AN INQUIRY INTO THE STRICT COMPLIANCE OF THE INTERNATIONAL CHAMBER OF COMMERCE TRADE RULES IN FINANCING PROCESS

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ABSTRACT

This article addresses the phenomenon of document discrepancies in international trade financing as a significant worldwide issue resulting in unnecessary delays, refused payments, and financial loss when banks discover discrepancies in required trade finance documents presented under the International Chamber of Commerce trade rules known as Uniform Customs and Practice. While this problem has grown in the past thirty years, no research has been undertaken to address this problem. Drawing on e-research, documentary survey, and descriptive research methodologies, the findings reveal that the unusual requirements of documentary credit and the ambiguity of the Uniform Customs and Practice 500 caused discrepancies when the required documents examined by the banks. To solve these problems, this article recommends changes include elimination of unusual requirements of documentary credit and concise articulation of the context of each article to facilitate easy understanding of contractual terms. Additionally, the personnel involved in the process must be trained to ensure they have the required skills to properly manage relevant documents for international trade financing.

Key Words: international trade finance, International Chamber of Commerce, Uniform Customs and Practice, discrepancies, and banking.
JELCodes: 40, G21, and M21

I. INTRODUCTION

International trade is a key to worldwide prosperity. It can stimulate gross domestic product of the country. While international trade continue to grow as a part of global economy, more attention and emphasis have been focused on understanding the key aspects of trade finance transactions. International trade is obviously very important for global economic growth. The growth of international trade and financing can offer new opportunities for buyers and sellers between two countries or more. It is impossible for a country to produce domestically everything for its citizens need or

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demand. The great benefit of exporting is that large revenue and profit opportunities are to be found in foreign markets. Many of the world's largest companies derive over half of their sales from outside their home countries.

More companies are also looking for sources of supply to buy products. They do this to reduce their cost. International trade or business comprises a large and growing portion of the world's total business. Today, almost all companies-large or small-are affected by global trade and international competition. Additionally, many exporters have run into various problems. Common problems are a failure to present proper trade documents for payment, a failure to produce goods and services offering to the needs of foreign countries, and a failure in collecting payment and financing.

There are major issues on the strict Uniform Customs and Practice and Terms and conditions of documentary credit. Exporter often faces voluminous paper work, complex formalities, and many potential delays and errors. According to a United Nations report on trade and development, a typical international trade transaction may involve 30 parties, 60 original documents, and 360 documents copies, all of which have to be checked, transmitted, reentered into various information systems, processed, and filed. The United Nations had calculated that the time involved in preparing documentations, along with the costs of common errors in paperwork, often amounts to 10 percent of the value of goods export (Hill, 2005, p. 536-537). This can be an extreme source of frustration to both sellers and buyers in finding solutions for payment and finance process. It is not easy to provide a persuasive explanation of that problem. This problem is growing and seems to be unstoppable in commercial trade. Therefore, it would be interesting to find out the impact of the Uniform Customs and Practice and documentary credit imposed by the International Chamber of Commerce on international trade transactions, payment, and financing.

II. LITERATURE REVIEW

According to international trade and finance transactions, letters of credit are the most engaged instrument in global trade (Zodl, 2001, p. 143). As trade business became more global, it is impossible to do business agreement by handshake. Letters of credit are the instrument of both export and import business in that one party may request a letter of credit for a transaction involving goods or services when the other party is on the other side of the world. Sometimes called "trade credit" (Tuller, 1994, p. 148), the key facilitation of the export and import transaction is that the seller must ship the goods and present the documents to the bank as required by the rules and regulations of letters of credit, guaranteeing that the seller will get paid (Axtell, 1994, p. 104).

According to Weber, letters of credit are the most important instrument in international trade. It is the preferred form of payment because it protects both seller and buyer while they are engaged in the import and export business. In this transaction, the bank acts as a middleman to enforce the rules of the Uniform Customs and Practice 500 to both the exporter and the importer. Both must operate their business according to the 49 articles of the Uniform Customs and Practice (Weber, 1989, p. 129). Neipert suggested that the letter of credit is popular because international trade transactions are complicated by the seller's trepidations regarding the difficulty of collecting funds from a foreign buyer (Neipert, 2000, p. 79).

