



# KG LEGAL KIEŁTYKA GŁADKOWSKI

LETTER OF CREDIT AS A FORM OF SECURITY FOR PAYMENTS IN INTERNATIONAL TRANSACTIONS

# THE ESSENCE OF INTERNATIONAL TRADE

Progressive globalization has imposed on domestic companies - even on local ones - relationships with other international companies.

Examples of a connection:

- competition with foreign entities,
- adaptation of manufactured products to international standards,
- the use of developed and implemented technological and management solutions;

# RISK IN INTERNATIONAL TRADE

Conclusion of foreign trade agreements carries different risks for the parties participating in the transaction. The most common are:

- ▶ payment risk (refusal to pay),
- ▶ currency risk (uncertainty of the exchange rate),
- ▶ commercial risk (insolvency of the contractor),
- ▶ contractual risk (refusal to receive the goods, termination of a contract by a contractor),
- ▶ risk of loss of goods,
- ▶ risk of product destruction.

# LIMITING OF PAYMENT RISK

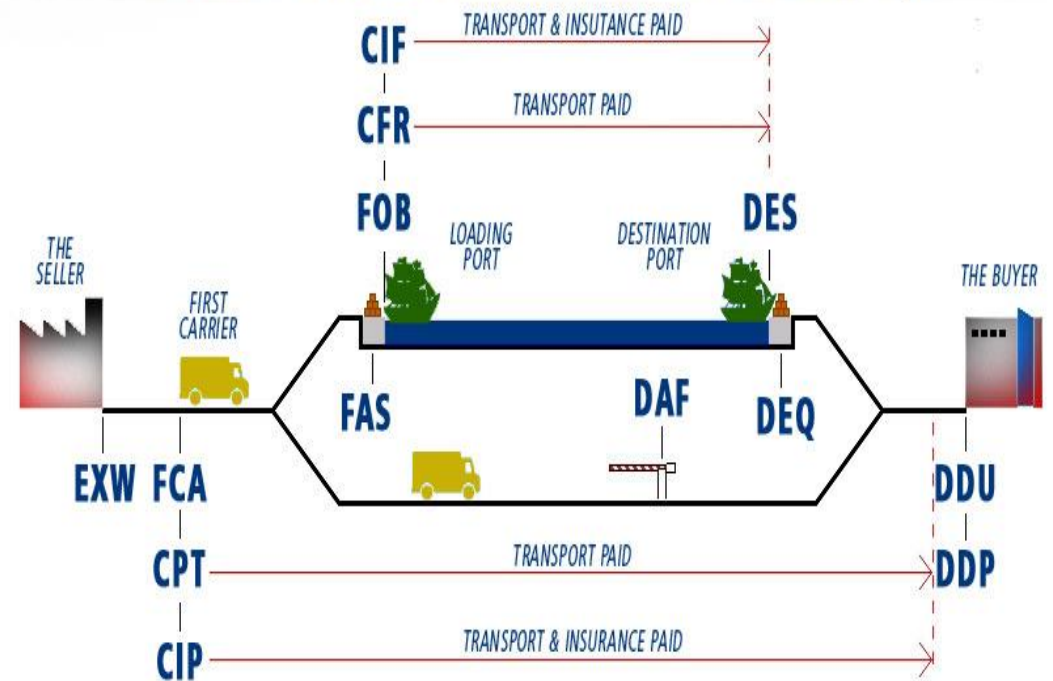
A clearing instrument allowing businesses to secure financing of transactions is a documentary letter of credit. It was regulated by the international standard UCP 600, which was issued in 2007 by the International Chamber of Commerce in Paris.



