

DELIVERY TERMS IN TRANSPORT PROCESS OF EXPORT TRADE AND THEIR EFFECT ON THE RISK OF DISCREPANCY IN DOCUMENTARY LETTERS OF CREDIT; EVIDENCE FROM ESTONIA

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Abstract:

Documentary letters of credit (DLCs) are method of payment developed to facilitate the process of international trade by replacing the payment risk of importer with irrevocable payment guarantee of a bank to exporter. Instead, the exporter is supposed to present fully compliant set of documents required by the credit. Documentary nature of DLCs make them vulnerable to the risk of discrepancy. This risk is will affect exporter's business as he is the one who should absorb it. Therefore, it will be recommended to exporters to negotiate the minimum number of required documents while closing the underlying contract of sales with importer. Since different delivery terms (INCOTERMS) require presentation of different documents, this paper studies the correlation between using different terms of delivery with existence of discrepancy in export DLCs in Estonia. For this purpose, author takes empirical approach to answer following research questions: what is the relation between documentary discrepancy and choice of delivery terms and third party documents? and what is the correlation between above mentioned factors and documentary discrepancy in process of DLC operation in Estonian export landscape? The paper is divided into four parts: after the introductory section, the literature review will briefly analyses process of international DLC operation and latest version of INCOTERMS plus their role as delivery terms in international trade. Next section will discuss methodology and results of empirical study done on choice of delivery terms and third party produced documents on discrepancy rate in DLC operation in Estonian export trade. Last but not the least, final section will provide conclusions of the study.

1. Introduction

International traders deal with more tangible and intangible risks that their counterparts who only trade in local markets. Such risks (from pre-order placement stage till final delivery of goods) are mostly relevant to the complex process of international trade and need for considering plenty of steps for successfully closing a single deal overseas. Among others, financial risks are considered as a significant concern for exporting parties in international sales contracts. There are different ways to mitigate the financial or payment risk for exporters, however, documentary letters of credit are an appealing payment method among others (Alavi 2017, 29), While being considered as “the life blood of international trade”, DLCs are in fact a complex method developed by traders in the course of time to reduce the risk of payment by buyers (Alavi 2016b,5). Accordingly, a bank guarantees the payment of shipped goods to the exporter in return for presentation of fully compliant documents with terms and conditions of the credit. In this way, a guarantee of payment by bank as a financial institution has been replaced by payment obligation of importer with much less credit standing. As a result, DLCs have mainly application in cases of international trade between parties with no solid information from each other's financial background or parties from riskier regions (Alavi2016a ,118). There is no public data on amount of DLC transactions annually (Bergami 2006, 54). However, in 2003 the turnover in the USA was approximately USD 51,648 million (Documentary Letter of Credit world 2003). Total amount of trade in the USA at the same period of time was about USD 1,922,724. (The US international trade commission 2004) Therefore, it is possible to conclude that DLCs stand as a method of payment for 4% of international trade.

There is no public information about amount of DLC transactions in Estonia. Interviews with trade finance officers of Estonian banks offering export DLC service to their clients did not result in any meaningful result. The reason can be high level of confidentiality established between banks and their clients as a prerequisite for offering such service.

The process of DLC operation is subject to Uniform Customs and Practices for Documentary Letters of Credit (currently UCP 600) promulgated by International Chamber of Commerce. UCP subjects the operation upon two

principles of autonomy and strict compliance. Article 4 of the UCP separates the DLC from underlying contract of sales by providing:

“a. A credit by its nature is a separate transaction from the sale or other contract on which it may be based. Banks are in no way concerned with or bound by such contract, even if any reference whatsoever to it is included in the credit. Consequently, the undertaking of a bank to honour, to negotiate or to fulfil any other obligation under the credit is not subject to claims or defences by the applicant resulting from its relationships with the issuing bank or the beneficiary. A beneficiary can in no case avail itself of the contractual relationships existing between banks or between the applicant and the issuing bank.”

Further, article 5 emphasises that in the process of DLC operation, banks do not consider goods and only pay attention on compliance of documents:

“Banks deal with documents and not with goods, services or performance to which the documents may relate.”

The sole dependency of DLC operation on documents is known as principle of strict compliance. Accordingly, the beneficiary exporter is eligible to receive payment only in case of full compliance of its presentation with terms and conditions of the credit. However, not all documents required in the credit are produced by exporter. The bill of lading, document of insurance and certificate of origin are famous documents which their production is not under the control of exporter. To make the situation even more complicated, choice of different delivery terms (INCOTERMS) directly affects the process of documentary presentation as different terms require different documents to be presented. The totality of complex process of DLC operation leads to high rate of rejection of exporters presentations by bank. The result of global study done by ICC shows that 60-70% of presentations are rejected by banks due to non-compliance (ICC Bankok 2002). These results are confirmed in a study done by Mann in the United States. On the other hand, magnitude of non-compliance does not have any effect of bank's decision to dishonour the presentation (any single discrepancy is sufficient for rejection). As a result, exporters are facing risk of rejection due to need for presentation of documents which they have no control over their production. Outcome of dishonouring a presentation by bank can differ from late payment and extra costs for rectification of documents to imposing bad debts on exports due to documentary discrepancy.

