Documentary Letter of Credit Discrepancy and Risk Management in the Nigerian Crude Oil Export

by

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STUDENT DECLARATION FORM

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Dedication

To my beloved parents: Alhaji Musa I. Aujara and Hajiya Binta M. I. Aujara

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List of Abbreviations

AGO	Automotive Gas Oil
AIRMC	Association of Insurance and Risk Managers
AS/NZS	Australia Standard and New Zealand Standards
ASEAN	Association of Southeast Asian Nations
BPO	Bank Payment Obligation
CBN	Central Bank of Nigeria
CFR	Cost and Freight
CIF	Cost, Insurance and Freight
CIP	Carriage and Insurance Paid To
CISG	Contracts for International Sales of Goods
COGSA	Carriage of Goods Act
COMD	Crude Oil Marketing Division
COSO	Committee of Sponsoring Organizations of the Treadway Commission
CPT	Carriage Paid To
DAP	Delivery At Place
DAT	Delivery At Terminal
DDP	Delivery Duty Paid
DI	Documentary Instruction
DPR	Department of Petroleum Resources
ERM	Enterprise Risk Management
ETA	Estimated Time of Arrival
EXW	EX-Works
FAS	Free Alongside Ship
FCA	Free Carrier
FIRS	Federal Inland Revenue Service
FOB	Free On Board
GDP	Growth Domestic Product
ICC	International Chamber of Commerce
IFSA	International Financial Services Association
IMF	International Monetary Fund
Incoterms	International Commerce Terms
IOC	International Oil Companies
IRM	Institute of Risk Management
ISO	International Organisation for Standardisation
JOA	Joint Operation Agreement
JVA	Joint Venture Agreement
Laycan	Laydays Cancelling
LOA	Length Over-All
MOU	Memorandum of Understanding
MPR	Ministry of Petroleum Resources

MTI	Ministry of Trade and Investments
NAOC	Nigerian Agip Oil Company
NAPIMS	National Petroleum Investment Management Services
NCS	Nigerian Customs Service
NEITI	Nigeria Extractive Industries Transparency Initiative
NNOC	Nigerian National Oil Corporation
NNPC	Nigerian National Petroleum Corporation
NPDC	Nigerian Petroleum Development Company
OECD	Organisation for Economic Co-operation and Development
OPA	Offshore Processing Agreements
OPEC	Organisation of Petroleum Exporting Countries
PSC	Production Sharing Contract
S&T	Shipping and Terminal
SDWT	Summer Dead Weight of Vessel
SGD	Single Goods Declaration
SWIFT	Society for Worldwide Interbank Financial Telecommunication
TAM	Turn-Around Maintenance
TMA	Transaction Matching Application
UCC	Uniform Commercial Code
UCP	Uniform Customs and Practice
ULCC	Ultra Large Crude Carrier
UNCTAD	United Nations Conference on Trade and Development
URDG	Uniform Rule for Demand Guarantees
USD	United States Dollars
VLCC	Very Large Crude Carrier

Abstract

This study investigates the documentary discrepancy risks within the letter of credit operations in the Nigerian crude oil export. The underlining principles of letter of credit transaction require the Nigerian National Petroleum Corporation (NNPC) to submit the full set of documents to the banks in accordance with the terms and conditions set in the letter of credit for payment. These conditions must reflect the underlying sales contract as well as the Uniform Customs and Practice (UCP 600) that governs the letter of credit transaction. Presenting non-compliant documents to the bank remains the global phenomenon among international traders, resulting in unnecessary delays, financial loss and refused payment when discrepancies are discovered. A survey by the International Chamber of Commerce (ICC) revealed an estimation of 60 to 70 percent discrepancy rate worldwide. A case study approach was used in this research and the data were analysed against the integrated export letter of credit operations discrepancy risk model. Informed by the literature reviewed, the integrated export letter of credit operations discrepancy risk model was established as the conceptual framework in this thesis. Drawing on the letter of credit operations, the number of complex documents processed, unusual requirements and ambiguity of the letter of credit are responsible for manifesting documentary discrepancies. The empirical results were obtained by analysing 920 letters of credit, shipping documents related to the NNPC crude oil transactions. The significance of categorised discrepancies associated with NNPC's letter of credit operations in Nigerian crude oil export was identified using the model. Further analysis was carried out using interviews to determine the industry perception of factors and causes of documentary discrepancies. Through this approach, the thesis made some important findings. Firstly, it is suggested that trading with customers and banks who have long-term crude oil export experience enables NNPC to manage its environmental risks. Secondly, the findings indicate that three discrepancy risk categories – late presentation, late shipment and inconsistencies are found to be significant within the letter of credit. These identified discrepancy risk categories potentially lead to payment delays. Thirdly, this thesis concludes that the operational process of the NNPC's letter of credit is affected by nine factors that give rise to the discrepancies. Fourthly, this thesis suggests that several elements are believed to be the causes and sub-causes of the discrepancies in the Nigerian crude oil export letter of credit. Finally, the findings indicate the risk treatment used in managing the causes and effects of the discrepancy risks. The study may have significant impact for the Nigerian crude oil export letter of credit operations.

Keywords: letter of credit, discrepancy, crude oil, operations, risk management, export

CHAPTER ONE:

INTRODUCTION

CHAPTER 1: INTRODUCTION

1.1 Introduction

International trade finance has gained a statutory recognition in international trade transactions, underpinned by movement of goods and services between importers and exporters under the terms of commercial contracts facilitated by banks. This accounts for almost 90 percent of the global trade with an estimated value of $10-12 trillion United States dollars (USD) (Schmidt-Eisenlohr, 2013). Indeed, the liberalisation of trade among countries has facilitated the market opportunities for overseas transactions between importers and exporters across the world of business. The increasing global demand for non-renewable sources of energy, especially in the emerging markets such as China and India, has provided oil-rich countries with financial opportunities from export proceeds (Balouga, 2012; Atsegbua, 2012). Despite the volatility of oil prices, crude oil exports remain the largest part of Nigeria's foreign earnings, amounting to almost $60 billion (USD) in 2010 (NIETI, 2005). The political structure of Nigeria has positioned Nigerian National Petroleum Corporation (NNPC) as the principal agent that dominates the country's oil export where over 1.5 million barrels of crude a day is traded with customers. While crude oil export continues to grow in Nigeria, more emphasis and attention have been focused on understanding the the documentary risk aspect of the letter of credit transactions that run many exporters into various troubles (Whitehead 1983; Mann, 2000). The most common problem is failure to present proper trade documents to the bank for payment. The documentary discrepancy is growing and seems to be persistent in international commercial trade. Therefore, it would be interesting to find out the causes and effects of the discrepancy risks and their significance in the Nigerian crude oil export letter of credit operations.

1.2 Background of the Study

The global trading activities, which cover business transactions between exporters and importers, underpinned by movement of goods and services under terms of commercial contracts, is facilitated by banks. Trade supply chain financing has become the issue of concern in recent years due to the increase global trades (Auboin, 2010). The international trade finance has accounted for almost 90 percent of global trade, with estimates of $10-12 trillion (USD) (Schmidt-Eisenlohr, 2013). Traditionally, the four trade payment instruments, namely cash-in-advance (CIA), documentary collection, letters of credit and open accounts, are structured to enable payments for goods traded between the exporter and the importer. However, these methods have generated a lot of debate regarding protecting the importer and exporter against financial and transaction risks. Ideally, whatever contract was arranged, the different trade parties would have opposing attitudes toward the arrangement (Whitehead 1983). In other words, the exporter would like to be paid before goods are shipped, while the importer would prefer to postpone payment until goods have arrived.

According to Gao (2010) and Yan & Xiao (2013), it is believed that cash in advance is the most secure payment method for exporters. This payment term requires the importer to pay the exporter before goods are shipped. However, this is only appropriate when exporting to a country with weak enforcement or dealing with new customers (Schmidt-Eisenlohr, 2013). Conversely, open accounts exist when confidence between the importer and exporter is perfectly developed. Unlike CIA, the exporter transfers the goods without any formal assurance that the importer will honour its obligation, exposing the exporter to the risk of non-payment and cancelation (Briggs, 1994). Although these two methods are the simplest and cheapest, they have the greatest potential for default and misconduct by partners (Mann, 2000). In essence, for a transaction to be effective “one party first performs completely, trusting the other party to respond by performing in turn” (Mann, 2000 p. 421).

Due to unsatisfactory performance and trade dilemmas that exist between importers and exporters who are unwilling to trust each other, more proper financial instruments,

underpinned by the banking system, are extensively considered for the purpose of developing confidence, particularly for exporters (Ahn, 2011). Thus, documentary collection and letters of credit are regarded as alternative tools that offer more security for applied transaction risks. Documentary collection, or 'bill of exchange' as it is called by the bankers, positions the bank as the intermediary to transmit unconditional documents from the exporter, requesting the importer to pay at *sight* for the goods shipped, or at a pre-determined date in the future (Briggs, 1994). It is noted that the bank's responsibility is only to carry out the principal's instructions and it assumes no payment obligation. Despite its banking channel, the bill of exchange exposes the exporter to the risk of default, as payment is heavily reliant on the goodwill of the importer, who agrees to pay or accept the draft on the due date (Antras & Foley, 2015).

Furthermore, from the exporter's point of view, a letter of credit is the most acceptable financial instrument that provides payment security against possible risks. This is basically due to its satisfactory nature in international trade practice. In the letter of credit, the importer and exporter establish a concrete payment contract with a bank's obligation to pay the exporter, provided goods are shipped and specific documents presented to the bank in compliance with the terms and conditions of the letter of credit (Deak, 1980; Zhang, 2011). The letters of credit operations are governed by the underlying principles established by the International Chamber of Commerce (ICC) in 2007, which are adhered to by financial institutions around the world (ICC Banking Commission, 2011). Generally, these rules are referred to as Uniform Customs and Practice for Documentary Credits or UCP 600. Nowadays, letters of credit have become a global tool that safeguards the interests of both parties, with an estimated trade value of $2 trillion (USD) a year (Senechal, 2011).

