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Export and Import Procedure with Letter of Credit

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Abstract

The purpose of this study is to analyze and examine international trade procedures using the Letter of Credit transaction method. The method used is a qualitative method of literature review studies and content analysis which produces various hypotheses from previous research as data sources. The results of this study are in the use of a Letter of Credit itself, there are several stages, namely, understanding, making comparisons, and reviewing activities in the field in the Letter of Credit procedure itself. In addition, there is a strategy in the use of a Letter of Credit which includes before issuance, at the time of application, and after opening, handling, as well as in sending documents. Furthermore, there are several problems in the use of a Letter of Credit, namely the Issuing Bank or the opening bank is a bank that has a small foreign exchange and its credibility is doubtful, the importer submits a request for a postponement from the disbursement of the Letter of Credit as well as problems that may arise.

Keywords: International Trade, Procedure, Letter of Credit, Legal Protection

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Introduction

International trade can be interpreted as a trading activity that is applied outside across countries, or from one country carrying out trading activities with other countries. International trade activities are only limited to trading activities carried out by a selling country with a buying country, but with the development of times, technology, and other aspects, international trade is also becoming more developed, one of which is that trade relations can be established between traders in various countries (Viphindrartin & Bawono, 2021).

In international trade, it is generally known that a country also needs other countries in maintaining the availability of resources, especially resources that cannot or cannot be produced in their own country, therefore exports and imports are very important in maintaining the availability of domestic resources. The occurrence of international trade itself is not only based on the need for resources that are not available in a country but can also occur based on economic factors where if a party wants to get a higher profit when compared to the effort made to get that profit. This will soon drive the need to fulfill it by creating international trade (Muthmainah and Utama, 2019).

In export-import activities themselves, of course, there are also witness transactions in In it, buying and selling transactions that we generally encounter are " Cash and Carry " where the seller and the buyer meet directly and when the buyer has paid in cash, the goods to be purchased will be carried immediately. In this transaction, it is known that there is a small possibility of risk in it, but such a transaction method cannot be carried out in export-import activities because in general transaction activities in export-import activities are not the same as transactions in general where the two parties who carry out the transaction do not directly meet and sometimes the two parties do not even know each other (Kasahara & Lapham, 2013).

Currency differences between countries also often trigger problems in the transaction. To minimize problems in such export-import transactions, generally, both parties will ask for help from a trusted third party, namely the Bank where later a buyer can pay the money temporarily to the Bank as a third party along with the terms or conditions that the buyer wants to pay. fulfilled by the seller. After that, the bank, which acts as a third party, will provide information to the bank that knows the seller if the third party has received the money that has been paid by the buyer where the third party will later pay the money that has been deposited to the seller if the seller is found to have complied with the provisions. and pre- agreed terms (Hayakawa, Laksanapanyakul, & Urata, 2016).

A letter of Credit is a way to minimize problems in international transactions. Where Letter of Credit is a payment method commonly used to facilitate payments in trade which is very often used and is known to be available in various banks including Islamic banks because this method is a method that can be said to protect rights or which must be considered by sellers and buyers to create transactions. safe (Alwi, Ibrahim, and Sawari, 2013). The Letter of Credit method is known to be indispensable in export-import transactions in international trade activities because in general the two parties do not meet directly, but are geographically separated and even the two parties carry out transactions in different countries. know (Utami, 2016). The purpose of this research is to find out how to use the Letter of the Credit system in export-import activities. Furthermore, to find out how the strategy and legal protection for the use of the Letter of Credit system are applied in export-import activities. In addition, knowing how to solve problems in export and import payment transactions using letters of credit and their solutions.

Literature review

Maffuadi and Khairin (2020) explained that for the basis of regulating transactions in International Trade using a Letter of Credit, namely UCP 600. Risks that may arise during the import and export process using the Letter of Credit method include the non-arrival of goods or specifications of goods that are not in compliance with contract terms, changes in foreign exchange rates, and non-compliance with terms, etc.