In this paper, author tried to study role of delivery terms and third party documents in process of documentary presentation in DLC operation within the context of Estonian export trade. For this purpose, research questions are formulated as what is the relation between documentary discrepancy and choice of delivery terms and third party documents? And what is the correlation between above mentioned factors and documentary discrepancy in process of DLC operation in DLC in Estonian export landscape?

For this purpose, paper is divided into four parts: after the introductory section, the literature review will briefly analyse process of international DLC operation and latest version of INCOTERMS plus their role as delivery terms in international trade. Next section will discuss methodology and results of empirical study done on choice of delivery terms and third party produced documents on discrepancy rate in DLC operation in Estonian export trade. Last but not the least, final section will provide conclusions of the study.

2. Literature Review

2.1. The process of international DLC Operation

Choice of DLC as a method of payment for an international sales contract will itself lead to a complex web of additional contacts (Bergami,2006, 50). In this process, after signing the contract of sales between importer and exporter, the importer will ask her bank to open a DLC in favor of exporter. The issuing bank will inform the exporter about request for issuing a DLC via using her correspondent bank in exporter's country (advising bank). At this stage, exporter should check all terms and conditions of the credit and ask for amendment in case of facing with any problems. After accepting terms and conditions of the credit, issuing bank will sign a contract with exporter and guarantee payment for goods shipped to importer in return for compliant presentation of documents stipulated in

the credit by issuing it officially. Exporter might ask for further guarantee which will lead to involvement of confirming bank and additional contracts between exporter and issuing bank with it. Next step will be shipping goods to importer and collection of documents to be presented to bank. After presentation of documents, bank will examine documents and pay exporter in case of their strict compliance with terms and conditions of the credit. In case of detecting and discrepancy in documents, payment process will be delayed until its rectification or receiving a waiver from importer. It is worth to mention that postponement of delay is depending on examination of documents before the expiry date of the credit and existence of time for taking corrective action. In case of approaching the expiry date of the credit, payment will be canceled and exporter should bear the full lose. Figure 1 illustrates the complex process of DLC operation.

In this process, contract between the exporter (beneficiary) and bank is the main obligation for payment against presentation of compliant documents. As it is clearly visible, importer (applicant) is not a party to contract between the bank and beneficiary. As a result, and with reference to principle of autonomy (explained earlier) the bank is not concerned with performance of underlying contract of sales between importer and exporter. Mere presentation of compliant documents by beneficiary will make him eligible to receive payment from bank. However, different factors affect the number and level of complexity of documents required in presentation. Among others, choice of deliver terms will affect the number and complexity of documents required in presentation.

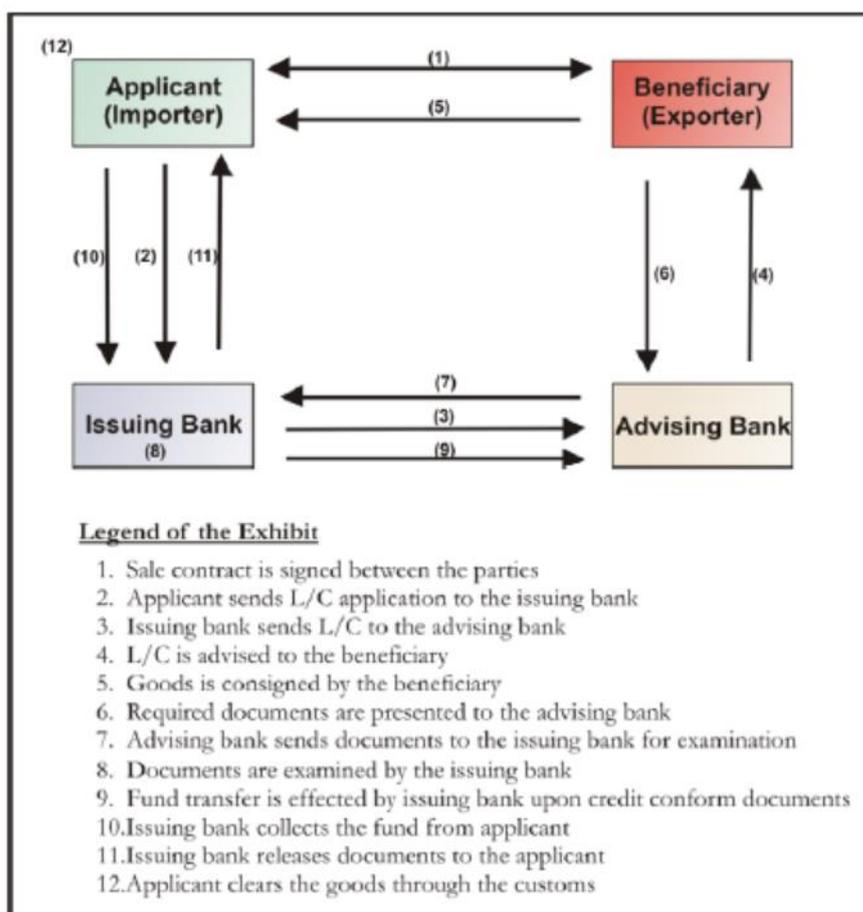


Figure 1 : Process of DLC operation (Civelek et al 2015, 64)