Venedikian recommended that a letter of credit should be issued after signing the sales contract but before shipment. It is to the advantage of the exporter to have the importer arrange for the issuance of a letter of credit as soon after the signing of the sales contract as possible (Venedikian, 1996, p. 349). Practically, if there is a price decline prior to issuance of the letter of credit or some other subsequent development that would make it difficult for the importer to accept the shipment, the importer may be tempted to withdraw from the contract. From a practical perspective, exporters have the option not to accept an amendment if it does not meet their expectations. This will cause discrepancies on documents presented at the bank pending final acceptance by the buyer in a foreign country.

Czinkota mentioned a firm must deal with numerous forms and documents when exporting to ensure that all goods meet local and foreign laws and regulations. He suggested that to ensure that all documentation required is accurately completed and to minimize potential problems, firms just entering the international market should consider using freight forwarders who specialize in handling exportation documents (Czinkota, 2004, p. 552).

Hill indicated two basic features of a letter of credit. It is the choice of the importer (buyer) to select option(s) and ask the issuing bank to proceed in the appropriate manner to meet an objective of the firm (Hill, 2005, p. 544). Nelson presented the typical format of letter of credit (Nelson, 2000, p. 94). Although many scholars in international trade suggest a sight-draft letter of credit or a time-draft letter of credit, each type lacks the capacity to protect both buyer and seller (Weiss, 2002, p. 106).

Daniels explored the problem of exporting in terms of documentary discrepancy. It was indicated that exporters often become discouraged or frustrated with the exporting process because they encounter problems, delays, and pitfalls (Daniels, 2007, p.4 58). Based on the Uniform Customs and Practice 400, Ruggiero mentioned discrepancies in bills of exchange (draft), commercial invoices, insurance documents, and transport documents that caused problems in collection of payments for exporters (Ruggiero, 1991, p. 52). Practically, the exporter must present the documents required by the terms and conditions of the letter of credit without any discrepancies, otherwise the exporter will not get paid.

Guillermo Jimenez of the International Chamber of Commerce, an expert on international commercial practices, confirmed that the bank issues a documentary credit in favor of the exporter under which the bank agrees to pay the beneficiary, provided that the beneficiary presents documents that conform to the terms and conditions of the credit (Jimenez, 1997, p. 139). Practically, the exporter must present the documents required by the terms and conditions of the letter of credit without any discrepancies, otherwise the exporter will not get paid. Discrepancies are documents or parts of documents that do not exactly conform to terms and conditions of letters of credit. According to Zodl, the buyer will reject the payment if there is any discrepancy in the documents (Zodl, 2002, p. 62).

Even through the International Chamber of Commerce discourages any attempt to include excessive detail in the letter of credit or in any amendment; the buyer often still includes excessive detail in the letter of credit. Charles Del Busto, another expert at the International Chamber of Commerce in Paris, stated that all instructions for the issuance of a letter of credit and the credit itself and, where applicable, all instructions for an amendment thereto and the amendment itself, must state precisely the document against which payment, acceptance, or negotiation is to be made (Del Busto, 1994, p. 104).

According to Rugman, the legal and political environments have come to be recognized as the major factor in many international business and trade decisions and operations (Rugman, 1998, p. 363). Likewise, Swamidass and Kotabe found multinational trade agreements tend to restrict exports and imports, and administrative, technical and other regulations. (Swamidass & Kotabe, 1993, p. 84, Dussauge, P, 2000, p. 99). According to Czinkota, government regulations often present the most stringent requirements. Trade and domestic regulations are, very frequently, responses to political pressure (Czinkota, Ronkainen, & Tarrant, 1995, p. 118). Brewer stated it would be extremely embarrassing and expensive to modify a product to meet a certain requirement, only to discover that the regulation was undergoing modification simultaneous to product modification (Brewer, 1993, p. 101–110).

Moon found that the international institutions designed to facilitate trade. His research confirmed international trade is likely to be very successful without national trade policy (Moon, 2000, p. 85). Likewise, Nollen agreed the limitation on national autonomy may be necessary to secure the benefits of trade, but it is also strongly resisted as an intrusion on state sovereignty (Nollen, 1987, p. 1–10). Weiss found that there are a lot of restrictions on the international trade rules in exporting to foreign country (Weiss, 2002, p. 198). Nelson also suggested exporters should check if their products are comply with the government rules and regulations, otherwise, the exporters will face major problems (Nelson, 2000, p. 164–165).