Harahap (2017) explained that the application of the Letter of Credit system itself aims to guarantee payment transaction activities in international trade activities in order to create security and smoothness. Letter of Credit itself is assumed to be something that can be trusted by both parties who carry out international trade activities, which generally both parties are in different regions or countries. Under these conditions, of course, both parties will find it difficult to trust the other party, so in this case, the bank is the party that opens the Letter of Credit and can be the trusted party to create security in transaction activities. Both parties can transfer the risk that may occur to an intermediary or bank that will provide security guarantees with a previous agreement. Lee (2001) concluded that the L/C document requirements must be complementary and consistent, if there is an inconsistency (not with the document requirements), then a rejection process is carried out by the issuing bank.

Cindawati (2018) reports that the use of the L/C method provides benefits and convenience in conducting transactions in international trade (import-export) ensuring the security of funds and guaranteeing the completeness of documents in the L/C requirements. Then, Al amaren et al. (2020) explain that in the use of the L/C method in Islam there are risks and recovery. It can be seen from the results of the discussion in this study that the issue of conventional sharia or external L/C can affect exports because the L/C method is very important for the passage of international trade.

Zhang (2012) explains that the Bank chooses to provide additional services in a more specific examination of the authenticity and validity of the documents in the Letter of Credit and shows the needs of some business parties by providing additional fees. In addition, Lawyers play an important role in adopting a preventive legal mindset to assist and advise related parties to adopt a preventive and proactive approach. In addition, buyers and sellers work closely with their banks and lawyers to implement preventive and proactive measures. This will prevent related party fraud in transactions with letters of credit.

Kusumawardhani (2021) explains that the outbreak is a force majeure situation, which can be interpreted as the Covid-19 pandemic can be considered force majeure. However, the force majeure provisions in UCP 600 cannot be enforced because they cannot produce proper documents due to the pandemic, because this provision concerns the responsibility of the bank in the event of a force majeure.

International trade activities that drive domestic demand encourage the development of large-scale manufacturing. Referring to the statement, it can be seen that exports reflect international trade activities and are known to support the growth of international trade so that each developing country has the opportunity to achieve the same economic progress as various countries that are assumed to be developed countries. Exports are transactions in buying activities from abroad to products made by domestic industries/companies. Where, the most important factor in determining exports is the ability of the relevant country to produce products that are competitive in the international market (Benny, 2013). Import is the process of buying various products legally from one country to another, usually on a trade trip. Import activities are usually actions taken to obtain products from foreign countries into the country. In general, bulk cargo imports require customs intervention in both the importing and exporting countries. Imports are an important element of international trade. Carrying out the import itself aims to meet what the community needs. An imported product is a commodity that does not exist or cannot be created domestically or a commodity that already exists in the country but whose capacity does not meet all the needs of the domestic community. Letter of Credit can be interpreted as an instrument or method that is very commonly applied in conducting payment activities in international trade activities involving buyers and sellers which can be applied to the scope of local and cross-border trade (CheHashim and Mahdzan, 2014)

Letter of Credit itself consists of several types including Revocable L/C which can be withdrawn unilaterally and is certainly risky for the seller. The second is Irrevocable L/C which cannot be withdrawn unilaterally and is guaranteed for the seller. The third is Irrevocable Confirmed L/C which is almost the same as the previous type of L/C but this type has backups from 2 banks so it seems more secure. The fourth Irrevocable Unconfirmed L/C is almost the same as the Irrevocable L/C but this type is generally made by large banks. The fifth is Revolving L/C, which is a type of L/C whose value can be refilled but there is a time limit and generally, there is a limit for withdrawing funds. Sixth Red Clause L/C is intended when the buyer wants to give an advance to the seller before the documents are appropriate. Seventh Straight L/C which maturity is only valid in the country of the opening bank. The eighth is the Restricted L/C where payments can only be made to the bank that is in the L/C in the beneficiary country. The last one is the Negotiable L/C where the money order or related documents can be addressed to the bank determined by the seller (Subagja, 2020)

Research methods

This study aims to analyze and examine international trade procedures using the Letter of Credit transaction method. This research is to obtain data in the form of a systematic literature review sourced from various articles or journals including ScienceDirect, Emerald, and so on. Regarding the existing data, the author applies a literature review study method, as well as content analysis with the data that has been obtained in the form of a journal, a review, and analysis is carried out to retrieve various related information which will later be included in this study. This research is a type of qualitative research that produces various hypotheses from previous research as data sources.