2.2. INCOTERMS

Internationally recognized delivery terms applied to DLCs are INCOTERMS which stand for International Commercial Terms. In the same manner to UCP, INCOTERMS are product of International Chamber of Commerce and first version of them was published in 1936, (Bergami 2013b,328). INCOTERMS divide the rights and responsibility of seller and buyer in accordance chosen term of delivery by parties to the contract of sales (Mudrić, 2013,410). Accordingly, they indicate the moment which risk of goods in transit will pass from the seller to the buyer. (Susmus& Baslangic, 2015,322) Currently, Incoterms 2010 are in latest available version and consist 11 delivery terms which are divided into four main groups:

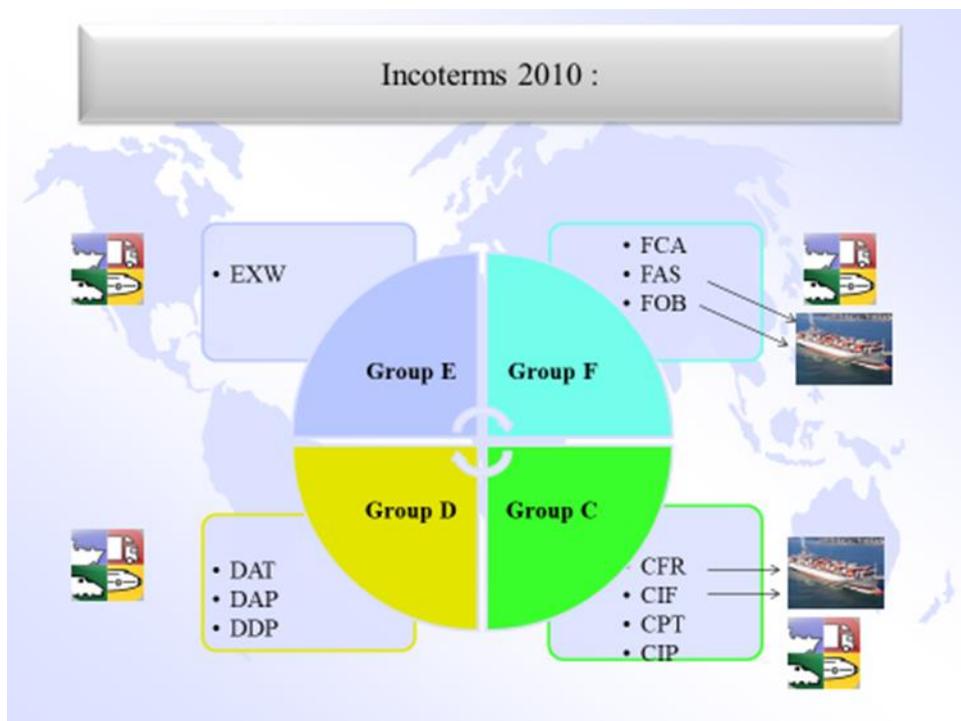


Figure 2: INCOTERMS 2010

The minimum documentary requirement for LC would be under E group which consists of EX Work (Paliu-Popa 2012,100). In case parties to the sales contract agree on delivery of goods under EX Work, seller does not have any obligation to clear goods from customs of exporting country, arrange for carriage or insurance of goods during the carriage as delivery either takes place at seller's premise of business or an agreed upon place in exporting country. Such arrangement would obviously affect the number of documents required under LC and minimize them to the internally issued documents by seller (Stapleton et al 2014,228) There is no doubt the reducing the number of stipulated documents to ones internally produced by exporter will reduce the risk of discrepancy drastically. The EXW is a risk factor in L/Cs from the point of view of issuing bank. Because issuing bank request the transport docs should be "issued to the order of" or "consigned to name of" their selves. But EXW legally means directly delivery of the goods to the importer. This situation contradicts with logic of L/C. On the other hand, Delivery Duty Paid (DDP) is the delivery term which will impose highest level of responsibility on the exporter as it requires the passage of risk of goods in transit from seller to the buyer after clearing goods from customs of importing

country. Each of other terms in between EX Work and DDP have their own characteristics and documentary requirements in letter of credit operation. Group F includes FCA (Free Carrier suitable for Multimodal Transport), FAS (Free Alongside Ship) and FOB (Free on Board together suitable for Maritime Transport). In this group, exporter is only obliged to provide custom clearance and deliver goods at agreed point before commencement of international transport (Ramberg, 2010). While under F group exporter is in need of providing further documents, there is no obligation to get inside the contract of carriage. However, he can offer such option on importers cost and responsibility which means need for presentation of transport document. Group C includes CFR (Cost and Freight), CPT (Carriage Paid to), CIF (Cost, Insurance and Freight) CIP (Carriage and Insurance Paid to). Entering an agreement with importer to deliver goods under group C terms will oblige exporter to present contract of carriage. Additionally under the CIF (maritime transport) and CIP(multimodal transport), exporter is obliged to present the document of insurance Therefore, increasing number of third party produced documents would definitely effect the compliance of presentation (Bergami 2006b,54).

