

Documentary Credit

WORLD

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■ RED CLAUSES

Use of a so-called red clause in a letter of credit permits a beneficiary to draw funds under the LC prior to effecting shipment. In many instances, the beneficiary is an exporter and not the producer of the goods. When used properly, red clause credits work and can serve as an effective means of financing. Like other specialised LC types, dangers can emerge for applicants, banks, and beneficiaries who enter into a red clause credit without adequate knowledge of how such clauses function or careful analysis of the arrangement. Use of red clauses can be traced back almost a century. Are they a thing of the past? In this issue, retired banker Joe Colleran provides a descriptive and detailed refresher on two forms of red clauses. Active bankers then comment on their experience with red clauses and whether such clauses are ever used today.