Although the bottom-line behind the letter of credit is to provide payment security to the exporter, there is always an unforeseen aspect of risks that consequently affect its operational process. From an international trade perspective, environmental risks are the most challenging issue when dealing with letters of credit (Grassi, 1995). Thus, the exporter

is exposed to a number of risks that are associated with the external forces, resulting from political and economic instability, foreign exchange as well as financial crises that are beyond the exporter's control. The elements attached to the environmental risk are customer, bank and country risks (Beck, 2002). The analytical view shows that the exporter may be exposed to non-payment risk from customers who lack financial standing or experience in international trade (Biswas, 2011). Furthermore, there are also banks that are considered to be an unacceptable risk. For example, some issuing banks are domestically oriented with significant credit risks and cannot handle international transactions (Bergami, 2007). Such worries can arise when the exporter is uncertain about a foreign political situation and the financial capabilities of both the importer and issuing bank. Briggs (1994) noted that when an importer is domiciled in a politically or economically unstable country, the risk impact on payment would be great; these are referred to as 'high exposure' countries (Olsen, 2010).

Some studies such as Mann (2000) and Baker (2000) present an investigative research on letter of credit discrepancies, revealing the operational and process risks that affect the transactions. The concept of a bilateral contract agreement between exporter, importer and the bank in the transaction is basically surrounded by an exchange of promises and documents. Thus, the letter of credit issued requires that documents submitted by the exporter must conform to the terms and conditions stipulated, otherwise the documents would be rejected by the bank (Kula, 2015). This strict documentary compliance is the most challenging issue when dealing with letters of credit, due to the complexity and risky nature of its process adding a risk of unnecessary delay or non-payment (Yan & Xiao, 2013).

In the same vein Zodl (2002), Czinkota (2004) and Sakchutchawan (2009) have revealed that the documentary discrepancies are perhaps one of the biggest problems in international trade transactions. Empirical evidence from the survey undertaken by International Financial Services Association (IFSA) claims that 73 percent of the documentary presentations are found to be discrepant (Senechal, 2011). In other words, documents submitted by the exporter to the banks do not comply with the letter of credit requirements. This finding is

consistent with an investigation made by Mann (2000) who discovered that only 25% presentation of documents conformed to the terms and conditions of the letter of credit transactions, exposing exporters to devastating risks. It is agreed by Kula (2015) that these high rates of world-wide discrepancies have created a negative impact on letter of credit transactions (International Chamber Commerce, 2006). This thesis is aimed at investigating the nature and frequencies of discrepancies in letters of credit in relation to the Nigerian crude oil export.

Within the Nigerian context, it is known that crude oil has dominated the commodity exports for over six decades. As a member of the Organisation of Petroleum Exporting Countries (OPEC) since 1971, Nigeria holds an estimated 37.119 billion barrels of oil reserve, and produces over two (2) million barrels per day (Chete et. al. 2014). This has positioned Nigeria as the fifth largest oil exporter in the world. The growing demand for oil, as well as bilateral energy trade agreements with both developed and developing countries alike, has given the country many export opportunities. According to Nigeria Extractive Industries Transparency Initiative (NEITI), the oil and gas industry stands as the largest contributor to the foreign exchange earnings in Nigeria with the approximately $60 billion (USD), accounting 90 percent of government income (NEITI, 2005).

The Nigerian National Petroleum Corporation (NNPC) which represents the government in the oil and gas activities has adopted letters of credit as a single payment mechanism for Nigerian crude oil sales to its customers for over two decades. Therefore, the main focus of this research is to investigate the documentary discrepancy risks within the letter of credit operations using integrated *Export Letter of Credit Operations Discrepancy Model* proposed by the author. Zhang (2012) argues that risks can only be reduced through the risk management process, but cannot be eliminated. However, “because of the widespread use of Letters of Credit there is an opportunity to identify optimal business processes to avoid risk” (Bergami, 2011 p.5). Thus, it becomes necessary for an exporter to seek protection against possible risk.

From the foregoing, it appears that there is no known research that has empirically investigated the documentary discrepancy risks in the Nigerian crude oil exports, as the crude oil letter of credit operation is too complex. Consequently, this has significant transaction and process risks, arising from many factors and causes that affect the transaction as well as causing payment delays and non-payment. Furthermore, there is no evidence that research like this has been previously carried out in Nigeria. Previous research such as Khan (1994) and Odularu (2008) focused on the relationship between the crude oil sector and the Nigerian economic performance. Others such as Riman et al. (2013) and Lawrence & Victor (2016) explored the intertwining relationships among crude oil export, revenue shock and industrial output in Nigeria. Similarly, Ijirshar's (2015) study examined the impact of oil revenue and industrial growth in Nigeria. As the aforementioned studies failed to address the critical issue of documentary letter of credit discrepancy risk management in the Nigerian crude oil export, this study has taken up the challenge. This area is worth researching because of the importance of crude oil to the Nigerian economy. On one hand this research aims to narrow this gap in the current literature, and on the other hand, it will also stir policy makers to sponsor more research in this neglected area.

1.3 Aim and Objectives

The aim of this research is to critically investigate and examine the nature and frequency of documentary discrepancy risks in Nigerian crude oil export letter of credit transactions, and to establish the internal operations strategies used in managing the causes and effects of discrepancy risks. The core notion of this research is to examine these risks in relations to the international trade transactions. To achieve the aim, six specific objectives were set to:

i. Investigate the environmental risk with regard to customer, country and bank risks in Nigerian letter of credit transactions

ii. Investigate the nature and frequency of documentary discrepancy risks rate in Nigerian crude oil export letters of credit.

iii. Examine the factors that contribute to documentary discrepancies in Nigerian crude oil export letters of credit.

iv. Investigate the causes and effect of the identified discrepancy risk factors

v. Determine the NNPC's letter of credit discrepancy risk assessment and risk mitigation factor.

vi. Develop a conceptual export letter of credit operation discrepancy risk model for discrepancy risk identification and treatment.

1.4 Research Methodology and Methods

Given the focus of this research, and considering the need for the philosophical assumptions to be adopted in research, this study is in line with the interpretive, established in the paradigmatic framework of Burrell and Morgan (1979). The justification of the chosen paradigm is in line with the assumption that reality of knowledge is based on the human perception, experience and interaction. In addition, this research adopted a qualitative research approach by case study. The choice of the qualitative case study method is because it provides a greater exploratory environment and in-depth knowledge of phenomena, and is, therefore, applicable to this research domain. The research data were collected and analysed to arrive at the findings through documentary analysis and interviews. The documents used are based on the examination of letters of credit, shipping and transaction documents, internal and independent reports as well as other relevant documents. Furthermore, a semi-structured interview method was also adopted as a primary source of data collection to ascertain the view of NNPC staff on the factors and causes of documentary discrepancies in Nigerian crude oil export letter of credit operations.

1.5 Significance and Contribution of the Study

- Crude oil remains the most important component of the Nigerian economy, accounting for 90 percent of the country's foreign exchange earnings. Therefore, the value of this research enquiry, which lies in investigating the discrepancy risks and their associated elements, is of particular interest to NNPC policy makers in effectively managing the discrepancy causes and effects. There is no evidence that a research like this has been previously carried out in Nigeria.

- The research identifies the nature and frequency of documentary discrepancies that exist within the Nigerian crude oil export letter of credit operations. Specifically, this thesis uses an integrated export letter of credit operations discrepancy risk model proposed by the author for assessing factors and causes responsible for these discrepancies.

- This study is also significant because it addresses the transaction and process risks arising from many factors and causes that affect the transaction as well as causing payment delays and non-payment. Furthermore, there is no evidence that research like this has been previously carried out in Nigeria.

- In fact, this contribution of the integrated model is so important, and can be employed by other crude export organisations as well as scholars who may use it as a theoretical model in assessing discrepancy causes and effects in letter of credit operations. Specifically, the thesis makes recommendations that will assist the NNPC in managing the causes and effects of discrepancy risks. Finally, the literature on the documentary letters of credit for crude oil export is limited; there is, in fact, no known research in the case of the NNPC. Therefore, in this respect, this thesis makes a

significant contribution to the body of knowledge and contributes to the existing literature, especially with regards to crude oil exporting countries.

1.6 Structure of the Thesis

Figure 1.1 depicts the structure of the thesis. The thesis is organised into seven chapters. Chapter One explains the background of the study with the underlying need for the current research (research problem). Also discussed in this chapter are the aim, objectives and significance of the study. Furthermore, the chapter refers to the conceptual model, methodology and methods used in carrying out this research.

Chapter Two is dedicated to the literature review on the relevant issues examined in the study. The review includes an overview of the letter of credit, objectives and legal source of the letter of credit. Other issues discussed in the chapter are the letter of credit operational mechanism and documentary discrepancy risks, as well as the factors and causes responsible for discrepancy risks.

Chapter Three examines Nigerian crude oil exports. The chapter begins with the historical perspective of the Nigerian oil industry, followed by the role of the NNPC in the Nigerian crude oil export in relation to joint venture and production sharing contract arrangements. Furthermore, the chapter discusses the mechanism used by the NNPC in crude oil sales with regard to sales contracts, letters of credit and the crude oil lifting programme.

Chapter Four discusses the conceptual model adopted for the study. The discussion in the chapter contains various risk management approaches relevant to the letter of credit. The chapter proposes the integrated export letter of credit operations discrepancy risk model, while justifying the adoptability of the model.

Chapter Five discusses the philosophical assumptions of social sciences based on Burrell and Morgan's (1979) framework, as well as the methodology and method, and the instruments

of case study approach. Moreover, discussed are the documentary analysis and interviews employed for data collection and analysis in the conduct of this research.

Chapter Six presents the analysis and findings of the documentary analysis relevant to Nigerian crude oil export letters of credit. The chapter also presents the analysis and findings of the interviews conducted. The rationale for the chapter is to find out the nature and level of documentary discrepancy risks, the factors and causes of the discrepancy risks as well as risk treatment used in managing the risks. Finally, Chapter Seven provides a summary of the thesis, and further highlights the key conclusions drawn from the study and provides number of recommendations and suggests areas for further research.

