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# Documentary Compliance for Prohibited Partial Shipments with Multiple Transport Documents

## The background

Vidhyadhar Hasabnis was in a fix. At stake was USD 25000 as well as significant reputational loss for the bank.

Vidhyadhar was part of the Trade relationship team of Pragmatic Bank Ltd, a new-generation private sector bank with branches all over India. Vidhyadhar himself handled several customers who were exporters. These accounts were the desired accounts within the bank since they provided both fee and Net Interest Income in addition to revenue from FX conversion.

Recently, he had been successful in onboarding Velite Exports, one of the largest exporters in Chennai. The company was a trader of multiple commodities with a turnover of close to INR 750 crs, the majority of which was exports. Onboarding Velite had been a feather in his hat, since the bank had been chasing the customer for quite some time. Though they had agreed to the customer's requirements for pricing and account services, the discussion would always get stuck at one particular point. Velite exports only against either 100% advance or against a Letter of Credit (LC). The LCs were mostly on sight payment terms, with very few instances of usance payment. Velite preferred the LC mechanism under the Uniform Customs and Practice for Documentary Credits (UCP 600), since it de-risked the payment settlement process, with the LC issuing bank undertaking payment subject to compliance with the LC terms.

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The authors have prepared this case to provide material for class discussion. The case is not intended show effective or ineffective handling of business decision or business process. The institutions/companies and characters are fictional.

This case study is developed for teaching the PG students, newly recruited trade finance officers, forex compliance officers This case study describes the dilema in documentary compliances with the possibility of having multiple transport documents without having partial shipment.

**The business proposal**

This was where Velite had bitter experiences in the past. Velite is exported to a few South Asian countries and some Middle Eastern countries. What they observed was that although the LC mechanism derisked them from payment risk, it was subject to the very important condition that the documents pertaining to the transaction had to be exactly in accordance with the LC opened under UCP 600. Oftentimes, it was found that overseas banks rejected documents for minor discrepancies, which then had financial implications in terms of delayed payment/ discounts, etc. To obviate this, Velite had tried to train its export team to prepare documents very diligently. Yet the issues persisted, and the compliance cost was very high. The new CFO of Velite Exports, Ms Vaidika Pillai, decided on a different approach and presented a proposal to the company's bankers. The banks were to despatch the documents to the issuing bank only after conducting a complete scrutiny of the shipment documents. In case, at a later stage, the documents were rejected, they expected the banks to take the financial cost of the same. This was a very delicate point for banks to agree to, with huge financial implications and hence no bank had agreed to date. Vidhyadhar sensed an opportunity here. He submitted a proposal that included the customer's requirement of scrutiny. In exchange, he negotiated a higher FX margin compared to other banks and an INR 5000 fee per document.

Velite started routing its export bills through Pragmatic Bank. The first few transactions went through without any issues, and both the bank and customer were happy, having achieved their respective goals.

**The Dispute**

On the day after Diwali, when Vidhyadhar reached his office, he found several missed calls on his official number, which belonged to Velite exporters and also a message on his WhatsApp from the CFO asking him to call immediately. He immediately called Govind Raj, the head of the bank's export team. Govind explained that there was a problem with one of the documents that the bank had presented to the issuing bank last week.

The details of the case were as follows:

Velite Exports had submitted a set of documents to negotiate payment under an LC issued by SLK National Bank, Colombo. Waramatta Plc, the importer, was one of the largest traders of spices in Sri Lanka. The LC was for a value of USD 25000 and was payable at sight. This was the first shipment of Velite to Waramatta, and Velite had to source the commodity from a few of the better-reputed producers across India in order to ensure quality control.

This presentation included two distinct Bills of Lading (B/Ls) associated with the same shipment: a) Bill of Lading 1: Dated 10 May 2022, this document detailed the shipment originating from Mumbai's Jawaharlal Nehru Port Trust (JNPT); b) Bill of Lading 2: Dated 15 May 2022, this second document indicated that the shipment came from the Port of Kochi.

Both Bills of Lading contained specific information indicating that the goods were shipped on the same vessel, known as the SS Jaler Vidya.  They were part of the same voyage. The designated port of destination for the shipment was Colombo.

However, the LC explicitly prohibited any form of partial shipments. Upon a meticulous review of the submitted documents, the issuing bank in Sri Lanka declined to reimburse the negotiating bank. They reasoned that the documents illustrated a partial shipment, as the goods had been loaded from two different ports on separate dates.

The CFO of Velite Exports had sent an email asking the bank what their response would be and, in any case, to reimburse the company as per their service agreement.

As per Govind, the interpretation of the issuing bank was incorrect since the presentation fully complied with the stipulations outlined in the UCP 600. Vidhyadhar was in a delicate spot, and needed to ensure that the interpretation was correct before taking a decision and calling the CFO of Velite Exports, explaining why the bank was not liable in this case.

**Issues**

The principal legal issue is whether the presentation of **two Bills of Lading** bearing different shipment dates and different ports of loading constitutes a partial shipment when the Letter of Credit expressly prohibits partial shipments.

**Dilemma**

The central dilemma in this case is whether the presentation of two Bills of Lading**,** issued on different dates and showing different ports of loading, should be treated as a partial shipment when the LC expressly prohibits partial shipments.

The issuing bank interpreted the existence of multiple Bills of Lading with different shipment dates and loading ports as evidence of separate shipments and therefore refused payment. In contrast, the negotiating bank argued that the shipment complied with the terms of the LC because the goods were transported on the same conveyance**,** on the same mode of transport, and to the same destination, which is Colombo Port in this case, thereby satisfying the requirements of UCP 600 Article 31(b)**.**

The dilemma arises from the apparent conflict between the documentary presentation and the legal interpretation of "partial shipment" under UCP 600. It raises an important question for banks engaged in documentary credit transactions: Should the examination of transport documents be based solely on the number of Bills of Lading and differences in loading details and dates, or should it be guided by the substantive provisions of UCP 600 that recognise shipment on the same vessel and voyage for the same destinations as a single shipment?

The resolution of this dilemma has significant implications for the rights and obligations of the issuing bank, the negotiating bank, and the beneficiary, as an incorrect interpretation may result in the wrongful dishonour of a compliant presentation and undermine the reliability of documentary credit transactions.