A Letter of Credit Protects the Seller's Payment, Not the Buyer's Goods

What the instrument actually secures — and what it does not.

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There is a quiet assumption behind many letters of credit: that the instrument protects the buyer. If the goods turn out to be defective, late, or never shipped, the buyer feels the credit should be his safeguard. After all, he applied for it, he pays for it, and it is his bank that issues it.

It is the wrong assumption. A letter of credit is built to secure the seller's payment. It was never built to protect the buyer's goods.

The reason lies in the documentary principle. The bank does not deal in goods, services, or performance; it deals in documents (UCP 600, article 5). If the seller makes a presentation that complies with the terms of the credit, the issuing bank must honour it (UCP 600, article 15) — and it must do so on the basis of the documents, not the state of the goods underneath, which may be conforming, late, or in the wrong port. The credit secures payment against a complying presentation. It says nothing, by itself, about the goods those documents describe.

Two boundaries belong on that statement, and only two. Payment follows a **complying presentation on the terms of the credit and the applicable UCP** — not an automatic payment in every circumstance. And the applicable law may recognise a narrow exception — for example for established fraud or illegality — operating outside the UCP. Neither boundary changes the design; both keep the description accurate.

This is not a flaw. It is the entire point. The seller ships into a foreign market, often before receiving a cent, on the strength of a promise from a bank that does not know him. For that promise to be worth anything, it must be insulated from the buyer's later complaints about the merchandise. If payment could be held hostage to every quality dispute, the credit would finance nothing. Its certainty for the seller is what makes the trade possible.

Which leaves a fair question: if the credit protects the seller, what protects the buyer? The answer is the one most applicants underestimate. The buyer's protection is not the credit itself. It is the set of documents the credit requires the seller to present — the inspection certificate from an independent surveyor, the transport document showing timely shipment from the right port, the certificate of origin, the packing list. Each required document is a piece of protection the buyer engineered for himself before issuance. Even then, the

protection is documentary: under UCP 600, banks examine documents to determine whether they appear on their face to constitute a complying presentation (article 14), and banks assume no liability for the form, sufficiency, accuracy, or genuineness of documents, or for the description, quantity, or condition of the goods they represent (article 34). A buyer may therefore hold strong documentary and evidentiary safeguards and still bear real risk on the goods themselves.

And that is the moment that matters. The buyer's leverage is almost entirely front-loaded. Once the credit is issued, the instrument works for the seller; the bank will pay against the documents specified — essentially those, measured on their face, and not the state of the goods. A buyer who demanded a rigorous independent inspection certificate is better protected than one who asked only for a commercial invoice and a basic transport document — though "better protected" still means documentary protection, not a guarantee that the goods will conform.

This reframes most buyer disappointment with letters of credit. The complaint is usually "the bank paid even though the goods were wrong." The bank did what the instrument requires. The real gap opened earlier — in a document list drawn up too loosely, by a buyer who assumed the credit was protecting him when it was quietly working for the other side.

None of this makes the letter of credit a poor instrument for buyers. It makes it a precise one. Used well, it lets a buyer specify exactly the documentary evidence he needs before his money moves — a powerful protection, but only for the buyer who understands he has to design it in.

The credit pays the seller against a complying presentation. Whether it also protected the buyer was decided earlier — in the documents he thought to require.

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