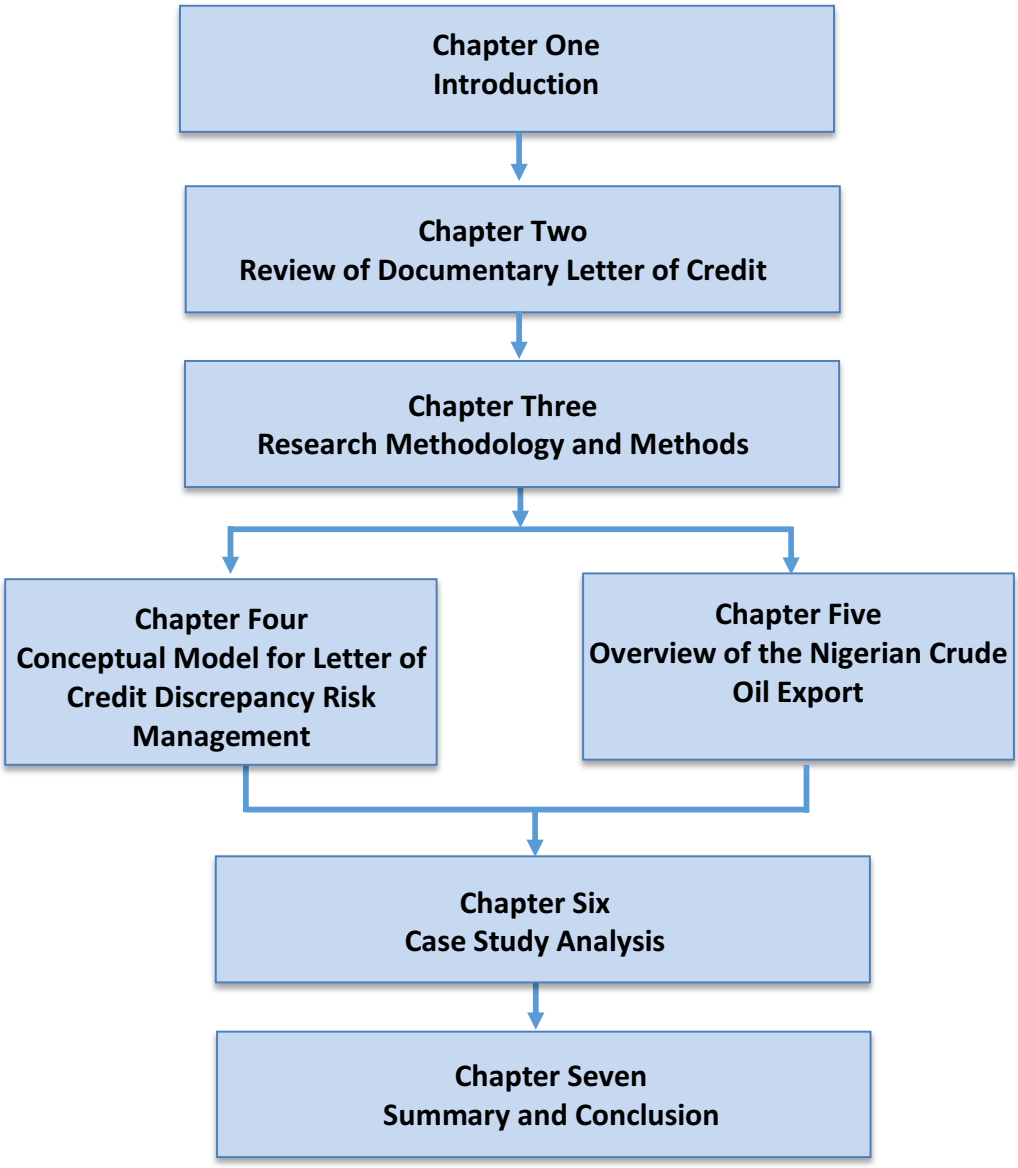

Figure 1.1 Thesis Structure

Summary

This chapter has offered an introductory background to the study. It made a case for the underlying need for the current research (research problem). The chapter also extended efforts to highlight the aim, objectives and significance of the study. It established that documentary letter of credit discrepancy and risk management in the Nigerian crude oil export is a hugely neglected area of empirical research. It is on this gap that the current study is situated. The next chapter will focus on the review of relevant literature on documentary letter of credit.

CHAPTER TWO

REVIEW OF DOCUMENTARY LETTER OF CREDIT

CHAPTER 2: REVIEW OF DOCUMENTARY LETTER OF CREDIT

2.1. Introduction

This chapter gives a general overview of the documentary letter of credit and the documentary discrepancy risks. The chapter aims to give an overall picture of letter of credit operations around the globe and how discrepancy risks affect the export transaction. The sequence of the chapter is as follows. Sections 2.2 to 2.3 discuss the meaning and types of letter of credit. Section 2.4 reviews the objectives of letters of credit. The legal source of letter of credit is presented in section 2.5; and the discussion in section 5.6 focuses on the mechanism of letters of credit. An overview of documentary discrepancy risks in letters of credit is addressed in section 2.7. Finally, section 2.8 concludes the chapter.

2.2. The Meaning of Letter of Credit

In the international commodity market, where importers and exporters operate, payment is the most difficult problem when compared to domestic sales transactions (Zhang, 2012). The underlying success of the payment contract for the goods exported can be traced to effective performance of the sales transaction. Certainly, the parties involved in the trade contract, the exporter who sells and the importer who buys the goods, have different attitudes toward the arrangement of payments. Usually, the exporter prefers to be paid before the control of goods is surrendered to the buyer (Byrne, 1999; D'Arcy, 2000; Djankov et al. 2010). The importer, on the other hand, wants to make sure that the goods shipped are not only in accordance with the sale contract, but the payment is postponed until the very last moment (Briggs, 1994; Whitehead, 1983).

Bartholomew (1958) argued that the international trade relationship is very difficult to understand, especially when dealing with an unknown business partner. This fundamental trade dilemma, which exists between the trading partners, suggests the application of a

proper financial instrument for foreign trade payments, with the bank acting as intermediary to close the gap between production and sales (Harfield, 1974; Hauswald and Robert, 2003; Alessandria et al. 2010; Amiti and David, (2011 Niepmann & Schmidt-Eisenlohr, 2015). This payment contract has been known as 'documentary credit', 'banker's credit' or simply the 'credit', but the most commonly used name is 'letter of credit' (Mooney & Blodgett, 1995). Therefore, for the purpose of this study, the term 'letter of credit' is adopted, as it is commonly used in international trade transaction. The documentary credit, letter of credit or bankers credit are used interchangeably. However, the term documentary credit is so named because of the important of documents in the transaction (Hinkelman, 2012).

Literature has made several attempts to define 'letter of credit' differently. Biswas (2011) suggests that it seems safer to understand the meaning of letter of credit than to define it. For example, Dalhuisen (2013) sees it as neither a letter nor a credit but an independent payment undertaking by a bank. In the broadest sense, which is often used by courts, the letter of credit is any letter whereby the writer arranges for some other person to obtain credit (Goode, 2005). It is further described as an instrument executed by a bank, which promises the holder of the credit that the drafts drawn will be honoured in accordance with the terms and conditions stated therein (Mead, 1922; Crouc, & Wison, 1982; Goode, 2005; Hinkelman, 2012). However, the above definitions would be futile when reflecting a business transaction. The definition does not clearly provide the relationship between the trade parties in the letter of credit transaction.

Furthermore, Article 2 of the Uniform Customs and Practice for Documentary Credit, which is commonly known as UCP 600, defined letter of credit as any arrangement, however named or described, that is irrevocable and thereby constitutes a definite undertaking of the issuing bank to honour a complying presentation (International Chamber of Commerce, 2006). However, this definition is too narrow and does not provide a precise description of a commercial letter of credit. The functional definition of letter of credit can be derived from Deak (1980, p. 229) who defined it as "an instrument issued by a bank at the request of its

customer to pay an indicated amount to the beneficiary against certain documents in accordance with some specific terms". These terms and conditions that govern the letter of credit transactions are always found in the UCP 600 (Bryne, 2006; Dole Jr, 2008; Fellinger, 1990; Muûls, 2008; Zhang, 2012). However, meeting these documentary conditions as well as difficult settings of letter of credit operations are believed to be an extreme source of frustration and payment problem to the exporter as mentioned by Sakchutchawan (2009). This is because the operational process of letter of credit presents potential discrepancy risks in producing the required documents.

Goode (2005) postulates that the applicant, who is always the importer that buys the goods, is responsible for arranging the letter of credit, by requesting the issuing bank to make an irrevocable promise of payment obligation in favour of the beneficiary, who exports the merchandise from a different county. The words 'applicant' and 'beneficiary' are being used more often by bankers in connection with letter of credit contracts. Usually, the letter of credit is issued through the advising bank located in the exporter's country, which serves as a corresponding bank and pays the exporter for the goods shipped, based on documentary conditions (Harfield, 1978; Barski, 1995; David 1997; Lipton, 1998). Basically, the document submitted to the bank includes commercial invoices, bill of lading, insurance policy, parking lists, certificate of quantity, certificate of quality, weight certificate and any other documents required in the credit. It is important to note that it is the documents that form the basis of the letter of credit transaction, and any discrepancy in the documents would be considered as a breach of condition (Buckley, 1994; Chung, 1995). This may cause a delay in payment or, in the worse case scenario; result in a risk of non-payment. This may be the reason why the exporter may have required a strategic approach to the documentary operations management, which would be responsible for improving documentary compliance. The four parties – the importer, issuing bank, advising bank and exporter, remain principal actors in the letter of credit transaction (Hotchkiss, 1991; Connerty, 1999; Gamble, 2001). Figure 2.2 provides a diagram of a simple letter of credit process.

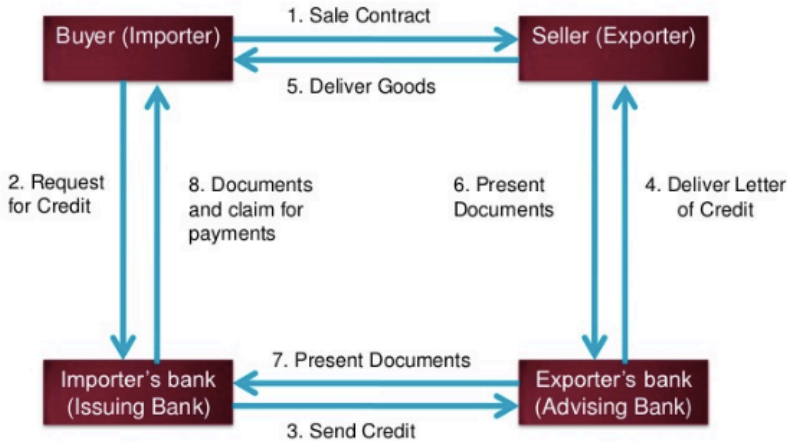

Figure 2.1: The Process of Letter of Credit

Source: Rastogi (2012)

Although the letter of credit has been regarded as the most popular and frequent financial instrument widely used as a payment device in a variety of international commercial transactions (Deak, 1980; Islam, 2008), its operational difficulties make it unpopular among trading partners. This is probably because of its discrepancy problems in the operations (International Chamber of Commerce, 2008). Despite these problematic issues associated with the letter of credit operational processes, scholars such as Gao (2010) and Ahn (2011) still argue that it is as an important financial instrument developed to reconcile the economic interests of both the importers and the exporters as it minimises risks as well as ensures certainty in the payment contract when compared with other payment instruments such as open account and documentary collection. This may be the reason why Kerr J., the English Judge who presided over the case of National Westminster v Royal Bank of Scotland described the letters of credit is "life-blood of international commerce" in the case of National Westminster v Royal Bank of Scotland (Biswas, 2011 p. 2).