Group D includes DAT (Delivery at Terminal), DAP (Delivery at Place) and DDP (Delivery Duty Paid). Under this group of delivery terms, exporter is obliged to place the goods at the agreed point of delivery, mainly country of the importer (Bergami 2013a,37). Since exporter holds the risk of delivery, insurance document is not required when group D terms are agreed upon is the underlying sales contract between parties. The proof of delivery also depends on type of documents agreed upon by parties.

As it was explained, the choice of delivery term affects required documents under the DLC substantially. Since some documents will not be produced by exporter, he will not have any control of their production process which might lead to existence of discrepancy because of possible mistakes made by respective producer.

3. Research Design

Due to absence of public data on Estonian export trade finance and methods used by Estonian exporting firms in reducing their payment risk, this research took an empirical approach and collected data by using Bank interviews, and Exporters' survey questionnaires.

The exporters' survey followed the goal of measuring the correlation between the variables describing documentary discrepancies, INCOTERMS used in Estonian export DLCs and third party issued documents.

Data collected from the survey then supplemented with semi structured interviews with trade finance officers in three Estonian banks offering export trade finance services. Due to small number of banks offering export DLCs in the country, the semi structured interview method was chosen over survey method. The results of interviews were used as a complementary data providing explanation to the exporters' survey results.

3.1. Data Collection and Analysis

After taking sampling test of three companies, survey questionnaires were administered among Estonian exporting companies. The respondents to test were not included in the main sample. Data collection took place between June and September 2016 while transactions done in fiscal year of 2014-15 were questioned. The interviews with the banks trade finance officers took place at the same period.

Number of distributed questionnaires totaled 1200 in accordance to the data in the Estonian Export Directory (www.estonianexport.ee). Based on collected data from trade finance officer's interviews, approximately 100 to 150 Estonian exporting companies apply DLC as a method of payment in their trade. Collected number of responses in September 2016, reached 41, which equals 27.3 percent of total companies. As a result, the collected data are sufficient for this research, despite of comprising a small proportion of distributed questionnaires (3.41%). Among collected data one response was not valid, therefore, only 26% of the total population were responding which can be considered representative.

Data analysis took place by using the Spearman Correlation Rank method in order to find the correlation between discrepancies evidenced in the exporter's survey with selected variables. Descriptive statistics, was also used to provide explanation of the correlation analysis results. The data were analyzed using the SPSS Statistics 24. Statistical significance of the results was estimated on the 95% confidence level.

3.2. Discussion

Analyzing the data from Figure 3 shows that CIF is the most used incoterm by Estonian exporters. Therefore, it would be expectable that exporters are supposed to tender insurance and transport documents in addition to internal documents prepared by their own staff. FOB is the second ranked delivery term which is mostly involve exporter in tendering the transport documents. Despite the moderate use of multimodal transport terms, it is interesting that 70% of Estonian exporters use EXW which has the minimum documentary requirement and more than 90% of them do not use DAT, DAP and DDP with maximum documentary requirements. The other reason for lack of interest among Estonian exporters to apply D terms can be traced to time factor. Generally, delivery of goods to buyer under D terms will be evidenced by a delivery receipt signed by the buyer. This will impose additional risk of delivery time to exporter as transport and custom clearance process in the importing country might take more that expiry date of the credit.

The outcome of the survey administered to Estonian export companies shows main types of documentary discrepancies and discrepancy factors as following: Errors in Bill of Exchange, Commercial Invoice, Packing List, Transport Documents, Inspection Corticated, Movement Certificate. factors for discrepancy where identified as: Late Shipment, Missed Consignment, Late Presentation, Missing Documents, Incorrect Shipment, and others.

Figure 3 indicates frequency and types of discrepancy.

Number	Type of Discrepancy	Frequency
1	Bill of Exchange	22
2	Commercial Invoice	36
3	Packing List	32
4	Transport Document	30
5	Inspection Certificate	24
6	Certificate of Origin	25
7	Government Certificate	8
8	Late Shipment	19
9	Missed Consignment	12
10	Delivery Schedule	16
11	Presentation after Expiry of DLC	26
12	Missing Documents	21
13	Incorrect of Partial	14

	Shipment	
14	Total	285

As it can be traced in the table, commercial invoice has highest rate of discrepancy, followed by packing list and then Transport Document.