In the 19th century, letter of credit law or the Uniform Customs and Practice developed primarily in the United Kingdom. After World War One, it was extensively expanded to others countries in Europe and the United States, as well as in other national courts and legal systems around the world. The current Uniform Customs and Practice 500, entered into effect for letter of credit on January 1, 1994. It is still questionable if the Uniform Customs and Practice is a more flexible set of rules than any national or international legislation (International Chamber of Commerce, 1993, p.63).

According to Del Busto, the Uniform Customs and Practice is not binding law, but applies because banks voluntarily incorporate the Uniform Customs and Practice into the contracts upon which the letter of credit is based (Del Busto, 1994, p. 1). Likewise, Jimenez confirmed the legal status of the Uniform Customs and Practice affects the international banking community and importing and exporting community worldwide (Jimenez, 1997, p, 133–134). The Uniform Customs and Practice has achieved such universal effect that in some countries the Uniform Customs and Practice is recognized as having the force of law or at least that of a trade tradition or custom (DC Insight, 2005, p. 8).

Fung commented that it was not easy to understand the context of each article. As a result, the courts were often asked to interpret certain provisions from the banking commission of the International Chamber of Commerce. These interpretations and opinions are collected and published by the International Chamber of Commerce every few years (Fung, 2004, p. 17). Despite these benefits, difficulty in interpretation of contextual meaning of each article in the Uniform Customs and Practice 500 often increases the risk of nonpayment for exporters. When exporters sell their goods, they expect payments. It is very important for exporters to select the proper payment in international trade.

III. RESEARCH METHODOLOGY

In this research, discrepant trade documents refers to a document or any part of a document produced by sellers or exporters that does not exactly conform to the requirements of the Uniform Customs and Practice imposed by the International Chamber of Commerce and terms and conditions of letter of credit. Letter of credit is a letter issued by a bank to arrange payment for goods. Practically, the buyer or importer requests the issuing bank to issue a letter of credit under specific terms and conditions. The seller or exporter is obligated to read and follow the requirements of the Uniform Customs and Practice and conditions of letter of credit properly. The seller is also obligated to deliver the merchandise or service as per the requirements on the letter of credit. This means the exporter must present the trade documents for payment and financing at the bank correctly. Otherwise, the exporter will not get paid. This has been a significant worldwide problem for exporters who are always refused payments when banks find discrepancies on trade finance documents prior to financing resulting in unnecessary delays, refused payments, and financial loss for sellers or exporters. During the past thirty years, several discrepancies on trade finance documents have developed consistently while the clamber to find solutions to these issues continue.

Hypothesis 1:

H_o: The excessive requirements of terms and conditions on the letters of credit generate documentary discrepancies in international trade transactions resulting unnecessary delays, refused payments and financial loss.

Hypothesis 2:

H_o: The ambiguity of the Uniform Customs and Practice 500 imposed by the International Chamber of Commerce generate documentary discrepancies in international trade transaction resulting unnecessary delays, refused payments and financial loss. In this research, if the null hypothesis is rejected, the alternative cannot be rejected. Therefore, the alternatives for the above hypotheses are as follows:

H_1: The excessive requirements in the letters of credit do not generate documentary discrepancies in international trade transaction

H_2: The ambiguity of the Uniform Customs and Practice 500 do not generate documentary discrepancies in international trade transaction

The condition of this research is the null hypothesis is presumed true until a preponderance of the evidence indicates that it is false.

Decision Rule for Hypothesis

The null hypothesis (first hypothesis) will be rejected if 25 % or less of the data shows discrepancies of trade finance documents do not comply with the excessive terms and conditions of letter of credit.

The null hypothesis (second hypothesis) will be rejected if 25 % or less of the data shows discrepancies of trade finance documents do not comply with the contexts of Uniform Customs and Practice.

The research employed in this study is e-research in nature. In the 21st century, business research has been strongly influenced by two major trends in business: increased globalization and rapid growth of the Internet and other information technologies. These trends will continue, and likely accelerate, as the 21st century progresses. The Internet is transforming society. Time is collapsing. Distance is no longer an obstacle (Zikmund, 2003, p. 16–17). E-research has turned the world of international trade research upside down. Current methods of conducting some types of research soon may seem as quaint as a steam-engine train. New techniques and strategies for conducting traditional international trade research are appearing online in increasing numbers every day.

The strength of E-research is it provides more rapid access to business intelligence and produces rapid development. It also gives a researcher the ability to contact the hard to reach. Okazaki had very successful research based on data from web sites. He study addressed the question of cross-culture standardization of on line communication strategies used by Japanese multinationals in the home country and foreign market (Okazaki, 2002, p.63-74).

