SHIPPING GUARANTEE

Now a days Shipping Guarantee's are very common among importers due to the advancement of transport system and cargo handling procedures. As a result vessel reach their intended destinations before documents reach the importer In such circumstances importers are anxious to clear the goods to avoid

1. Paying demurrage.
2. Reduction of market share due to a competitors penetrating to the market before them. In case of seasonal imports, delay in clearance will reduce the marketability of the goods imported.
3. Possible damages to perishable and sensible goods.
4. Financial losses. (Where goods have been financed, capital tied up in stocks which will restrict further borrowing and increase interest to be paid to the financiers).

I Will take this opportunity to explain what is a shipping guarantee, features in it, bank exposure and steps to minimize the risk.

In an trade transaction where goods are to be transported from one port to another the usual practice is for shipper to handover the consignment to a shipping agent who will first arrange the

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In the event of goods reaching the destination before the receipt of original documents by the buyer the original B/L is not available to the buyer to clear the goods. In such circumstances shipping agent may release cargo in the absence of original B/L provided they are indemnified against all consequence that may follow as a result of delivering goods without surrendering the original B/L. By issuing shipping guarantee bank take up the entire risk upon itself by agreeing to compensate the shipping line up to 300pct of the invoice value of the cargo release against the shipping guarantee.

We are aware that shipping agents are under no obligation to deliver the goods unless the original B/Ls submitted. Therefore they are in a strong bargaining position when it comes to acceptance of a shipping indemnity (shipping guarantee). In these circumstances shipping agents dictate terms to the bank to make shipping guarantees acceptable to them. Some of such terms are

1. It should be in a format acceptable to them. (shipping lines usually insist banks to use the forms issued by them)
2. Cover should be up to between 150 — 300 pct of the invoice of the goods.
3. It should be open ended (There is no expiry for shipping guarantee)
4. Claim need not be supported by any other document. Payable simply on demand.

Therefore shipping agent is in a position to claim up to 300pct at any time by simply on demand to the bank until the shipping guarantee is cancelled by surrendering the original B/L.

FOLLOWING GUIDELINES MAY HELP BANKER'S TO REDUCE THE RISKS INHERENT IN SHIPPING GUARANTEE

1. Shipping guarantee is a legally binding document and issued on a format required by the shipping agents. Therefore the officers involve in issuing S/G must take extra care to ensure that format issued does not contain clauses that may have adverse effect to the bank. If the officer concerned is in a doubtful position legal opinion must be sought.

2. When issuing shipping guarantee banks require two signed commercial invoices (Performa invoice is not acceptable) relating to the shipment. It is common among customers to submit fax copy of the commercial invoice or a the fax invoice. When photocopies are submitted. issuing officer of the bank must satisfy himself that they appear genuine on their face. IF any unauthorized alterations are visible they must be clarified.

3. Banks remain liable under S/G issued by them to honour claims made under it. This liability ceases only after the cancellation of S/G by surrendering the original bill of lading. Therefore banks normally issue S/C's only under the letters of credit established by them to ensure that the original documents will be routed through them. In case of collection transactions, banks have no assurance that the original documents will be routed through them. However it is customary for bank to issue S/C'S under collection transactions for their valued customers at its own discretion on a case by ease bases depending on its merits. Usually it is done against 110 pct cash margin. This is banks decision depending on the relationship with the customer and any other collateral provided by him.

4. As discussed, outstanding S/G's are liabilities to the bank and payable at any time the demand is made. Therefore S/G outstanding for unreasonable time should be actively follow up. Any shipping guarantee outstanding for more than 14 days may be considered as unreasonable and should be followed up with the customer. At the time of granting S/G following data should be noted in a register for the following up purposes.

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1. Name of the Seller
2. Invoice No
3. Invoice Amount

4. Shipping Line
5. Name of the Vessel
6. In addition, additional invoice may also be retained

5. The bill related to an S/G should be for an identical amount. And disparity indicates that the customer has submitted forged invoice. If customer has submitted under value invoice to obtained S/G he has committed an offence under the exchange control regulations.

6. When the S/G S are issued under a letters of credit, it is deemed that the customer has accepted all discrepancies. How ever in case where the original documents are received with out bill of lading such descriptions should not be waived and remittance should not be made unless the original bill of lading is included.

Bankers have experienced damages, losses and undergone hardships due to lack of know how and not following accepted practices developed by them on their own experiences during the past. Therefore I believe this write up will provide some assistance to identify the risk involve and to mitigate them.

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