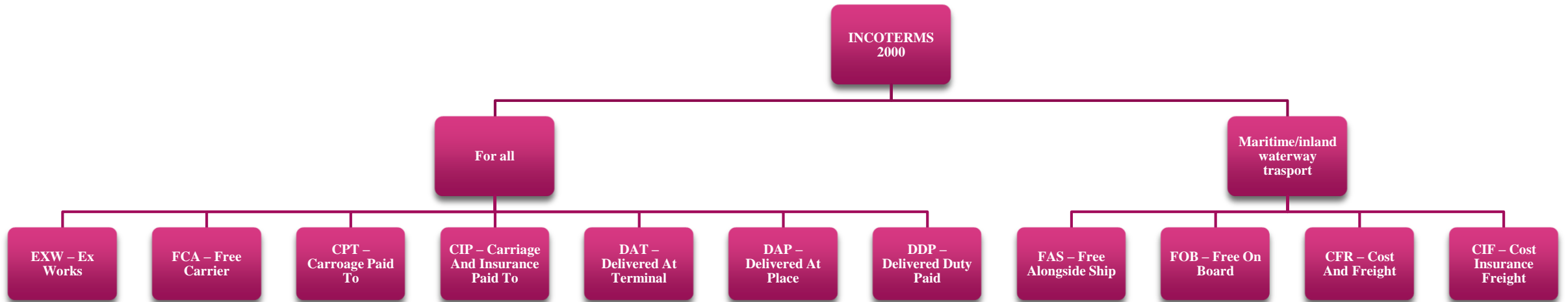
# INCOTERMS 2000

Terms of delivery in foreign trade were developed by the International Chamber of Commerce in Paris and are called INCOTERMS 2010. INCOTERMS apply to sale contracts and, by analogy, to delivery contracts. There are eleven formulas altogether. Seven of them apply to all modes of transport, and four of them apply to maritime and inland waterway transport.

INCOTERMS 2000: Transfer of risk from the seller to the buyer



# INCOTERMS 2000



# DOCUMENTARY LETTER OF CREDIT

- ▶ Documentary letter of credit is one of the forms of risk protection. This is a way to secure payments. It is a self-imposed obligation of the importer bank to pay (or guarantee payment) a certain amount of money to the exporter in return for submitting documents by the deadline specified in the letter of credit.
- ▶ Confirmed letter of credit is even more secure for the transaction. The bank confirming the documentary letter of credit added to it a confirmation (at the order of the opening bank - the importer's bank). This means that the bank obliges itself to pay a due amount of money to the exporter.

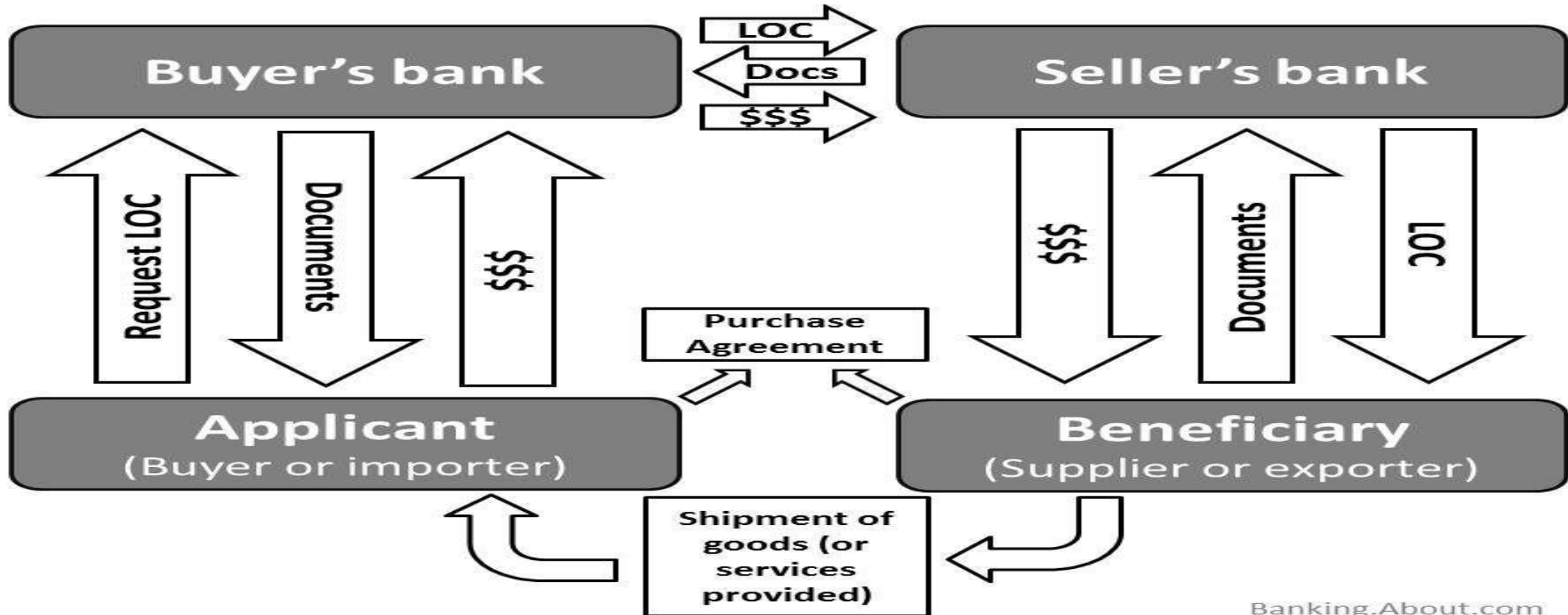
# SETTLEMENT OF TRANSACTION – LETTER OF CREDIT

There are four participants in the process of settling the transaction with a letter of credit:

- ▶ applicant/orderer,
- ▶ issuing bank,
- ▶ advising bank/negotiating bank/confirming bank,
- ▶ exporter.