This research was conducted during the months of March through October of, 2008. I went online to visit 500 web sites of banks, financial institutions, and related institutions worldwide to collect data about discrepancies posted online. Any sources that related to discrepancies of export and import documents were examined and analyzed. This was to make sure the data are truly representative of the population. The checklist method was also employed as described by Leedy and Ormrod; (Leedy & Ormrod, 2001, p. 197–198) that is, a list of characteristics, behaviors, or entities that a researcher is looking for. A researcher would simply check whether each item on the list is presented and true. The characteristics of each discrepancy found online were recorded, because these data were needed to analyze the cause of discrepancies in import and export letter of credit documents. Books and documents were also surveyed at libraries to ensure the validity and accuracy of the research. From e-research, 59 characteristics of discrepancies in the export and import letters of credit were found. These characteristics of discrepancies could happen because of several reasons.

The data identify the problem directly involved with import and export documents; the data show the character, nature, and behavior of discrepancies that the research was looking for. These data will be analyzed to determine what caused the discrepancies that were posted in Tables 1 and Table 2, and Table 3. After recognizing a problem or identifying a problem, it is absolutely important to provide a diagnostic solution to remedy the situation.

Table 1: Discrepancies of Documents Do Not Comply with Terms and Conditions and the Excessive Requirements of Letter of Credit

Type	Description of Discrepancies	Frequency of Occurrence
Conditions of	1. Merchandise description differs	155
the Letter of	2. Conditions on partial shipment within P.O.	122
Credit and the	3. Invoice omits certain condition	257
Excessive	4. Unit price differs	110
Requirement	5. Packing list requires too much information	259
of Letter of	6. Consignee and notify parties differ	261
credit= 49 % *	7. Inspection certificate differs	122
	8. Over-insured goods	125
	9. Extra-document required	127
	10. Purchase order not appear on all documents	124
	11. Shipped by ocean instead of air	145
	12. Purchase order to be shipped on certain time	132
	and shipped on certain percentage	
	13. Too much requirements on the addendum	129
	14. To be shipped by certain shipping line	145
	15. Documents to be legalized by certain	102
	institution	205
	16. Statement on beneficiary differs	38
	17. Early shipment	131
	18. Country declaration presented instead of	
	certificate of origin	136
	19. Certificate of manufacturing differs	35
	20. Statement on annex II differs	141
	21. Statement on quota charge differs	112
	22. Capacity of signer on certificate by owner	
	or chief executive officer differs	114
	23. Custom invoice differs	129
	24. Statement on copy textile apparel differs	108
P.O.=Purchase	25. Copy fabric detail sheet omit specific	127
Order	statement	38
	26. QC inspection certificate differs	124
	27. Copy visa invoice not signed properly	121
	28. Copy textile apparel goods not state per LC	109
L/C=Letter of	29. Copy courier receipt omits certain	106
Credit	conditions	9
	30. Certificate of origin omits form K	
	31. Producer certificate not presented	
	32. Copy certificate of free trade not presented	

* 49% based on 32 items out of total 65 items of discrepancies found. Discrepancy will be analyzed and addressed as per purpose of this research.

This table shows 32 characteristics of discrepancies. These documentary discrepancies did not comply with the terms and conditions of letter of credit and represent 49% of total data collected. How did such discrepancies occur? They occurred because the letter of credit required too many documents to be presented for payment and financing. For example, the exporter was required to present certificate of origin form K, country declaration, copy of textile apparel goods, producer certificate of origin, and visa invoice.

The number of required documents increased the complexity of the transaction for the exporter thereby increasing the likelihood of discrepancy. For example, the importer asked the exporter to have documents legalized by the foreign chamber of commerce and foreign consul. The exporter was not allowed to ship the merchandise early. On the other hand, if the shipment was late by 1 day, the exporter had to ship the merchandise by air instead of shipping by ocean. The exporter also always failed to meet the deadline in presentation of documents at the bank because of the limitation of time in preparing documents.

Additionally, the terms and conditions of letter of credit require too much information and data to display on export documents. For example, documents must show gross weight, net weight, unusual carton dimension, and certain statements with which it is impossible to comply.

Table 1 also shows the frequency of occurrence of each discrepancy. There were 155 out of 500 instances that the exporter failed to provide the merchandise description exactly as required by the terms and conditions of the letter of credit. *Consignee* and *notify party* are the parts with the greatest discrepancy from the requirement of the letter of credit, occurring in 261 out of 500 instances. Only 9 out of 500 instances of the copy certificate of free trade were not presented for payment.