The author conducted various studies such as an analysis on the use of Letter of Credit in export and import activities, procedures, and parties in the Letter of Credit method in terms of conventional economics, legal protection, and problems that may occur to various related parties, and so on.

From what is behind this research, the author sets several main themes in analyzing international trade procedures using the Letter of Credit method, namely the use of the Letter of Credit system. In export-import activities, strategies and legal protection using the Letter of Credit system in export-import activities, and problems in international trade payment transactions using the Letter of Credit method and solution.

Results and Discussion

Letters of Credit are an easy way to establish a payment method between countries. In this case, a Letter of Credit is a means of payment that is very preferred for import and export transactions. There are several stages in analyzing the use of a Letter of Credit, among others, First, understanding the procedure of a Letter of Credit. At this stage, the Letter of Credit procedure will be presented taking place in the company. Second, compare the company's Letter of Credit procedures with those in the literature. Fourth, reviewing the implementation of export sales procedures using the Letter of Credit payment method applied by the company. Furthermore, there are several procedures in the Letter of Credit, namely, First, the completion of the importer's contract with the exporter. Second, opening instructions. Next is the third, opening L/C. Then Fourth, delivery of goods where the exporter sends goods and prepares various documents required in the provisions in the L/C. Fifth, delivery of documents. The exporter sends the documents to the issuing bank. Sixth, Buyer debit, and Document Delivery. And the seventh, payment. Fees are paid by banks to sellers minus applicable fees (Grosu et al, 2021).

Causes of failure to realize the payment of the Letter of Credit is a deviation. In overcoming this deviation, there must be good and proper handling. This handling is carried out from before the issuance of the Letter of Credit to the process of sending documents. The key to the success of the Letter of Credit processing lies with all parties involved in the handling of various activities to be passed with care, thoroughness, and discipline. Several things must be considered in overcoming irregularities in the handling of a Letter of Credit i.e. First before the Letter of Credit is issued must be prepared Draft Purchase Order and Purchase Order Contract. Draft Purchase Order to be used as the basis for issuing Letter of Credit for urgent or urgent orders. This draft is an attachment to the application for the opening of a Letter of Credit. The initial key to handling a Letter of Credit is to be careful and thorough when checking draft orders. In this case, it contains: the type and name of the ordered goods that are written correctly and clearly, the raw materials of the order are clearly stated, the specifications of the ordered goods are correct and clear, and the samples/prototypes/samples of goods have the same specifications as the ordered goods, clearly listed the total /volume of ordered goods, the value of ordered goods in the order draft, delivery conditions of the ordered goods according to the agreement, clear delivery period, packing instructions with draft orders, and shipping instructions. Meanwhile, the purchase order contract is the embodiment of the draft proposal contained in the official contract, which is then printed and signed by the authorized party. When signing a contract, the contents of the contract must be compared with the contents of the order. Therefore, if there is a difference in the content of the two, the contract is requested to be amended (Rumengan, 2021).

Delay in sending the Letter of Credit will result in delays in the delivery of goods and deviations in the final delivery time. Therefore, to avoid this, it is necessary to ask the buyer to immediately open the Letter of Credit after the draft order or contract is signed. In this case, it is necessary to request the opening of a Letter of Credit by sending a pro forma invoice. Then include the type of Letter of Credit needed and the terms and conditions. After that, submit an On Sight Commercial Letter of Credit so that the bank pays when the Issuing Bank submits the documents to the importer. Finally, ask the buyer to send a copy of the Letter of Credit that has been opened so that the buyer can request a change or modification of the Letter of Credit faster if it turns out that the condition of the Letter of Credit is not suitable. If something is found that is not in accordance with the agreement, a change request must be made. There are several procedures, namely the change request to the Buyer must be communicated clearly and directly by requesting a copy of the change to be sent by fax or email. After receiving a copy of the change, then submit the change to the Advising Bank to be tracked directly to the Issuing Bank. Furthermore, do not buy raw materials as long as the change is not accepted and the buyer does not follow up on the change for more than 2 days, then asks for the delivery time for the change.