Deak (1980) revealed that the notion of letter of credit is universally accepted in the banking industry. According to Deak (1980), bankers often interpret letters of credit in two forms; 'import letter of credit' from the buyer's side, or 'export letter of credit' when dealing with

the exporter. Basically, there is no difference between the two credits, the only variation depends on who handles their processes. This thesis is built upon the export letter of credit. The justification for this is in line with the objective of the research that relates to the Nigerian crude oil export. Although the letter of credit remains the preferred means of payment which provides good protection, especially in crude oil transactions, it does not insulate the exporter from environmental, operational and process risks, as well as disagreements and non-compliance arising from contractual relationship (Yan & Xiao, 2013). Consequently, the documentary processing becomes the most challenging issue when dealing with export letter of credit transactions.

2.3. Types of Letter of Credit

There are different types of standard and specialised letters of credit. Each of them contains a variety of features, designed to meet the desired need of importers, exporters or banks (Hinkelman, 2012). In practice, there are two major forms of specialised letters of credit 'commercial letter of credit' and 'standby letter of credit' (Wunnicke & Turner, 2000). With regard to their distinctive differences, the commercial letter of credit is used as a payment mechanism by the importers for purchase purposes (Bryne, 2006). On the other hand, standby letter of credit is used as a guarantee of payment by a bank on behalf of their client (Hinkelman, 2012).

2.3.1. Commercial letter of credit

The commercial letter of credit requests bank to undertake payment to the exporters upon the presentation of specified documents (Luk, 2011). This type of letter of credit is commonly used by export organisations. However, the process risk of these specified documents remain with the exporter, until they are accepted by the bank. A commercial letter of credit is adopted as a payment method with the positive expectation that the obligations of the importer and exporter will be performed (Harry and Gerald, 2000; Wunnicke & Turner, 2000). Specialised credits have been codified by standard international principles - the Uniform Customs and Practice for documentary credit. This thesis intends to focus on the

commercial letter of credit, as it is the payment mechanism that involves documentary processing adopted by Nigeria in its crude oil exports (Sayne et. al. 2015).

2.3.2. Standby letter of credit

In a standby letter of credit, the issuing bank is merely obliged to pay the beneficiary only in the event of non-performance of the applicant in the contract. In essence, a standby letter of credit is only applied as a backup payment method if the primary method fails; that is payment at the last resort (Luk, 2011). Typically, the standby letter of credit is used in the loan repayment agreement or securing payment for contracts, goods or services by third party (Wunnicke and Turner, 2000). A standby letter of credit anticipates the possibility that a degree of negative event will occur; that the applicant may default in performing contractual or payment obligations. The International Chamber of Commerce produced the International Standby Practice (ISP98) as a set of rules outlining the right and obligations of parties under standby letter of credit (Gao, 2010; Hinkelman, 2012). Other forms of specialised credits include red clause credit, revolving credit transferable credit, and back-to-back credit (Luk, 2011). Additionally, the major difference in these types of letters of credit depends on the purpose of issuing the credit.

2.3.3. Red clause credit

The red clause credit contains a special clause prepared by the issuing bank at the request of the applicant authorising or confirming the bank to act as the advancing bank, to provide advance payment to the exporter before submitting required documents. This can be seen as pre-shipping finance to the exporter (Hinkelman, 2012).

2.3.4. Revolving credit

In revolving credit, the contract specifies the number of credits to be renewed, or topped up automatically after the first uses, without consulting the applicant for credit renewal every time (De Ly, 1999). Revolving credit can be used numerous times over a long period of time.

If the importer and exporter engage in exchanging the same goods regularly and are considering to do so in the future, they may agree to use revolving letter of credit instead of issuing new credit over and over again (De Ly, 1999; Harry and Gerald, 2000).

2.3.5. Transferable credit

Transferable credit allows partial or whole transfer from the original letter of credit to one or more second beneficiaries. However, transferring credit to the second beneficiary can only be done once (Luk, 2011). A transferable credit includes a transferable provision in the beginning. The exporter often requires this type of letter of credit before proceeding with contract while the importer must partner with a bank for transferable credit approval.

2.3.6. Back-to-back credit

Back-to-back credit is usually arranged when the beneficiary cannot meet customer order due to financial difficulties. In this instance, the bank issues a second credit to another party who would then supply goods (Luk, 2011). The standard types of letters of credit are categorised as either revocable and irrevocable credit or confirmed and unconfirmed. The variation of their functions depends largely on the exporter's decision to insist on the chosen type as a part letter of credit agreement. Thus, to avoid risks, exporters often choose the type of credit that offers extreme value and security.

2.3.7. Revocable Credit and Irrevocable Credit

The revocable credit is the least desirable letter of credit category that exposes the exporter to the risk, where the payment security is surrendered. This is because it permits the importer to amend credit terms and conditions, or even cancel, without notifying the exporter (Niepmann & Schmidt-Eisenlohr, 2017). Consequently, there is a tendency that the importer may reject the goods upon their arrival. According to Briggs (1994) it may sound prejudicial when the applicant instructs the issuing bank to change or cancels the initial letter of credit.

After receiving notice of cancelation, the issuing bank is no longer permitted to act, because the importer's action terminates all binding agreements for the bank to make payment (Whitehead, 1983). Antras & Foley (2015) argued that this approach is allegedly allowing fraudsters to abuse the letter of credit. Moreover, because it lacks payment reliance, exporters nowadays rarely use it (Biswas, 2011). Moschouri-Tokmakidou (1996) postulates that such a revocable credit gives no protection to a vendor and is a very unsatisfactory method of finance. Therefore, it has been largely replaced by the irrevocable credit.

Under the irrevocable credit, terms agreed upon cannot be cancelled or changed without the consent of the beneficiary (Obayemi et. al. 2015). Many scholars such as Bartholomew (1958) and Bergami (2011) believe that exporters employ irrevocable credit for fear that the buyer may cease to be credit-worthy. According to Deak (1980), with an irrevocable undertaking to pay the exporter, the issuing bank has no right to revoke the letter of credit. This is more favourable to the exporter.

According to Moschour-Tokmakidou (1996), the position of revocable and irrevocable credits was first noticed in Uniform Customs of 1933, and later in all subsequent revisions. Article 6 of the UCP 500 of 1994 for example, states that "the Credit, therefore, should clearly indicate whether it is revocable or irrevocable…in the absence of such indication the Credit shall be deemed to be irrevocable" (Gillies & Moens, 1998 p. 422). This amendment was seen as a security improvement compared with UCP 400 of 1983, which states that "unless there was an indication of irrevocability a credit was assumed to be revocable" (Briggs, 1994). However, in the latest modification, the revocable credit "was specifically removed by the UCP 600" (Bergami, 2011 p.86). This may be due to its idle nature and an effort by ICC in minimising the risk.

2.3.8. Unconfirmed Credit and Confirmed Credit

In the usual process of letters of credit, the issuing bank undertakes obligation and assumes the importer's risk; this arrangement is regarded as 'unconfirmed letter of credit' (Dalhuisen,

2013). In this process, the transaction does not involve a payment obligation by the advising bank, which stands as a corresponding bank in wiring the payment to the exporter (Obayemi et al. 2015). However, there are circumstances where the issuing bank may be considered an unacceptable environmental risk, or where the issuing country has high political or economic uncertainty (Petersen & Rajan, 1997). In this regard, the exporting firm is exposed to a wider non-payment risk, this is because the advising bank has no personal agreement to provide the exporter with funds, while the bank that pays is located in another country (Obayemi et. al. 2015).

Furthermore, considering the risk factor of unconfirmed credit, exporters may seek an additional payment guarantee of 'confirmed letter of credit' from another bank, called the confirming bank, situated in their countries (Dalhuisen, 2013). Certainly, whenever this bank makes a confirmation decision, it means the obligation to honour the beneficiary's claim under the letter of credit contract becomes binding (Niepmann & Schmidt-Eisenlohr, 2017). To this extent, the exporter minimises payment risk by substituting default risks of both the customer and the issuing banks with the confirming bank. Furthermore, the exporter's payment would be available in its country provided documents presented are free from discrepancies (Auboin, 2010; Hummels & Schaur, 2013).

Another good reason for requesting confirmed credit is the exporter's fear that political or state risks, caused by changes in government policies, wars or revolution, may affect the transaction (Karl, 2004). Thus, goods shipped may be exposed to expropriation, confiscated, damaged or destroyed. In such a case, the importer wants to perform their obligation, but because of the political and economic realities, it is impossible to act. This may cause non-payment in the transaction (Moschouri-Tokmakidou 1996; Antras & Foley, 2015).

2.4. The Legal Source of Letter of Credit

Several legal attempts were made from time to time to standardise the conditions on which importers, exporters and bankers would be willing to issue and act on commercial letters of

credit (Obayemi et. al. 2015). Generally, the intervention of the International Chamber of Commerce (ICC), which established the 'Uniform Customs and Practice (UCP) for Documentary Credit' (UCP 600) as the underlying principle, is regarded as the legal regime that transforms the status of letters of credit across the globe (Bergami, 2011). The UCP document contains sets of codified rules that govern the application of letter of credit transactions adhered to by financial institutions (Grassi, 1995). The purpose of UCP is to "facilitate trade, increase efficiency and decrease cost of international transactions by promoting standardization of international banking and commerce practices and procedure" (Youssef, 1998, p. 2). Apart from UCP, many other uniform rules have been issued by the ICC such as Uniform Rules for Contract Guarantees (URCG), Uniform Rule for Demand Guarantees (URDG), International Standby Practices (ISP98), the United Nations Convention on Independent Guarantees and Stand-by Letters of Credit (Gao, 2010 p. 64)

Various opinions have been expressed regarding UCP. Bergami (2006) views it as the most successful harmonisation and unification of law that ever achieved global recognition and acceptance in the history of international commerce. It is "a compilation of internationally accepted banking customs and practice…incorporated into every letter of credit" (Gao, 2010). Before the emergence of UCP, the law regarding letters of credit was uncertain and confusing.