The frequency of occurrence of discrepancy is information helpful to the exporter and can prevent discrepancies from occurring. However, it is most important for the exporter to be aware that these types of discrepancies did not comply with terms and conditions of the letter of credit and the excessive requirements of the letter of credit. To avoid these types of discrepancies the exporter must limit the amount of paper work and keep the terms and conditions of the letter of credit simple. The banks and buyers can hold the payment and can give the exporter a difficult time because of small errors on documents.

The purpose of this analysis is to identify the discrepancies of export and import documents. When discrepancies in the documents are found, diagnosing and assessing problems must be provided to clarify the situation. Finally, a course of action must be implemented to solve the problem and prevent the same problem from happening in the future. Therefore, the 32 characteristics of discrepancies in the terms and conditions of the letter of credit, representing 49% of the total data collected will be diagnosed and the course of action will be implemented toward a solution accordingly.

Table 2: Discrepancies of Documents Do Not Comply with Uniform Customs and Practice

Type	Description of Discrepancies	Frequency of Occurrence
Context and	1. Letter of credit expired (A 42)	227
Ambiguity of	2. Late presentation (A43)	255
language of	3. Letter of credit overdrawn (A39)	48
the Uniform	4. L/C transferred without authorization	12
Customs And	(A48)	79
Practice 500	5. Partial shipment (A40)	326
=29 %	6. Transport document omits name of the	
	carrier (A 23, 24, and 27)	337
	7. Transport document omits capacity of	
	signer (A 23, 24, and 27)	72
	8. Transport document omit on board	
	date/flight date (A23, 24, and 27)	51
	9. Invoice not signed (A34)	3
	10. Charter party bill of lading (A 25)	9
	11. Goods shipped on deck (A31)	124
	12. Insurance risk not covered as specified	
	(A35 & 36)	72
	13. Under-insured (A34)	139
	14. Documents inconsistent with each other	
	(A13)	78
L/C= Letter	15. Freight prepaid omits on bill of lading on	
of Credit	CFR condition (A33)	151
A= Article of	16. Insurance dated after the shipment date	73
Uniform	(A34)	
Customs and	17. Copy insurance certificate presented	84
Practice 500	instead of an original one (A34)	
	18. Insurance certificate had different	1
	currency (A 34)	
	19. Multi-modal transport documents (A 26)	

* 29% based on 19 items out of total 65 items of discrepancies found. Discrepancy will be
analyzed and addressed as per purpose of this research.

Table 2 shows 19 characteristics of the discrepancies found and represent 29% of total data collected. From my analysis, the required documents were presented for payment; however, they were not complied with Uniform Customs and Practice 500. Specifically, the table shows that exporters could not prepare the required documents in compliance with 16 articles of the Uniform Customs and Practice 500. These articles are 13, 23, 24, 25, 27, 31, 33, 34, 35, 36, 39, 40, 42, 43, 44, and 48 (please see detail on table 2 on description of discrepancies). For example; the table indicates that there are 3 discrepancies against article 27 such as transport documents omits name of the carrier, transport documents omits capacity of signer, and transport documents omits on board date or flight date. My investigation reveals that the contexts and languages of 49 articles of the Uniform Customs and Practice are unnecessarily difficult to understand resulting in confusion on the part of the exporter presenting the documents for payment and financing.

Table 2 also shows the frequency of occurrence of each discrepancy. In 227 out of 500 instances the exporter did not present the documents for payment on time resulting the letter of credit to expire. This is a serious situation for the exporter because the exporter will not get paid until the buyer agrees to accept the discrepant documents. If the buyer needs the goods or merchandise to sell in the market, there will be no problem for the exporter. However, if the buyer can find the goods or merchandises cheaper, the discrepant documents will be rejected. The exporter will end up losing a good deal of money. Another serious situation was the transport document-omitting name of the carrier (326 instances) and the transport document omitting the capacity of the signer (337 instances). As mentioned above, the exporter must make sure that the shipping company issued them a good bill of lading and airway bill as per Uniform Customs and Practice. Otherwise these problems will continue. Multimodal transport document (article 26) was a minor problem for the exporter. The reason is that even if the letter of credit prohibits transshipment, a bank will accept a multimodal transport document that indicates that the transshipment will or may take place, provided that the entire carriage is covered by one and the same multimode transport document.