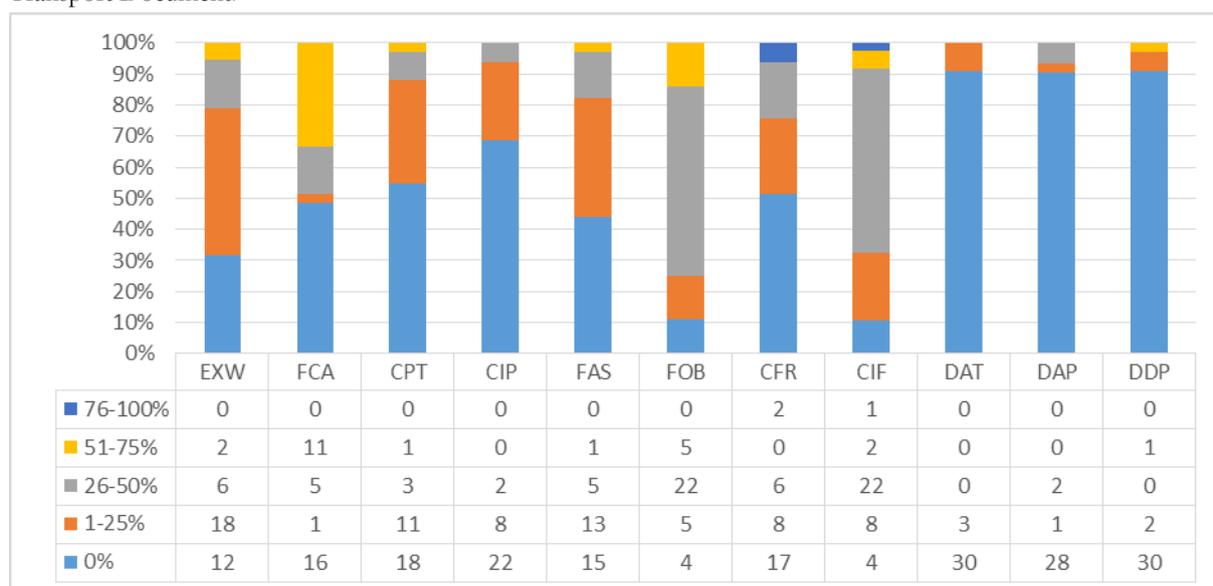


Figure 4 : Usage of INCOTERMS 2010 in Estonian Trade

According to above mentioned explanation, choice of some INCOTERMS like CPT, CIP, CFR and CIF as well as FOB will face exporter with necessity to ask for third party documents which he has no control over their production process. Although, third party will issue required documents on the basis of the exporter's information, but different factors (non controllable by exporter) might increase risk of documentary discrepancy which exporter should bear its loss. Therefore, current section is devoted to analysis of data collected from survey regarding most important INCOTERMS and their role in documentary discrepancy during LC presentation.

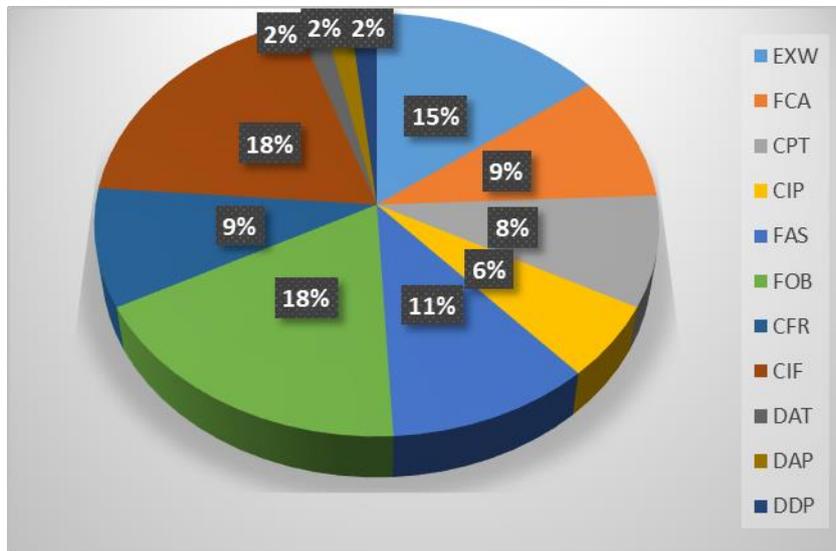


Figure 5 : Use of INCOTERMS by percentage

Result of applying Spearman's Rank Coefficient in analyzing the data collected from survey is in accordance with above mentioned statements. First of all, there is no meaningful correlation between use of EXW and discrepancy in any of surveyed documents. This proves that adherence to minimum documentary obligations will reduce the level of discrepancy. CIF as the most frequently used INCOTERM shows a positive relation with discrepancy in Transport Documents, Insurance Document, Government Certificate and Missing Deliveries. Interestingly, FOB does not show any correlation with occurrence of documentary discrepancy. There is no explanation for such finding, however, lack of insurance document and responsibility of arranging the vessel by buyer can clearly explain the not existence of correlation with relevant document. Carriage and Insurance Paid to (CIP) is the equal of CIF in multimodal transport for and using it has positive correlation with discrepancies in insurance document, certificate of origin and government certificate. This is a meaningful outcome as relevant document are all external documents which none of them will be produced under control of exporter. However, the use of CIP shows negative correlation with discrepancies in bill of exchange. Carriage Paid To shows positive correlation with discrepancies in government certificate and certificate of origin. Free Carrier shows positive correlation with discrepancies in packing list, transport document and late presentations. Cost and Fright which indicates payment of shipping freight by exporter also shows positive correlation with transport document and packing list.