In view of the increasing importance of letters of credit around the world, the 'Uniform Regulations for Commercial Documentary Credit' was introduced in 1929 as a law backing for international trade (Moschouri, 1995). Nevertheless, this regulation failed to gain global acceptance because its provisions were only limited to banking practice in France and Belgium (Bergami, 2007). The world business players then further stimulated the need for legal development. Thus, the pioneering effort to achieve this uniformity was made by the ICC in 1933 (Moschouri-Tokmakidou, 1996), which came up with new rules, Uniform Customs and Practice (UCP) for Commercial Documentary Credit. The statement on UCP was formulated in its 7th congress in Vienna, Austria. It was the first the internationally accepted

rules and practices for letter of credit at that date (Moschouri, 1995). This version was only formally recognised by bankers in a few countries across Europe and America. The United Kingdom and many of the Commonwealth countries have rejected the development (Gao, 2010).

Subsequent revisions have been embarked upon in 1951 and 1962. Since then the rules have been regularly revised to make it uniform and globally acceptable, for example, the 1974 Uniform Rules revised, the UCP 400 of 1983 as well as the UCP 500 revised (Moschouri-Tokmakidou, 1996; Bergami, 2007). It is important to note that the widespread adoption of UCP in international trade and banking practice was an important factor for the revisions (Manganaro, 2011). Consequently, various problems attributed to the UCP 500 have been debated, which significantly pose risks to the use of letters of credit. For instance, the poor performance of UCP 500 is linked to the growing number of documentary discrepancies, which threatened exporters' payment security (Kazmierczyk, 2006).

The discrepancy problems can be seen as the major reason behind the ICC's decision to come up with new rules, which are commonly referred to as the UCP 600, and came into effect on 1st July 2007 International Chamber of Commerce, 2006). The UCP 600 contained 39 articles which provide comprehensive and practical working aid to importers and exports, bankers, transport executive, academicians and other stockholders involve in letter of credit transaction. Prior to the release of UCP 600, documentary rejection by banks had become one of the most important issues (Kazmierczyk, 2006). An analysis by Manganaro (2011) shows that UCP 600 takes two major issues into account. Firstly, it incorporates modern developments in banking, insurance and transportation, and secondly, it reviews the wording of UCP 500 to avoid differing interpretations and application. Perhaps, this could be the reason why the revision has been labelled the as the most comprehensive in the history of rules (International Chamber of Commerce, 2006). The ICC has shortened the number of articles from 49 in UCP 500 to 38 in UCP 600, but these changes appear to be cosmetic.

The question that still remains unresolved is how to address the legal backing of UCP in the global trade industry. For instance, Yan & Xiao (2013) argued that UCP is not so much a common law as an international trade custom. Continuing with this argument, Karl (2014 p. 14) stated that "it is still today questionable if the whole or some rules of UCP are trade customs, but some changes of the UCP and the domination of the intentions of the parties contradicts".

There are several debates regarding the legal application of UCP. In his study, Grassi (1995) maintained that the UCP principles are not a complete and general set of letter of credit regulations, rather, they are only rules of trade conduct, and they do not have the character of law, but their worldwide application is recognised although, and seem to have such character. Also, according to Gao (2010) "both content and interpretation of the ICC uniform rules are influenced by the fact that their function is to serve as rules of best banking practice, not rules of law." Gao (2010) further argues that the scope of UCP is only restricted in certain aspects and concentrates more on the relationship between the importer and exporter who trade under its provisions. Therefore, it can be concluded that the governing rules cannot respond to all risk questions that may arise in the of letter of credit operation, especially the procedure or complying nature of the documents.

In the developed countries, the letter of credit transaction has been scattered into different legal backings. Moschouri-Tokmakidou, (1996 p. 17) postulates that the legal nature of the letter of credit in English law "is undoubtedly based on the principles of contract law". The basic rule is that contracts must contain mutual promises or obligations that need to be enforced. With regard to English law, Biswas (2011) believed that the letter of credit seems to be established from the concept of bilateral contract theory. Under English law, by issuing the letter of credit, the bank makes a unilateral promise to the beneficiary to pay or accept bills of exchange drawn. According to this theory, the contract is "between the banker and the buyer, where the benefit or interest of the contract is, simultaneously, assigned by the buyer to the seller with immediate notice to the bank" (Biswas, 2011 p.14).

Grassi (1995) revealed that the United States was the only country to come up with enabling and extensive legislation on letter of credit, with a particular independent regulation different from traditional contract law. These provisions can be found in Article 5 of the Uniform Commercial Code (UCC) of the United States and the case laws of the state and federal courts (Karl, 2004). Such regulations attempt to match with risk management structure over commodity trading between countries. Although they are widely varied in legal provisions, they have some certain basic characteristics.

In other developed countries, such as Germany, Switzerland and Greece, letters of credit have not been explicitly regulated (Grassi, 1995). From the very beginning, most of the developed countries did not see it necessary to provide regulations because of the development in the financial sector and the dominant position of banks in the economy (Karl, 2004; Manganaro, 2011). Instead, these countries provided some modifications and combination of special forms of business contracts that are already regulated by commercial codes. In this spirit, relevant rules, regulations and laws were put in place to shape letter of credit transactions (Karl, 2004).

Nigeria, like many other developing countries, does not have specific laws that govern letter of credit. Consequently, the law of contract, common law and precedent cases are relied upon for legal matters. It should be noted, however, that transactions are limited to English law, because it is from this that Nigeria derives its legal system. Under the legal basis of letter of credit, UCP is nowadays regarded as the prevailing theory in many countries, both developed and developing (Biswas, 2011). It has been universally accepted that the Uniform Customs express, at least in part, international commercial customs. In that case, if they do not conflict with the rules of the national law of the country, are applied as part of a contract involving the issue of a letter of credit, even if the parties are unaware of the contents of the Uniform Customs (Moschouri-Tokmakidou, 1996). It is evidently clear that UCP rules are not

laws which are enacted by legislation, but its provisions are binding rules applied to trade parties, importers, exporters and banks, who have adopted them, just as the case of Nigeria.

Although the legal principles in these countries may have similar elements to letter of credit characteristics, the provisions themselves become insufficient to regulate it. For instance, it is hard to evaluate the legal situation of the overseas party if the contracts are ruled by foreign law as "matching payment with physical delivery is not always possible" (Karl, 2004 p.12). Thus, it is difficult to file a legal case in another country against customer who defaults payment. This is simply because of the foreign law and its process, foreign language, and the fact that this may require the exporter to seek the involvement of a foreign solicitor (Grassi, 1995).

2.5. Environmental Risk in Letter of Credit Operation

Many studies argued that the concept of the letter of credit was developed for international trade transaction purposes (Gao, 2010). Ideally, it is used in foreign business transactions between a buyer in the importing country, and an exporter located in the exporting country to protect the exporter against foreign customer risk. As Ahn (2011, p. 6) puts it, the notion of trade finance shows that "a letter of credit can be used only for international transactions." The reason is that, their operations have become dominant for financing overseas trade for a long-time (Moschouri-Tokmakidou, 1996). However, Deak (1980) argued that although letters of credit have not been much used in domestic transactions, their concept is not exclusively for import and export risk mechanism.

Many scholars such Briggs (1994) and Ahn (2011) have argued that the letter of credit does not always guarantee safe payment. According to them, there are environmental risks that are always associated with the letter of credit transactions. These risks can be classified into three groups: customer risk, bank risk and country risk. These are discussed below.

2.5.1. Customer risk

According to Briggs (1994), customer risk is a familiar concept to the export organisations that require them to investigate the ability of customers to perform their contractual obligation in the letter of credit transaction. Consequently, the country risk can be measured by analysing the country's balance of payment in order to determine the financial position economic health of the importing country. This information can be found from a number of sources such as OEDC, World Bank and IMF (Bergami, 2011). However, several researches such as Moschouri-Tokmakidou (1996) Karl (2004) argued that there is clear evidence on significance of the customer risk in the letter of credit operation. For example, with a letter of credit, the exporter is exposed with the importer's credit risk, "possibility that a loss may occur from the failure of another party to perform according to the terms of a contract" (Mooney & Blodgett, 1995 p. 178).

2.5.2. Bank risk

Schmidt-Eisenlohr (2013) noted that some issuing banks are not standard enough to issue letters of credit, considering their nature and financial positions. They are more domestically oriented or operating with few branches. Therefore, exporters can only minimise risks by obtaining letters of credit from reputable banks that are unlikely to fail in their obligations (Hummels & Schaur, 2013). According to Youssef (1998), banks have different financial ability and market strength. In essence, a letter of credit issued by a reputable bank is likely to provide more payment guarantee. It is therefore important for the exporter to set criteria for assessing a bank to trade with. This involve habit of rejecting documents, history of payment delay and domicile in politically volatile country that may affect foreign exchange (Yan & Xiao, 2013).

2.5.3. Country risk

Some scholars such as Grassi (1995) and Luk (2011) argued that even with irrevocable credit, the exporter is exposed to the country risk. It is believed that many elements might have changed after issuing and advising the letter of credit, such as a change in the political situation in the importing country, or a change of commodity price. It may also likely affect the importer's ability to pay, as a result of unexpected economic or political circumstances (Beck, 2002). For example, during the Suez Canal crisis in the 1950s, many British exporters holding letters of credit from the first class banks in Egypt were refused payments by their advising banks in the United Kingdom, despite receiving irrevocable letters of credit (Briggs, 1994). The prime reason for the non-payment was that their Egyptian counterparts did not reimburse the British banks (Moschouri-Tokmakidou, 1996). However, because the crisis had weakened the relationship between the two countries, these exporters had to wait until the political dispute was over.

Evidence from the literature suggests that the main objective of the letter of credit is to provide payment guarantee to the exporter. For example, Manganaro (2011) mentioned that it is ordinarily issued because the exporter demands it as a condition of sale. This means that documentary compliance is an essential task for the exporter. This is linked to the exporter's desire to minimise customer risk, rather than relying on the buyer's promises to pay (Wilner, 2000), particularly when trading parties are dealing with each other for the first time (Mann 1996). However, the intervention of the bank makes it contractually possible to match the payment with the quality of documents submitted which would otherwise be difficult.

Olsen (2010) argued that customer risk can be minimized through confirmed letter of credit. In other words the exporter does not have to depend on the willingness or reliability of the foreign buyer to make payment (Wilner, 2000). However, this assertion is counter-argued by Hummels & Schaur (2013) who said that the customer risk can be extended to the bank

risk for possible default from the banks that have high default rate of short-term loan. Therefore, it is essential for the exporter to perform independent inquiry on foreign customer. This can be done by requesting opinion and information on customer ability and moral character before the contract negotiation (Hao and Xiao, 2013).