The process of opening the document is key because incorrectly processing the document or the wrong part of the document will result in deviations from the Letter of Credit. Handling during the document process must pay attention to the instructions in the Letter of Credit and shipping instructions. In this case, it includes the name of the sender, the port of destination, the port of departure, the name of the consignee, and the notifying party, which must be included in full based on the requirements in the Letter of Credit.

Submission of documents is the duty and responsibility of the Advising Bank, and it is important to monitor the status of documents. Document delivery determines the latest time that the Issuing Bank must receive the document and certain couriers who send the document. Broadly speaking, both domestic law and international law do not have specific provisions or clear and detailed provisions regarding Letters of Credit, so the provisions regarding Letters of Credit are still relatively vague.

There are several existing regulations regarding letters of Credit, namely first, the legal protection of Uniform Customs and Practice for Documentary Credit (UCP). UCP 500 was replaced and UCP 600 entered into force on July 1, 2007. However, if the parties to the Letter of Credit have agreed to use UCP 500 by July 1, 2007, this agreement remains enforceable and does not violate UCP 600. feel safe and comfortable when using a Letter of Credit for international trade transactions. In addition to incorporating standard rules and enforcement mechanisms, UCP also avoids irregularities in the Letter of Credit that may arise from willful negligence by certain parties (Rumengan, 2021).

In the process of export and import payment transactions using a Letter of Credit, undesirable events or events usually occur, such as an Issuing Bank or an Opening Bank, which is a bank that has little foreign exchange and its credibility is doubtful. This results in payment failure when the document has been submitted by the consignee/importer. However, this incident rarely occurs because importers usually use banks with large foreign exchange and reliable credibility in opening Letters of Credit.

Delays in disbursing letters of Credit by importers result in exporters being late in receiving payments and complicating cash flow. This incident often occurs due to a lack of funds from importers. The non-conformance of the specific provisions of the agreement in the Letter of Credit with the trade contract resulted in a dispute at the time of bill payment, causing the payment to fail. This incident rarely occurs because the exporter carefully reads the provisions in the Letter of the Credit Agreement. Fraud in letters of Credit such as goods not being sent but shipping documents are there, causes the importer to lose money. This incident rarely occurs because banks must know their customers and know the provisions in their management and keep the banking system secret (Tobing, Sunaryo, & Mangani, 2021).

There are several ways to avoid problems in processing export and import payment transactions using the Letter of Credit above, among others, First, exporters must make requirements, so that the Issuing Bank / Issuing Bank uses a large foreign exchange bank and has trusted credibility. In addition, it has cooperation with Advising Bank which is the correspondence bank. Second, negotiate with the Issuing Bank and the beneficiary bank. In this case, carry out risk transfers to insurance institutions in the field of payments using a Letter of Credit. For the Third, submit the provisions of the agreement to the legal or legal field in the office or to a law firm for study. In this case, the exporter negotiates to improve the provisions in the Letter of Credit. In addition, exporters can take legal action by reporting to the authorities. Fourth, the bank must carefully examine export documents. In addition, the bank can improve the banking system continuously and guide bank leaders and employees.

Conclusion

A letter of Credit (L/C) is a document issued by the relevant bank based on an application by the importing country addressed to the exporting party through Advising/Confirming Bank by providing a statement that the bank or Issuing Bank will provide funds as a means of payment if all the conditions specified in the Letter of Credit and has been agreed by both parties has been fulfilled. Several things must be considered in overcoming irregularities in the handling of a Letter of Credit that is before the Letter of Credit issued must check the draft and the purchase order contract, apply for the opening of a Letter of Credit; after opening the Letter of Credit, if something is found that is not by the agreement, a change request must be made, handling during the document process must pay attention to the instructions contained in the Letter of Credit and shipping instructions, and make delivery of documents.

Research Limits

In this study, there is a limitation of the research problem which aims to prevent the discussion in this study from expanding. In addition, the limitation of this problem is also useful so that this research is more focused, effective, and efficient. Based on this, the research limitation in this study is the system and process of using a Letter of Credit in International Trade.

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