Table 3: Clerical Errors of Exporters and Importers in Preparation of Documents

Type	Description of Discrepancies	Frequency of Occurrence
Errors from Parts of Exporters & Importers = 22 % *	1. Over shipment	76
	2. Short shipment	37
	3. Typing errors on the documents	251
	4. Weight differs among documents	126
	5. Certain documents not presented	107
	6. Port of loading and port of destination differ	85
	7. Copy of required documents presented instead of the original	108
	8. Mismanage the shipping term	143
	9. Failure to endorse the required documents	52
	10. Failure to manage the documents consistently	239
	11. Unable to meet the deadline as required	255
	12. Wrong interpretation on the L/C	241
	13. Partial shipped instead of one-time shipment	78
	14. Failure to provide signature properly	102
	L/C= Letter of credit	

*22% based on 14 items out of total 65 items of discrepancies found. Discrepancies will be analyzed and addressed as per purpose of this research.

This table shows 14 characteristics of discrepancies. It represents 22% of total data collected. They are clerical errors of exporter and importers in preparation documents for payment or for letter of credit. How did they happen? The discrepancies occurred because of human oversight and human carelessness. Human beings are limited. The typist can type incorrectly if the person is not detail oriented. Some documentary preparers might not be skilled enough to handle import and export documents because of the specific requirement of the letter of credit. Lastly, the person who handles the import and export documents may lack knowledge of shipping terms, pricing, etc. The common mistakes made by the importers and the exporters were spelling and typing errors. For example, the importer spelled the name of beneficiary as Sam Jo Corporation. However, the bank issued the letter of credit for the benefit of San Go Corporation. Another example is when the importer typed all shipments to be made by US Express instead of made by US Express Consolidators or their authorized representative. This error would open the door for any company that has a name related to US Express instead of a specific company named to perform the shipping service. Table 3 also shows the frequency of occurrence of each discrepancy. There were 251 instances of typing errors on the documents as previously discussed The exporter mismanaged the shipping term 143 times due to confusion on the INCOTERMS of international trade. INCOTERMS are a set of simple three letter codes that represent the different ways international shipments may be organized. They allow sellers and buyers from different cultures and legal systems to decide at what point the ownership and payment for freight, insurance, and customs costs transfer from one to the other. The discrepancy that caused the most serious problem for the exporters is failing to manage the documents consistently. There were 239 instances of documents that were not consistent with each other. It was very difficult for the exporters to prepare the documents and present them to the bank on time. There were 255 instances when the exporter failed to present all documents for payment before the expiration date. Finally, the exporters must be trained to interpret and apply the Uniform Customs and Practice properly because there were 241 instances showing they failed to prepare documents in compliance with the requirements of the letter of credit and the Uniform Customs and Practice.

Table 1, 2, and 3 were consolidated into Table 4. It was created in order to be able to understand and identify the results data collected via internet easily.

This table displays 49% of trade finance documents (export and import documents) contain discrepancies and do not comply with terms and conditions of letter of credit.

This Table also displays 29% of trade finance documents (export and import documents) contain discrepancies and do not comply with the ambiguity of context of the Uniform Customs and Practice 500. Lastly, it displays 22 % of discrepancy of trade finance documents originated from clerical errors.

Table 4: Percentages of Characteristics of Discrepancies of Trade Finance Documents

Types of Discrepancies	Characteristics	Percentages
Excessive Requirements of Letter of Credit	Merchandise description differs, Invoice omits certain condition, Packing list requires too much information, Consignee and notify parties differ, etc.	49
Uniform Customs and Practice 500	Transport documents differ, late presentation, Insurance certificate differs, Condition of insurance differs, Name of carrier omitted, etc.	29
Others	Clerical errors	22
Total Discrepancies		100

Descriptive research also employed in this study in order to identify the characteristics of the discrepancies of the trade finance documents. Leedy and Ormrod define *descriptive* as the type of research that involves either identifying a phenomenon or research that examines a situation as it is. It does not involve changing or modify the situation under investigation, nor is it intended to detect cause-and-effect relationships (Leedy & Ormrod, 2001, p. 191-192). Zikmund suggests that the major purpose of descriptive research**,** as the term implies, is to describe characteristics of a population or phenomenon. Descriptive research seeks to determine the answers to *who, what, when, where* and *how* questions. Every month the Bureau of Labor Statistics conducts descriptive research in the form of the *Current Population Survey.* Official statistics on unemployment and other characteristics of the labor force are derived from this survey (Zikmund, 2003, p. 55-56). Descriptive studies can describe the educational situation as it naturally occurs. Its purpose is to describe the classroom experience and to illustrate the way events unfold—what typically happens, how teachers teach, what students believe or value, how a school functions as a community, and so forth. The sort of questions researchers attempt to answer by using descriptive research.