		B of E	CI	PL	TD	ID	IC	CO	GC	LS	MC	LP	MD	IS
EXW	C C	-.119	-.057	.114	.187	-.047	-.278	-.165	-.338	.001	.286	-.031	.286	-.149
	Sig. (2-tailed)	.508	.761	.535	.306	.797	.123	.367	.059	.996	.125	.868	.113	.415
	N	33	31	32	32	32	32	32	32	32	30	31	32	32
FCA	C C	-.126	.013	.092	.235	.318	.441*	.376*	.242	.151	.115	.368*	.097	

	Sig. (2- tailed)	.508	.949	.634	.211	.087	.015	.040	.198	.426	.559	.050	.609	.492
	N	30	28	29	30	30	30	30	30	30	28	29	30	30
CPT	C C	-.071	.000	.224	-.003	.187	.481	.467**	.370*	.207	.233	.318	.196	.142
	Sig. (2- tailed)	.709	1.000	.244	.987	.322	.057	.009	.044	.271	.232	.093	.299	.455
	N	30	28	29	30	30	30	30	30	30	28	29	30	30
CIP	C C	-.420*	-.277	.160	.127	.235	.312	.460*	.371*	-.060	-.005	.366	.039	-.181
	Sig. (2- tailed)	.023	.162	.416	.512	.219	.049	.012	.048	.757	.979	.055	.839	.347
	N	29	27	28	29	29	29	29	29	29	27	28	29	29
FAC	C C	-.319	.012	.484**	.444*	-.001	.050	-.090	.053	.027	.137	.444*	-.103	.037
	Sig. (2- tailed)	.080	.950	.007	.012	.995	.788	.630	.777	.884	.479	.014	.580	.845
	N	31	29	30	31	31	31	31	31	31	29	30	31	31
FOB	CC	-.058	.019	-.271	-.105	-.159	-.083	-.105	.110	-.134	-.341	-.136	-.168	-.225
	Sig. (2- tailed)	.750	.921	.133	.562	.376	.648	.559	.543	.457	.061	.459	.351	.208
	N	33	31	32	33	33	33	33	33	33	31	32	33	33
CFR	CC	.041	-.025	.637**	.395*	.123	.320	.225	.190	-.031	.355	.345	-.072	-.020
	Sig. (2- tailed)	.830	.898	.000	.034	.525	.091	.241	.325	.874	.069	.072	.709	.918
	N	30	28	29	29	29	29	29	29	29	27	28	29	29
CIF	C C	.095	.085	.342	.460**	.359*	.049	.207	.361*	.338	.109	.014	.361*	.310
	Sig. (2- tailed)	.592	.645	.051	.007	.040	.787	.248	.039	.054	.560	.941	.039	.079
	N	34	32	33	33	33	33	33	33	33	31	32	33	33
DAT	CC	-.007	-.093	.373*	.215	.021	.147	.221	.247	.334	.045	-.215	.190	.371*
	Sig. (2- tailed)	.970	.639	.046	.253	.913	.437	.240	.189	.072	.819	.262	.313	.044
	N	30	28	29	30	30	30	30	30	30	28	29	30	30
DAP	CC	.048	-.347	.118	-.062	.181	.072	.384*	.306	.188	-.123	-.274	.410*	.287
	Sig. (2- tailed)	.802	.070	.541	.743	.340	.706	.036	.100	.320	.532	.150	.024	.124
	N	30	28	29	30	30	30	30	30	30	28	29	30	30
DDP	CC	-.017	-.083	.185	.070	.346	.137	.420*	-.037	-.126	-.235	-.370*	.370*	.355

Delivery Terms in Transport Process of Export Trade and their Effect on the Risk of Discrepancy in Documentary Letters of Credit; Evidence from Estonia

Sig. (2-tailed)	.927	.673	.336	.712	.061	.471	.021	.844	.506	.228	.048	.044	.054
N	30	28	29	30	30	30	30	30	30	28	29	30	30

Figure 6 : Correlation between use of INCOTERMS 2010 and LC documentary discrepancy

Delivery at terminal, Delivery at place and Delivery duty paid are terms which show the highest risk for exporter as risk will pass from him to buyer after passing the custom of importer’s country. Accordingly, use of delivery terms from this group have positive correlation with missing deliveries, late personation incorrect or partial shipment. Additionally, delivery at terminal shows positive correlation with discrepancies in packing list. However, due to nominal use of these terms by Estonian exporters, importance of discrepancies resulted from their use in international LC transaction is under question.

Stipulation of third party documents in LC is directly relevant to agreement of parties and INCOTERM used in the underlying sales contract. Among others, bill of lading, Non Negotiable See Waybill , Air waybill , Certificate of Origin , inspection certificate and government certificate are studied.

Among externally produced documents, each one has a particular purpose and relevant risk in their production process differs from one to the other.

Among popular externally produced documents, Certificate of Origin and Government Certificate are documents generally issued by public authorities. Inspection certificate can be issued by public or private authority and transport documents including bill of lading, NNSWB and Airway bill are documents which are issued (in general) upon dispatch of contracted goods by carrier.