# PAYMENT SETTLEMENT SCHEME



# PAYMENT SETTLEMENT SCHEME

- I. The parties to the agreement conclude a settlement of the transaction by means of a letter of credit;
- II. The importer instructs his bank to open a letter of credit;
- III. The issuing bank notifies the exporter's bank of the opening of the letter of credit;
- IV. The exporter receives the letter of credit;
- V. The exporter sends the goods and presents the documents to his bank;
- VI. The exporter's bank transfers the documents to the importer's bank;
- VII. The importer receives the documents;
- VIII. The importer's bank transfers the money to the exporter's bank and the exporter's bank pays the funds to the exporter.

# ADVANTAGES AND DISADVANTAGES OF A LETTER OF CREDIT

Party	Advantages	Disadvantages
<p style="text-align: center;"><b>Importer</b></p>	<ul style="list-style-type: none"> <li>• Payment will be made only for the documents indicated in the agreement</li> <li>• Bank checks the documents submitted by the exporter</li> <li>• Confidence in delivery at designated time</li> </ul>	<ul style="list-style-type: none"> <li>• Cash block for a specified period of time</li> <li>• The costs of opening a letter of credit are burdensome</li> <li>• There is uncertainty as to the fulfillment of the contractual obligations of the exporter</li> </ul>
<p style="text-align: center;"><b>Exporter</b></p>	<ul style="list-style-type: none"> <li>• Guarantee of receipt of payment, provided that the terms of the contract are met</li> <li>• Can get early payment (discounting the termination)</li> <li>• Ability to use a letter of credit as a means of payment for his contractors</li> <li>• A letter of credit may be the basis for a loan to finance the production or purchase a product</li> </ul>	<ul style="list-style-type: none"> <li>• The payment process can be complicated</li> <li>• Difficulty, nuisance in completing documents within the required time limit</li> </ul>

# LETTER OF CREDIT IN POLISH BANKS

Polish entrepreneurs can use the settlement of transactions by means of a letter of credit. It is offered by banks operating in the Polish market. Details of charges can be found in the tables of fees and commissions published on the respective bank's websites.

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# KG LEGAL KIEŁTYKA GŁADKOWSKI

KG Legal, as a Polish law firm, renders legal assistance in investments in Poland. We provide specialist expertise for corporate and private clients. We advise in respect of setting up business in Poland, buying real property in Poland or investing in start-ups, including biotech and new tech start-ups or other commercial aspects.



# KG LEGAL KIEŁTYKA GŁADKOWSKI

## Investing in Special Economic Zones in Poland:

- ▶ Legal assistance in setting up and operating business by foreign investors in Polish Special Economic Zones;
- ▶ Legal support in obtaining tax exemption in Polish Special Economic Zones;
- ▶ Negotiating the conditions of investing in the Special Economic Zones with the administrator of SEZ;
- ▶ Legal assistance in purchasing and leasing real property in Polish Special Economic Zones.

# KG LEGAL KIEŁTYKA GŁADKOWSKI

## **Representing international Clients before tax and administrative authorities in Poland:**

- ▶ Legal assistance in obtaining relevant licences and permits, administrative decisions and certificates to conduct business in Poland;
- ▶ Representing international Clients in the Office of Competition and Consumer Protection;
- ▶ Representing foreign employers before employment law authorities and before administrative authorities in Poland (including Polish governors);
- ▶ Representing foreign companies before the Inspector General for Personal Data Protection.

## **Legal advice on cross border contracts:**

- ▶ Legal support in negotiating investment contracts with Polish business partners;
- ▶ Drafting, reviewing and negotiating international contracts with Polish entrepreneurs;
- ▶ Securing contractual interests in such transactions as sales, distribution or licensing to Poland;
- ▶ Securing payment in Poland;
- ▶ Conducting local and cross border negotiations with the Clients' business partners in the Polish market;
- ▶ Advising on contractual penalties;
- ▶ Advising on security interests, mortgage, promissory notes, liens and registered pledges in Poland.





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**FOR MORE INFORMATION PLEASE VISIT  
OUR WEBSITE**

[www.kg-legal.eu](http://www.kg-legal.eu)

**IN CASE OF ANY QUESTION, WE REMAIN  
AT YOUR DISPOSAL**

Thank you for your attention

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