According to Kindred and Mohammed, descriptive research can illustrate accurately and clearly the characteristics of a group or situation. It is common for any type of research to include descriptive methods. Descriptive research is often concerned with attempting to identify or describe attributes of some group or set (Kindred & Mohammed, 2005, p. 1–9). The group under study may be composed of documents, people, organizations, animals, objects, or virtually any other discrete set that can be defined. Regardless of its composition the totality of the group about which information is sought is referred to as the population and a subset of the population is referred to as a sample.

Descriptive research often helps segment and target markets. For example, business researchers conducted descriptive surveys to identify the characteristics of consumers who purchase organic food products. Such consumers tend to live in larger cities, with a majority residing on the West Coast. The most frequent buyers of organic foods are affluent men and women ages 45–54 (36 percent) and 18–34 (35 percent). Interestingly, consumers who buy organic foods are not very brand-oriented—81 percent of them cannot name a single organic brand. McDaniel also suggests descriptive research as an important tool to conduct marketing research. He states descriptive studies and research can answer the question who, what, when, and how (McDaniel, 2002, p. 63).

According to Bailey, a researcher may be interested in studying a new group or social movement, or scientology. What is happening? To answer this question fully the researcher must gather information about specific groups in the movement (who is the leader, how does one become a member, how is discipline maintained, how is the group supported, what is the division of labor) and about individual members (age, gender, income of parents, geographical region of birth). Such explorations fail (to describe *what* happened), in contrast to *explanatory studies*, which generally attempt to explain a social phenomenon by specifying why or how it happened (Bailey, 1994, p.38).

10 cases of import and export documents and information on letters of credit from the U.S. District Court in New York City, New York, the U.S. District Court in Nashville, Tennessee, the U.S. District Court in Houston, Texas, and international trading companies in New Jersey were collected in order to examine the sources of the problem. The reason for collecting these documents (10 cases) was to investigate into, what caused the problem and why the discrepancies occurred. The investigation and result of an analysis of the 10 cases will also determine if it supports or contradicts the data collected via e-research (internet). It was necessary to know the nature of the data in order to identify their characteristics. It was also important to examine the specific characteristics of the discrepant documents.

The criteria in selecting the 10 cases were they displayed terms and conditions or requirements or information related to the letter of credit for exporting and importing to enable the researcher to examine and test for discrepancy properly. Terms and conditions or requirements of letters of credit were different from case to case. For example, the letter of credit required the exporter to provide a sight draft along with other documents for payment. The letter of credit required a specific period for shipping and one time of shipment. The letter of credit also required a specific packing list and shipping term. Practically, the documents would have to be prepared according to terms and conditions, and requirement of the letter of credit by the exporter. An error found on the documents would be counted as one discrepancy. Secondly, the letter of credit and required documents on the 10 cases were subject to the provisions or the Uniform Customs and Practice for Documentary Credit of International Chamber of Commerce. This rule was applied to the issuing bank, negotiating bank, exporters, and importers with no exception. For example, Article 34 of the Uniform Customs and Practice requires insurance documents must appear on their faces to be issued and signed by insurance companies or underwriters or their agents, the insurance document must be expressed in the same currency as the letter of credit, the insurance document that the cover is effective at the latest from the date of loading on board or dispatch or taking in charge of the goods, banks will not accept an insurance document which bears a date of issuance later than the date of loading on board or dispatch or taking in charge as indicated in such transport document, and the minimum amount on the insurance document must indicate the insurance cover to have been effected is the CIF (cost, insurance and freight) for 110 % of the gross amount of the invoice. In order to receive a payment, the certificate of insurance would have to be prepared and presented according to the said requirements. Otherwise, it would be counted as a discrepancy as well (International Chamber of Commerce, 1993, p.94).