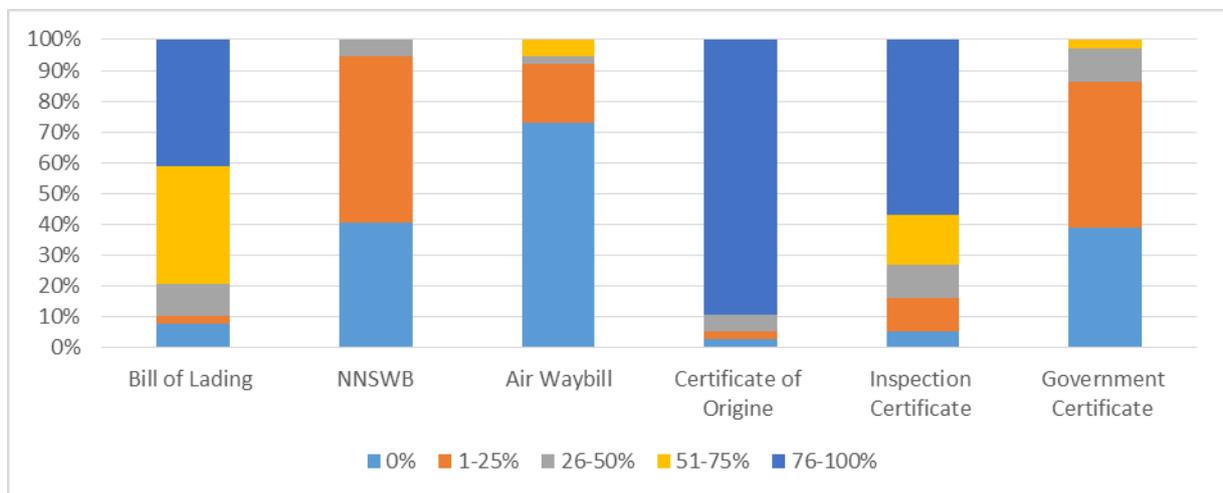


Figure 7 : Use of third party documents in Estonian Export Trade

Certificate of origin is a document produced by National or Local Chamber of Commerce. Mostly, it follows the intention of proving the original source of producing exported goods. Different reason can be involved for requiring such document including: preferential duty treatment available for importers, regulatory issues in importing country or simply buyer’s requirement. Government certificate, however, is issued for the purpose of meeting import regulations of destination country. It is low risk of discrepancy involved in production of above mentioned documents as most of involved national authorities are familiar with international regulations, and they use standard

templates for production of such documents. Additionally, all parties to the credit are familiar with documentary requirement of doing trade with a particular country. Despite the fact that existence of standard requirements and familiarity of parties with such requirements plays a significant role in reduction of risk of discrepancy, but they do not eliminate this risk completely. In fact, human errors can play a significant role in discrepancy of government certificate and/or certificate of origin. Although, relevant forms to quarantine permits are filled in by the exporter's staff which will reduce the risk of human errors, but public agencies do not require a copy of LC in order to issue certificate of origin or government certificate. Therefore, there is always a portion of risk remains that lack of access to the credit and knowledge from its requirements will create problem on the way of producing a compliant document by public agencies.

Inspection certificates are "carried out prior to the shipment of the goods [pre-shipment inspections] and most pre-shipment inspections are voluntarily requested by the private sector" (Jeker & Balchin 2005,575). The main purpose of conducting such inspections are "assure the importer that the goods conform to the technical specifications and the quality standards laid down in the contract and that the quantities exported are accurate" (International Trade Centre UNCTAD/WTO and Commonwealth Secretariat 1999, 72) via "through an independent agent such as an inspection company" (Johnson,1997). In contrary with public agencies, buyer who is responsible for hiring the inspection agency provides it with a copy of the credit. As a result, goods will be tested "at the place of manufacture or assembly prior to dispatch" with outcome of issuing "a clean report" where goods comply with requirements of the credit and "discrepancy report" when they don't.

Despite the fact that reason for presentation of inspection certificate under the credit is not known, it is possible to consider it in current study relevant to commercial purpose of parties. This is further emphasized by Article 4 and 5 of the UCP 600 which clarify that in letter of credit transaction, bank does not have anything to do with goods. It only deals with documents. Further, the principle objective of letter of credit operation implies that bank procures the goods from seller instead of buyer. Therefore, in case of buyer's bankruptcy before paying his relevant debt to goods in transit, bank should have security on goods and be able to turn them into cash with no problem. Since bank is not a party to the underlying contract of sales, existence of a certificate of inspection will reduce the possibility of fraud or shipping low quality goods by seller and making bank stocked in non-favorable of situation in which it cannot either get the money paid to seller from the buyer or exchange shipped goods for a fair value of money. Since both inspection agency and exporter have a copy of the credit, there is low risk of facing with discrepancy in inspection certificate (this hypothesis is in accordance with results of survey which show 35% of participants never faced such discrepancy and other 35% faced with it in a less than 25% of occasions).

Another important document is insurance document. However, majority of exporters issue the insurance policy which enables them to issue the insurance document internally. Almost 70 percent of Estonian exporters participated

in current study confirmed their use of open policy for insurance of shipped goods. Such practice enables to mitigate the risk of discrepancy in insurance document.

Despite the fact that issuing party of the transport document are not always the carrier, but it is an always externally issued document. If not the carrier, generally, freight forwarders are the ones who are responsible for issuing the transport document. As middle men, their responsibility it to provide common business services for the exporter and at the same time prepare goods to be shipped by carrier. They might issue the "received for shipment" bill of lading or even the main document of transport as agent of carrier in case of air transport. Freight forwarders receive instructions from the exporter via shipper's letter of instruction. Empirical data from the survey shows that all respondents use services of freight forwarders. Although not clear, but due to use of EX Work by substantial group of Estonian exporters (15%) use of freight forwarders services cannot be equal among respondents.

