the draft with instructions in detail for the Bank to act upon should the draft be dishonored on presentation or drawees fail to pay by due date.

It is usually unnecessary to write and give detailed instructions to the bank, and the following example illustrates how the shippers' instructions can be concise but full.

The Manager,
Bank.

We enclose 60 days Sight Draft for collection accompanied by one copy negotiable Bill of Lading, one invoice and insurance policy drawn on Messrs. _____ for \$700.00 and ask you to observe the following instructions in our interests.

Surrender documents against acceptance
payment

In the event of non acceptance Note
Advise by wire
Advise by letter

Store and insure goods in our name.

In the event of non payment Note
Advise by wire
Advise by letter

Partial deliveries may not
maybe allowed.

Collect your Commission.

Bank's commission to be deducted from the remittance.

Collect interest from date of draft to approximate due date of arrival of proceeds here.

Please remit proceeds of the draft in U.S. currency by T.T.
Demand
Draft.

Yours faithfully,

.....

On receipt of such a letter and eventually payment of the draft, proceeds would be dealt with as directed, the Bank's collecting commission (generally 1/4 o/o being first deducted or collected from drawee)

Should shippers wish the Bank to collect interest care should be taken that the interest clause is on the face of the draft.

It is the custom in China to allow importers to take up portions of shipments from time to time, but this procedure is not applicable to Bills sent for collection, unless specially authorized by drawers.

When cargo is delivered the importer is forced to retire that portion of the draft affected and proceeds are sent immediately to drawers of the Bill.

Bills drawn under Documentary Credits.

Briefly, the practical interpretation of the term documentary credit is the authorization by an importer in China to his Bankers for the Bank's Branch or Agency in a certain place to buy the bills accompanied by a full set of documents from a certain firm, usually termed the beneficiary, when the goods are ready for shipment.

Manufacturers should bear in mind the following points:-

1. The Bank has the right to cancel the credit at any time.
2. The Importer is bound to accept the drafts and meet them at maturity.
3. The Bank has recourse on the exporter.
4. It is not customary to open documentary credits for small shipments where the credit would only be for a few hundreds of dollars.

An everyday example of how a documentary credit operates is as follows:-

An importer receives an order, say, for flour to be delivered in six months. He goes to his bank and subject to the Bank's approval of his position and their satisfactory opinion of shippers he would complete a form reading as follows:-

To the Manager,
.....Bank,
Shanghai.

Dear Sir:-

Please instruct your.....Branch by letter (or wire) if so desired to negotiate a days' draft (sight) on us to the extent of (amount) for full (....c/o) invoice cost of goods (specific quantity of goods must not be entered.)

Full shipping documents to accompany the draft.
Marine Insurance to be effected in

The credit is to remain in force for ... months.
We hereby guarantee to accept all drafts drawn under the above credit on presentation and pay same at or before maturity.

Yours faithfully,

.....

The foregoing advice would be forwarded to the Agency or branch concerned, the beneficiaries advised, and in due course the shipper would hand the bank the draft and documents in exchange for cash, which payment would be equivalent to the amount of the draft.

A full set of documents must accompany each draft and generally consists of the negotiable copies of the Bill of Lading to order, and endorsed in blank by the shippers, insurance policy endorsed in the Bank's favor, and invoice.

Sometimes Banks insist upon the drafts being drawn for a certain percentage of the invoice value. By this means they obtain say G.\$10,000.00 worth of goods and only advance G.\$7,500.00.- a very necessary margin should the merchandise be perishable or speculative or the drawer be not too strong. The difference is settled direct by merchants concerned.

The responsibility of the shipper does not cease when he receives cash against documents, for the following reasons:-

1. The shipment might not be up to sample in which case the importer would refuse to pay the draft.
2. Late shipment.
3. Bankruptcy of the importer or the occurrence of any unforeseen circumstances which would leave the Bank uncovered with the goods on their hands.

We will consider later by what means exporters clear themselves of any further liability, and in the meantime will assume that owing to the bad state of the market importers are unable to take up the goods by due date.

(Example) The Draft was drawn say at 30 days sight which means that 33 days (including three days of grace) after acceptance by the drawee the draft must be paid, unless drawers authorize an extension through the Bank's Branch.

Assuming no extension is granted and drawee cannot pay the bill the Bank must "Note" the draft within 24 hours.

"Noting" is merely legal proof that the draft has been duly presented to the importer for payment.

Later on the Bank may protest the draft for nonpayment which means that their Branch on receipt of such advice may approach shippers for refund of the Bank's initial outlay including interest at the current rate to date, and the shippers are bound to reimburse the Bank on demand.

Generally speaking the proportion of bills refunded to those paid is small and provided the bank uses discretion when opening the credit, drafts are drawn and goods shipped and cleared without a hitch.

There are four distinct types of Documentary Credits, viz:

1. With recourse against drawer.
2. Without recourse.
3. Irrevocable.
4. Without recourse and irrevocable.

1.- With recourse, such credits when open are considered ordinary documentary, an example of which we have already given. THIS IS THE USUAL CREDIT THAT THE BANKS ARE PREPARED TO OPEN (Sometimes known as a "Commercial Credit.")

2.- Without recourse means that once the shipper receives cash in exchange for documents, he is released from further liability provided he has faithfully carried out his part of the contract.

3.- An irrevocable D/C once open cannot be cancelled by the importer. (To illustrate this, a man might place an order for G. \$5,000.00 worth of seasonable goods and cancel same just as the goods were being shipped, leaving the shipper with goods unsold and expenses incurred.)

4.- The term "irrevocable and without recourse" embodies 2 and 3, and it will be readily seen how convenient such a credit is to an exporter, but in these days of keen competition very few of such credits are applied for and bankers do not encourage them.

Banks usually charge a commission for financing shipments under such credits, and in no circumstances are these facilities given to any firms other than those of first class standing.

Documents against Payment.

All Bills drawn under any form of Documentary Credit are treated as D/P Bills unless the credit specially mentions that drafts were to be drawn "Documents against Acceptance" (D/A.)

Part Deliveries and Payments.

It is the custom of Banks in Shanghai to allow importers to take up portions of shipments and to pay in the equivalent invoice value in local currency for Bills drawn under documentary credits.

In the case of Bills for collection, such amounts when paid in to the bank are immediately remitted.

In conclusion the writer has only one point to emphasize from the Bank's point of view, viz:- ensure that documents covering shipments are drawn to exactly conform to the terms of the credit or order, and no other conditions can ensure smooth working between all parties concerned.

N de P.F.