2.6. Other Risk Areas in International Trade

Export and import in international trade involves buying and selling of goods and services from one country to another. With the increase in trade opportunities globally, the associated risk of international trade has also increased (Briggs, 1994; Ahn, 2011). The trade parties – importer and exporter are separated not only by distance, but by certain rules, regulations and policies that could make it difficult for the contract to be enforced successfully. Many companies have become bankrupt for failing to understand the nature of international trade risks (Chorafas, 2001). However, there are a number of risks associated with trade such as war risk, loss of goods and insolvency of the shipping company. Therefore, the key to successful international trade is to understand the nature of the associate risk and the risk management strategies in dealing with them (Yan & Xiao, 2013). Although the credit risk and political risk regarding customer and country risks have been discussed in the previous section, other important risk factors including, transportation risk, foreign exchange risk and fraud risk are explained below.

2.6.1. Transportation Risk

International trade is invariably riskier than domestic trade (Chorafas, 2001). About 80 percent of the goods are transported by sea. This may be due to radical improvement of the cargo transportation over the years (D'Arcy, 1999). The major factor to the transportation of goods are people, vessels and finance (Duffie & Singleton, 2012; Cenedese et al. 2014). Some of the transportation risks are related to leakage, fire, collisions, piracy and storms. These risks could present unusual delay in delivering of goods or possible loss of cargo in

transit (D'arcy & France, 1992). Also, terrorism activities or natural disasters may likely affect logistics and movement of exported goods. This unexpected occurrence may increase the transportation cost at the expense of exporter (Westerfield, 1977).

The exporter and importer may agree in the beginning of the contract on who would bear the transportation and freight charges and insurance charges. They must understand all aspects of contract of carriage including the rights and responsibilities of each party before the goods are shipped (Duffie & Singleton, 2012). This can be done by choosing Incoterm. It is important also for the exporter to ensure that *force majeure* clause is included when negotiating the contract. A force majeure clause is a provision in a contract that gives parties relieves from performing their contractual obligations in the event of unforeseeable circumstances (D'Arcy, 1999; Zhang, 2012). Marine insurance or cargo insurance plays an important role in managing transportation and export risks (Embrechts & Straumann, 2002). It provides protection for both importer and exporter by safeguarding goods in transit against physical damage. Cargo insurance can be used in all of the three transportation methods; land, air and sea.

2.6.2. Foreign Exchange Risk

Foreign exchange risk is a risk in international trade that arises as a result of price fluctuation of one currency against another. As currency is the medium of exchange in all international trade transactions, the fluctuations of currency continue to attract the attention of not only trade partners, but also bankers, manufacturers, speculators and governments (Dumas & Solnik, 1995). In the contract between the importers and exporters, the price of the goods and currency negotiation is done using a reasonable exchange rate. Some currencies are affected by economic changes or event such increase in interest rate or inflation. This may consequently affect the initial contract price which would be unfavourable to either exporter or importer. When the currency of the importing country appreciates, the competitive strength of the exporter would considerably increase (Westerfield, 1977; Cenedese et al.

2014). Moreover, when the currency of exporting country depreciates, the exporter competitive capacity to sell more would be enhanced. This requires a company to adopt an effective strategy in dealing with foreign exchange risk.

The foreign exchange market is one of the largest markets in the world, with trade value of $3 trillion (USD) daily. The high volume of global foreign exchange transaction leaves importers and exporters with no control that can lead to the profit or loss in the transaction (Brown, 2001). To avoid foreign exchange risk, currency hedging technique can be adopted during international trade transaction (Dufey & Srinivasulu, 1983). Currency hedging helps traders to fix the price at a particular amount of a currency or commodity but to be delivered on a fixed date in the future. This method is widely adopted by businesses to reduce the foreign exchange rate risk exposure (Cenedese et al. 2014).

2.6.3. Fraud Risk

International trade faces a growing threat of financial crime. Fraud is a deceit for financial gain that affects many importers and exporters alike. The most common fraud risks are theft of business identity or goods and advance fee fraud (Cramer, 2012). Although the letter of credit is an important financial instrument that protects the exporter against some risk, it does not eliminate the risk of fraud. Fraudsters use letter of credit to provide false information to inexperienced traders (Hassan et al. 2016). The banks assume no responsibility or liability for the falsification or legal effect of the documents, nor does it assumes responsibility or liability for quality, quantity, condition, value or existence of the goods (Cramer, 2012). Although forged documents are in circulation, it is obvious to detect a dud more often than not by the experienced trade service officer.

Due diligence can help in thoroughly investigating all relevant financial records and business history prior to the agreement between potential business partners. This technique is seen as the best way to prevent fraud risk against civil tort, financial loss, diminution of reputation

and bankruptcy (Zhang, 2012). There are countries that are famous for harbouring fraudsters. Therefore, caution must be taken when dealing with suspicious transaction especially when the amount is larger than the norm (Dumas & Solnik, 1995). It is important for all parties to familiarise themselves with potentials of fraud that might put them in danger.

2.7. Letter of Credit Operation Mechanism

It is important to provide explanation of the standard practice of export letters of credit, with the role performed by each of the four parties – applicants, issuing banks, advising banks and beneficiaries. It is important to note that these four parties can be called by different names in the transaction. The names used depend on who is speaking them. The bankers like to use the names – applicant, beneficiary, issuing bank and advising bank, while business people prefer to use the names importer, exporter, importer's bank and exporter's bank (Hinkelman, 2012).

The letter of credit clause usually requires documentary operations after opening an irrevocable letter of credit. Accordingly, it requires each party to undertake a contract obligation where 'acceptance' stands as the general rule of communication between the partners (Biswas, 2011). Hence, the decision to use a letter of credit in foreign trade requires an underlying mechanism (Baker, 2000). However, Hinkelman (2012) argues that there is an ambiguity in explaining the operating structure of this mechanism. For example, several studies agreed that the simple letter of credit transaction involves only three parties, applicant, beneficiary and issuing bank (Gao, 2010 and Biswas, 2011), with three relationships, the sales contract between the importer and exporter, the application agreement between the buyer and his bank, and the letter of credit contract between the seller and the bank.

In response to the above-mentioned studies, Bergami (2011p.87) argued that the example of letter of credit process given by these authors is out-dated, and they do not seem to be fair as they are erroneously referring to the pre-UCP 500/600 versions. Bergami (2011) regarded such publications as "factually incorrect information provided by experts". This is because the concept ignores the functions of advising and confirming banks in the transaction. Therefore, the strongest proposition which is applicable to the crude oil trade is one given by Bergami (2006) who emphasised that the contracts are categorised in to five. Examples of possible contracts are given in Figure 3.2 below.

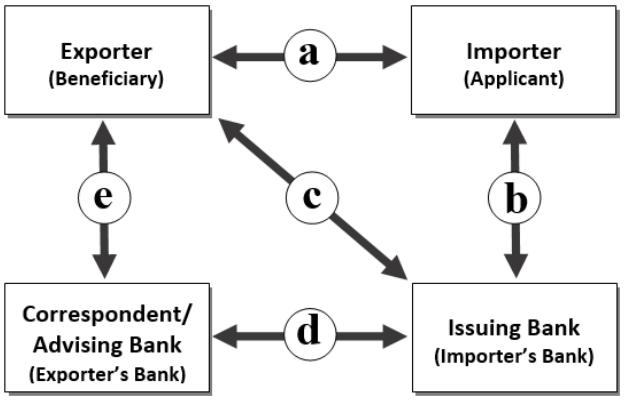

Figure 2.2: The Contractual Agreement of Letter of Credit Transaction

Source: Bergami (2011)

The relationships that exist in the letter of credit transaction is divided into five as shown in Figure 2.2. Firstly, the underlying sales contract between the importer and the exporter. Secondly, the credit issuance and reimbursement agreement exists between applicant (importer) and the issuing bank. Thirdly, the letter of credit contract agreement between the issuing bank and beneficiary (exporter). Fourthly, the payment agreements between the issuing bank and advising bank. This relationship is only applicable if the credit unconfirmed,

otherwise confirming bank will substitutes advising bank. And fifthly, the credit advice and payment commitments between confirming bank and beneficiary.

There are also a number of contracts that needs to be executed before the letter of credit becomes effective. However, any "contracts arising out of the establishment of the letter of credit should not include subsequent performance contracts required to satisfy the terms of the Letter of Credit" (Bergami, 2011 p.87). These contracts, such as insurance and bill of lading, are regarded as separate arrangements but necessary in any given letter of credit (Beck, 2002). The letter of credit has a sequence of events that demonstrates the operational structure and specifies the obligations for each party, these are divided into six stages (Karl, 2004).

2.7.1. Establishment of Sales Contract

The essential part of every letter of credit is the sales contract between the buyer and the seller. This contract is seen as the fundamental point that triggers the other contracts. In fact, "without this underlying contract, the other contract will not arise" (Obayemi et. al. 2015 p. 57). The sales contract is considered as one contract that holds a certain degree of importance and creates the need for a letter of credit for the benefit of the exporter. More specifically, the importer and exporter agree to establish contract for the sales of goods at a certain price, where the mode of payment would be a documentary letter of credit (Schwenzer, Hachem & Kee, 2012).

Some scholars claim that the sales contract between the importer and exporter is the main source of discrepancy. For instance, Kula et al. (2015) provides a statistical analysis that exporters experience difficulties in performing the contractual sales requirement, which positively translates to the discrepant documents. Kula et al., (2015) investigated the export letter of credit discrepancy rate in listed companies in the Istanbul Chamber of Companies, and revealed that the typical factor that contributes to documentary discrepancies appears to be the clauses in the sales contract.

One of the most fundamental considerations in any international sales contract is the delivery of cargo agreement between the exporter and importer. This can be achieved by using International Commerce Terms (Incoterms). According to Youssef (1998), Incoterms was first published by the ICC in 1936, and it contains a "set of rules specifying contract obligations and assigning the responsibilities of buyers and sellers involved in international trade." The Incoterms are in synchronisation with the Vienna Convention, the UN law on contract covering the international sales of goods. Since Incoterms are not laws, they must be written into a sales contract.