The application of Spearman Rank Coefficient shows the positive correlation between use of bill of lading and discrepancy in commercial invoice and negative correlation with certificate of origin. Reason for positive correlation can be explained based on application of strict compliance principle which requires compliance in data available in each document with terms of credit as well as consistency in data in different documents. therefore, inconsistency

between data in commercial invoice and bill of lading can result in dishonoring presentation by bank due to discrepancy in commercial invoice. The reason for negative correlation with discrepancy in certificate of origin is not known and it can be a topic for further research. NNSW shows positive correlation with discrepancies in Commercial Invoice and negative correlation with discrepancies in insurance document and certificate of origin. Again similar line of reasoning can be used for explanation of positive and negative correlations. Air Waybill and Government Certificate are the least used third party documents. Among them, use of Air Waybill does not show any correlation with discrepancy in different document, but Government Certificate shows correlation with Late Presentation . This can be explained as getting stock in official process for getting the certificate may result in late presentation after the expiry of the credit. Certificate of Origin shows positive correlation with Inspection Certificate and Inspection Certificate shows negative meaningful correlation with Incorrect or partial shipments. Reason is not known and can be an element for further research.

		BE	CI	PL	TD	ID	IC	CO	GC	MS	LC	LP	MD	IS
Bill of Laing	CC	-.017	.499**	.119	.004	-.176	-.231	-.476**	-.211	.087	.045	.012	.109	-.167
	Sig. (2-tailed)	.923	.004	.508	.984	.328	.196	.005	.239	.629	.811	.948	.545	.352
	N	34	32	33	33	33	33	33	33	33	31	32	33	33
NNSW	C C	.104	.372*	-.005	.164	-.350*	-.162	-.431*	-.137	.052	.012	.104	-.167	.102
	Sig. (2-tailed)	.560	.036	.978	.361	.046	.368	.012	.446	.774	.947	.573	.354	.572
	N	34	32	33	33	33	33	33	33	33	31	32	33	33
Air waybill	C C	.095	.080	.247	.111	-.035	.204	-.009	.176	.026	-.132	-.194	-.187	.318
	Sig. (2-tailed)	.600	.669	.173	.540	.845	.254	.960	.327	.887	.479	.287	.296	.071
	N	33	31	32	33	33	33	33	33	33	31	32	33	33
Certificate of Origin	CC	.245	-.159	.214	.002	.269	.347*	.201	.110	.134	.110	-.159	.259	.190
	Sig. (2-tailed)	.169	.393	.240	.993	.130	.048	.262	.542	.458	.556	.385	.145	.290
	N	33	31	32	33	33	33	33	33	33	31	32	33	33
Inspection Certificate	C C	-.244	-.257	-.231	.046	-.177	-.192	-.264	-.017	.052	.241	.325	-.204	-.466**
	Sig. (2-tailed)	.172	.162	.204	.802	.332	.293	.144	.924	.778	.199	.075	.264	.007
	N	33	31	32	32	32	32	32	32	32	30	31	32	32
Government Certificate	C C	-.327	.123	-.073	.121	-.154	.060	-.004	.015	.092	.015	.363*	-.136	-.332
	Sig. (2-tailed)	.063	.511	.693	.511	.400	.746	.983	.936	.615	.938	.044	.457	.064
	N	33	31	32	32	32	32	32	32	32	30	31	32	32

Figure 8: Use of third party documents and LC Documentary Discrepancy

4. Conclusions

Documentary letters of credit (DLCs) are method of payment used between international traders. Using DLCs will help parties with little understanding from each other's financial standing to close a deal. This is the main advantage of using DLCs as they promoted the flow of international trade by replacing the guarantee of bank to pay exporter instead of importer's obligation. In this way, exporter is assured that he will be paid either before or immediately after parting from shipped goods. However, application of principle of strict compliance in operation of DLCs make exporters vulnerable to risk of dishonoring the presentation by bank due to documentary discrepancy. Since dishonoring the presentation may create significant problems for exporters, they need to be aware to minimize this risk as much as possible.

By analyzing role of delivery terms and third party documents in process of DLC operation within the context of Estonian export landscape, this paper showed importance of choosing suitable delivery terms at the time of concluding underlying contract of sales between importer and exporter. Since different INCOTERMS require different documentary supplement, it is recommended for exporters to minimize the risk of discrepancy by negotiating the EXW as delivery term of choice. At the same time, it is important for exporter not to expose himself to risk of delivery due to need for complicated third party issued documents. INCOTERMS like CIF and CIP require presentation of a bundle of documents which some of them including insurance and transport documents are not issued under exporter's supervision. This is a huge risk which might create substantial delay in payment process due to existence of discrepancy because of a simple mistake done by third party employees. As a result, exporters are strongly advised to take maximum advantage of DLC operation by mitigating the risk of discrepancy and negotiating most favorable delivery term at the time of closing the underlying contract of sales with importer rather than looking for legal and financial solutions after facing with rejection of presentation by bank.

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