In order to investigate the discrepancies, letter of credit and other required documents such as invoices, packing lists, bills of lading, beneficiary's certificates, certificates of origin, air waybills, insurance certificates/policies, bills of exchange, certificates of inspection, certificates of quality and quality etc. would have to be examined and tested to determine if these documents comply with terms and conditions of letter of credit or if these documents were not prepared as per the Uniform Customs and Practice 500 or if these discrepant documents were caused by clerical errors. Any discrepancies found would be listed and reported on each case.

Table 5: An Illustration of Ten Cases of Discrepancies of Trade Finance Documents

Types of Discrepancies	Items of Discrepancies	Percentages
Terms and Conditions of Letter of Credit	11	50
Uniform Customs and Practice	7	31.8
Importers and Exporters	4	18.2
Total Discrepancies Counted from Case 1 to Case 10	22	100

Table 5 displays a total of 22 discrepancies counted from Case 1 to Case 10. There were 11 discrepancies of documents that were not complied with terms and conditions of letters of credit, which is equal to 50% of the total data. On the other hand, there were 7 discrepancies of documents that were not complied with the Uniform Customs and Practice 500, which is equal to 31.8 % of total data. Lastly, the discrepancies on clerical work of importers and exporters were four items, which is equal to 18.2 % of total data. Therefore, this analysis produced the similar results as the first analysis (e-research via internet), which confirms the validity and accuracy of this entire research.

IV. RESULTS

Table 4 displays 49% of discrepancies of trade finance documents generates by the excessive terms and conditions of letter of credit while table 5 displays 50 % of discrepancies generates by excessive terms and conditions of letter of credit. There is no conflict between the two methods in collecting data.

Therefore, the decision rule is:

DR**:** Hypothesis 1 is not rejected.

Table 4 displays 29% of discrepancies of trade finance documents generates by the ambiguity of context of the Uniform Customs and Practice 500 imposed by the International Chamber of Commerce while table 5 displays 31.8 % of discrepancies generates by the ambiguity of context of the Uniform Customs and Practice 500 imposed by the International Chamber of Commerce.

Therefore, the decision rule is:

DR**:** Hypothesis 2 is not rejected either.

It is suggested that the excessive requirements and terms in the letters of credit has more impact on trade finance documents than the Uniform Customs and Practice 500 regulated by the International Chamber of Commerce.

V. CONCLUSIONS AND RECOMMENDATIONS

Prior to the issuance of the letter of credit, the exporters must be serious in negotiating with the importers and be sure that excessive requirements and conditions are not included in the letter of credit. During this stage of negotiation, it is easier to work out details in the letter of credit to avoid future discrepancies. The exporters can bring many incentives to the table for negotiation. For instance, the exporter may motivate the importers to make the deal easier by offering an incentive plan on the unit price, quality of merchandise, or cost of transportation. Once the letter of credit is issued, however, it becomes much more difficult to negotiate. In the case of shipping terms such as free on board (FOB) and Cost and Freight (CFR), the required documents should be an invoice, transport document, and beneficiary's certificate. The insurance certificate is needed in the case of CIF (cost, insurance, and freight) only.

Exporters, importers, and bankers agree that the language of each article of the Uniform Customs and Practice 500 is difficult to understand (International Chamber of Commerce, 2005, p.1). The fact is that each article contains ambiguous language with interpretive phrasing that can be seen from the following example:

Article 31, unless otherwise stipulated in the credit, banks will accept a transport document which does not indicate, in the case of carriage by sea or by more than one means of conveyance including carriage by sea, that the goods are or will be loaded on deck. Nevertheless, banks will accept a transport document which contains a provision that the goods may be carried on deck, provided that it does not specifically state that they are or will be loaded on deck (ICC Uniform Customs and Practice 500, 1994, p. 5).

The language and context about loading or shipping on deck in article 31 is ambiguous. It is very difficult to understand if loading or shipping on deck is acceptable or not. This article should have stated clearly that unless otherwise stipulated in the letter of credit, loading on deck or shipping on deck is not acceptable. It is recommended that the International Chamber of Commerce must use a clearer language on each article. Inappropriate contexts of the Uniform Customs and Practice must be changed. Each article should be written in clear and concise language that can be understood easily for practice. Additionally, the International Chamber of Commerce should provide a practical example for each article so that the personnel who work in export and import businesses would be able to follow the guidelines easily. The implementation of a clearer language should be executed for the next version. This will be the best way to eliminate the discrepancies in presentation of import and export documents for payments and financing. In the meantime, the personnel involved in documentary preparation and documentary examination must be trained and certified to ensure they have enough skills to handle the import and export documents properly.

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