It should be noted that Incoterms are flexible, and can be further defined to suit the mutual interests of the buyer and seller (Youssef, 1998), Since the first issue of the Incoterm, the terms have been regularly updated. The most recent update was released in 2010 with eleven (11) standard foreign sales terms (Briggs, 1994). Moreover, both importers and exporters have recognised Incoterms as uniform sales terms, as well as legal terminologies for letter of credit transactions, certainly because they provide clear explanations on trade relationships (Honnold, 2009; Ramberg, 2011).

Generally, ten incoterms which, simply given in acronyms, are categorised into four groups: E (for 'Ex-works'), Group F (for 'Free'), Group C (for 'Cost') and Group D (for 'Delivery'). Each of the group specifies different rights, duties, responsibilities and obligations on who does what and who pays for what. This implies that the chosen Incoterm determines the level of activities the exporter would engage with in the letter of credit documentary operations. In other words, the higher the documentary requirements, the more likely the discrepancy risks. It should be noted that they are not an international convention (Bergami, 2006), but they have been widely and rapidly accepted by trading partners around the world. Below are the classes of the incoterms explained in four groups.

2.7.1.1. Group E (EX-Works): Departure Term

This group has a single term; EX-Works (EXW), which requires minimum responsibility in the export letter of credit side. The exporter is only required to produce, pack and make the goods available at a specific place, usually his premises (Malfliet, 2011). This is considered to be the favourite term for exporters because it does not oblige them to take part in external documentary processes, such as customs clearance, contract of carriage or insurance Coetzee (2010). Therefore, documentary requirements under this term are minimal. Thus, the exporter eliminates the documentary discrepancy under this trade term.

2.7.1.2. Group F (Free): Main Carriage Unpaid

There are three terms in this group; Free Carrier (FCA), Free Alongside Ship (FAS) and Free on Board (FOB). The letter of credit that is built on any of these terms requires the exporter to make the goods available to the carrier for shipment (Youssef, 1998). Although the exporter would prepare the goods for export, the importer bears the transportation and insurance costs, and assumes all associated risks (Honnold, 2009. The FOB term is likely to present discrepancy risks to the exporter, as all shipping documentation will be required except for the insurance or policy (Magnus & Piltz, 2016). In many cases, the exporter does not participate in some pre-export documentation, such as customs clearance. Therefore, the exporter reduces the burden of documentary and operational processes in the letter of credit, minimising the level of complexity in the operations (Luk, 2011).

2.7.1.3. Group C (Cost): Main Carriage Paid

This is the shipping contract where the exporter bears the main costs of goods carriage. This group involves Cost and Freight (CFR), Cost, Insurance and Freight (CIF), Carriage Paid To (CPT) and Carriage and Insurance Paid To (CIP). It is the exporter's obligation to establish a contract for transportation of the cargo. Additionally, the exporter must arrange an

insurance policy for the goods carriage in CIF and CIP terms, with an assumption that the insurance cost is paid by the buyer (Aragonés, 2015). However, the exporter would not be responsible for risks related to loss or damage while shipping. The CIF is seen as the most popular term with quite onerous obligations, which requires many documentary processes (Bergami, 2006).

2.7.1.4. Group D (Delivery): Arrival Terms

There are three terms in this group – Delivery At Terminal (DAT), Delivery At Place (DAP) and Delivery Duty Paid (DDP). In either of these terms, the exporter will be responsible for all transportation costs and also bears risk in the course of shipping the goods to the countries of destination. This group is regarded as the maximum obligation for the seller. This term exposes the exporter to a high degree of discrepancy risk (Luk, 2011). This is because the entire documentary and other operations lie with the exporter.

The above-mentioned Incoterms assign responsibilities and operations and actions to be taken by the importer or exporter. This depends on who is responsible for arranging local transport in the exporting country, payment of export customs clearance, cargo shipment, import clearance and domestic delivery in the country of import (Malfliet, 2011). It is also important to note that incoterms provide information not only on the division of transportation cost, but also who is responsible for providing the required documents, such as bill of lading, certificate of insurance, proof of delivery and certificate of inspection (Dugan & Talmaciu 2012). The responsibility to produce complying documents for payment is quite challenging, especially when parties agreed on terms in Groups C and D (Hein et. al. 2009).

The rules governing letters of credit, however, thoroughly separate the sales contract from the letter of credit contract. Specifically, the ‘principle of independent’ clause in Article 13 of UCP specifies that the performance contract of sale is only applicable to buyers and sellers, but not the banks (International Chamber of Commerce, 2006). With regards to the

Nigerian crude oil export, the sale contract can be traced to two important parts. The first part of the contract contains the agreement for sale and purchase of the Nigerian crude oil, which is signed by the NNPC on behalf of the Nigerian government and the companies that won the lifting bidding. These documents specified underlying areas covering 21 Articles agreed by the contracting parties (Chung & Lee, 2013). This covers matters such as rights and obligations, payment using letter of credit, payment terms and currency, as well as the duration of the contract. The second part is the general conditions for the sale and purchase of Nigerian crude oil. This document provides detailed and comprehensive information on terms and conditions regarding crude oil trade. Therefore, a letter of credit is expected by both parties to explicitly perform their obligation in this contract.

2.7.2. Letter of Credit Application and Agreement

The importer logs the letter of credit application and agreement form in the initial stage, instructing the issuing bank to issue the credit in favour of the exporter. This relationship is primarily established through a contract between the issuing bank and its customer (Mugasha, 2003). In this regard, the main obligation of the issuing bank is to open the credit in accordance with the buyer's instructions. On the other hand, "the applicant's main obligation to the issuing bank is to reimburse the bank and keep it indemnified in aspect of the amounts paid out due to the bank's establishment of the letter of credit or bank guarantee" (Mugasha, 2003 p.99). Hence, the instructions given in the credit mirror the agreements reached on the underlying sales contract between the importer and exporter.

One of the critical issues faced by the issuing bank in opening the credit is determining whether the contents of the application are consistent with national and international legal and banking requirements (ICC Banking Commission, 2005). Thus, as the application is received by the bank, information would be scrutinised in order to understand the status and credit risk of its customer. Mann (2000 p. 404) noted that "the issuing bank's ability to verify information about the purchaser and the transaction provides the most compelling

reason for widespread use of letter of credit." If the result is satisfactory, the issuing bank can establish an agreement to open a letter of credit in writing and have it signed by an authorised person (Hinkelman, 2012).

The emphasis of the agreement is that the opening letter of credit directly obliges the issuing bank towards an irrevocable commitment to payment, acceptance or negotiation against documents presented by the exporter, in accordance with the terms and conditions of the credit. Therefore, once a letter of credit is established, the importer has no right to cancel, amend or recall it unless agreed by both parties to the credit (Mugasha, 2003). The applicant is bound by the agreement which promises that the credit will remain in force and consideration until the specified date (Mann, 2000). This provision reflects Article 9a of UCP.

Luk (2011) revealed that the letter of credit application contains four main provisions. Firstly, the importer must agree with the terms and conditions of the letter of credit issued by the issuing bank. Secondly, the importer must agree in a specified manner to reimburse the bank the amount drawn in the letter of credit, together with specified commission. Thus, usually banks require their customer to pay back the amount one day before it becomes due, while the commission may be paid in advance. This explains the fixed cost for documentary handling, screening and monitoring which differ from one bank to another (Niepmann & Schmidt-Eisenlohr, 2017). Usually these fees vary from one bank to another, and depend on the country where the credit is issued. Thirdly, the importer must agree that the issuing bank will retain legal title of the goods as a backup security, until the money is reimbursed to the bank. This may be the reason why the issuing banks are named the consignee in the transaction, giving them power to sell and pledge the merchandise. Fourthly, the bank would not be held responsible for invalid documents and defects in quality or quantity of the goods shipped. This is because "the undertaking of the bank under credit is not subject to claim or defences by the applicant resulting from his relationship with the issuing bank or beneficiary" (Mugasha, 2003 p. 101). The key principle here is that the banks deal with documents only and are not concerned with the underlying transaction. Because a letter of

credit is a separate transaction from a sales contract under the principle of independence, the bank must not be called on to determine disputed questions of fact or law. This provision anticipate Article 3 of UCP (International Chamber of Commerce, 2006).

The success or failure of the letter of credit application relies upon the wording used in opening letter of credit. It is the responsibility of the importer to provide simple and clear instructions and concise details in a professional wording. When the applicant provides incomplete, ambiguous instructions, the issuing bank usually seeks for clarification. Where the issue is not addressed, the second choice for the bank is either to give a reasonable interpretation to unclear instructions, or refuse to follow the instructions (Mugasha, 2003). "Any error, omissions or delay in lodging the application with the bank may frustrate the timely supply of goods" (Bergami, 2011 p.146). This may also affect the documentary process on the exporter's side. It is also important for the importer to request the documents that reflect the credit agreement. The applicant should not request documents that the exporter cannot obtain or demand details in documents that are beyond the knowledge of the issuer (Hinkelman, 2012).

2.7.3. Issuance of the Letter of Credit

The letter of credit is issued by the issuing bank and addressed to the beneficiary through an established 'advising bank' which serves as a correspondent in the exporter's country (Hinkelman, 2012). Sometimes, the advising bank may be a branch of the issuing bank, operating in the exporter's country. In other cases, the exporter may request its bank to be the advising bank, or the importer may choose one of its corresponding banks in the exporter's country. Mugasha (2003) and Goode (2005) argued that the letter of credit must contain six provisions.

- It must state that the letter of credit is issued at the request of the importer as agreed in the sales contract.
- It authorises the exporter to draw the bill of exchange at sight or in the future date.
- State the documentary requirements in respect of shipping arrangements.
- The timeframe for the required documents to be presented to the bank.
- Agrees that all bona fide holders of the draft drawn are in compliance with terms of the letter of credit
- Contains an expression to the effect that the letter of credit is revocable or irrevocable. This is considered as the input of the export letter of credit, requiring the exporter to prepare against the necessary requirements in compliance with the letter of credit issued.

Furthermore, Mann (2000) argued that it is difficult to generalise a letter of credit, as each comes with its own features and requirements. For example, the UCP does not provide lists of particular documents to be presented. Generally, parties stipulate the provisions of documents in the credit negotiation process, and determine which documents are to be presented in the deal. Typically, the most common documentary requirements include the draft, commercial invoice, packing list, insurance certificate and bill of lading (Baker, 2000). Other forms of documents that often apply include certificate of origin, certificate of inspection, consular invoice, analysis certificate and certificate of weight. These additional documents are applied in order to maximise transaction security, but often expose the exporter to high risk by complicating the terms and conditions of the letter of credit, as “the more documents required, the higher the risk that a compliance problem will arise.” (Grassi, 1995 p. 97). Figure 2.3 illustrates the process of how the letter of credit is issued.

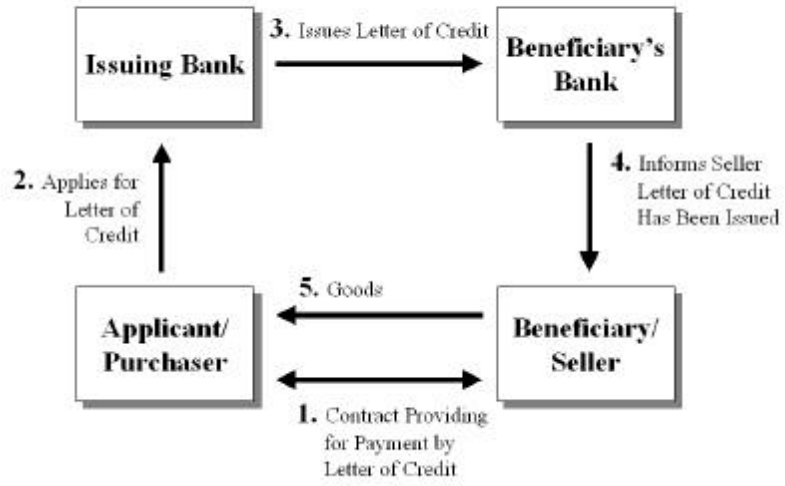

Figure 2.3: Issuing Letter of Credit

Source: Mann (2000)

Most letters of credit were, in earlier times, communicated from the issuing bank to the advising bank through mail, cable or telex. This issuing method was reflected in Article 4 of UCP 1974 revised. However, the cable, telegram or telex was later replaced by tele transmission in UCP 400 1983 (Kozolchyk, 1992). This inter-bank electronic messaging system has transformed the banking practice around the world. Evidence from the work of Kozolchyk (1992) shows that 75 percent of letter of credit issuance, advice, confirmation are sent electronically. Moreover, the establishment of the Society for Worldwide Interbank Financial Telecommunications (SWIFT) as banks' intermediary has dramatically changed the letter of credit issuing process. The SWIFT is the provider of the single most important communications platform for banks, to establish new facts on the world-wide use of letters of credit and documentary collections" (Niepmann and Schmidt-Eisenlohr, 2015).

SWIFT plays a significant role in providing a standard method of Electronic Data Interchange (EDI) for bank-to-bank communication. It offers uniformed and standardised elements that allocate messages, and allows possible communication between computers to exchange and process data without rekeying. Furthermore, many scholars believe that the exclusive security mechanism incorporated in SWIFT has provided an effective prevention of fraud

elements that may be likely to break through into the system. The SWIFT platform ensures messaging authentication, where the letter of credit sent by an issuing bank appears instantly and as the same received by advising bank. This letter of credit issuing process is characterised as an effective method in modern trade finance that removes the possibility of delay in transmission, interruption and fraud (Bergami, 2011).

2.7.4. Advising Letter of credit

It is the responsibility of the advising bank to examine the authentication of the origin of the credit, as well as the accompanying terms and conditions (Mugasha, 2003). This examination would determine whether the credit requirements are consistent with those of the sales contract before forwarding the credit to the exporter (Hinkelman, 2012). It can be noted that an advising letter of credit is the simplest role in the letter of credit process, and if the issuing bank did perform effectively, the advising bank could help the exporter in their internal processing. However, the advising bank has very little involvement (Bergami, 2011), by serving only as issuing bank's agent. The advising bank does not commit to be primarily or solely liable for the transaction, but rather than forward the issued credit to the exporter in accordance with Article 7 of the UCP (Maduegbuna, 1994; Obayemi et al. 2015). It lies upon the exporter to process the requirement of a letter of credit.

The responsibilities of an advising bank could be expanded when a letter of credit requests the bank to add its confirmation, as per the exporter's instructions. Where this is guaranteed, the advising bank's status changes to 'confirming bank' and becomes irrevocably bound to pay the exporter without recourse (International Chamber of Commerce, 2006). It must establish a clause with an obligation to honour the draft presented by the beneficiary, provided the documents complied with all terms and conditions stated in the letter of credit. Other functioning banks that may feature in this letter of credit process include 'nominated bank' and 'negotiating bank' (Bergami, 2011). However, it is important

to note that confirmation does not apply in all circumstances, simply because it is voluntary for an advising bank to assume any responsibility (Obayemi et al. 2015).

2.7.5. Documentary Groundwork Operations

The documentary processing is the most difficult task for an exporter (De Ly, 1999). Usually, when the credit is received, the exporter carefully examines its 'workability' and verifies its compliance with the underlying sales contract (De Ly, 1999). In many cases, letters of credit are issued with overly extreme and onerous detailed requirements, which are consequently likely to increase the non-compliance risk (Bergami, 2007). Thus, Kozolchyk (1992) revealed that when the exporter realises that the credit is inconsistent or inaccurate with the initial agreement, an amendment can be raised before engaging in the actual export process. Some of the common discrepancies that require amendment include incorrect name, address, payment period and delivery terms. Bergami (2011) noted that amending the letter of credit is not problematic as long as it does not change the financial risk profile.

Meeting documentary conditions in a letter of credit is the primary concern for the exporter. Unless credit requirements are complied with, the beneficiary may not be able to receive payment for the exports (Mann, 2000). Although there is no limit on the number of required documents to be presented to the bank for payment, the variations of these documents come from the company's internal and external sources (Ahn, 2011). Typically, the minimum documentary requirements in the Nigerian crude oil export letter of credit is categorised into three classes, generated from different agencies (Aigbokie, 2008). This can be observed in Table 2.1. It is the responsibility of the NNPC to secure these documents in order to receive its payments.

Table 2.1: Nigerian Crude Oil Export Letter of Credit Documentation

Type of Document	Document	Issuing Body
Commercial Documents	(a) Cover Letter	COMD
	(b) Commercial Invoice	COMD
	(c) Price Valuation	COMD
Transport Documents	(d) Bill of lading	Terminal Operator
	(e) Certificate of Quantity	MPR
	(f) Certificate of Quality	DPR
	(g) Cargo Manifest	DPR
	(h) Terminal Time Sheets/Statement of Fact	DPR
	(i) Ship Ullage Report	DPR
	(j) Master's Receipt for Samples	Vessel Company
	(k) Master's Receipt for Document	Vessel Company
	(l) Crude Oil Material Safety and Data sheet	DPR
Commodity Export Documents	(m) Certificate of Commodity Export	MTI
	(n) Certificate of Origin and Authenticity	DPR

Source: NNPC (2015)

The primary documents that the exporter generated in-house are mostly commercial in nature. These include the draft, commercial invoice, the packing list as well as the insurance certificate where applicable (Connerty, 1999). It is important to note that an insurance certificate or policy is only required when the sales contract specifies that Incoterm is CIF or CIP basis (Bergami, 2006). The draft, which is popularly known as the bill of exchange, is a legal instrument which stands as the evidence of debt in the letter of credit transaction used to demand payment. This document must be submitted together with other required documents specified in the letter of credit (Chung & Lee, 2013). It is noted that the draft normally contains the name and address of the issuing bank, the date to be drawn, the signature of the beneficiary and the amount of the transaction in words and figures (ICC Banking Commission, 2011). Also, the draft must, therefore, specify whether the payment is to be drawn at sight, depending on the payment settlement agreed between the importer and exporter at the initial stage. Although this document is guided by Article 2(c) of the UCP 600, the draft is deemed to be substituted by the cover letter in the Nigerian crude oil export (NNPC, 2013). Thus, this letter generally expresses similar information to that usually

found in the draft, such as maturity date shown in the letter of credit, name, address and amount recorded in the invoice (International Chamber of Commerce, 2006).

The commercial invoice is the document issued by the exporter with its name appears on its face, itemising the contents of the goods, and it is addressed in the name of the applicant. This document is generally regarded as the most important one because it specifies the unit price of oil per barrel, quantity, currency agreed and total value of the transaction (International Chamber of Commerce, 2006). Any discount or deduction covering payment must be shown in the document. According to Grassi (1995), the description of the goods provided in the invoice must be identical to the information requested by the letter of credit. "The buyer seldom relies on this document alone if strict conformity of the goods is commercially important to him" (Miller, 1959 p.170). An invoice is expressly stated as a requirement in Article 37 of UCP 600. It is clear that the bank is not under obligation to check details of the mathematical calculation, but to confirm the total value against the credit or other documents (International Chamber of Commerce, 2006).

In respect of the cargo insurance, a standard insurance document is required for the letter of credit to be fully complied with. This arrangement is only applicable to the beneficiary when the contract is built based on CIF or CIP Incoterms 2010. It is an important part of the exporter's obligation to arrange and furnish the importer with an appropriate insurance certificate or policy. In fact, Article 28 of UCP has specifically addressed certain issues in relation to insurance. The reason for such focus is to determine the extent to which risks are covered while goods are in transit (Barski, 1995; International Chamber of Commerce, 2006). However, because NNPC adopts FOB Incoterm, it is the responsibility of the buyer to arrange the insurance policy for the crude oil intended to be lifted. This term also helps NNPC to reduce the amount of complex documentation and payment of taxes and levies for all exports related to its crude oil (Ibiezugbe, 2008). Consequently, the external documents are difficult and time-consuming and remain at the beneficiary's risk until they are accepted by the bank (Briggs, 1994). These categories of documents are compounded with complex

activities while being generated by the exporter, typically because they involve a number of external agencies such as the Department of Petroleum Resouces (DPR), the Ministry of Trade and Investments (MTI) and the Ministry of Petroleum Resources (MPR) (Bergami, 2006; Ibiezugbe, 2008). Therefore, it is the responsibility of the exporter to provide such documents by executing subsidiary contracts as a requisite in order to satisfy letter of credit requirements.

To satisfy oil export requirements in Nigeria, the NNPC must secure an export permit from the Federal Ministry of Trade and Investment. However, because petroleum resources in Nigeria are mainly controlled and closely monitored by the government, a Navy certificate is necessary, possibly due to high incidents of oil bunkering and theft. Without this certificate, the vessel cannot sail out from Nigeria. In addition to these, there must be a final joint inspection which comprises the buyer's representatives (such as an appointed independent cargo surveyor), the terminal operator and agents from the NNPC, the Nigerian Customs Service (NCS), the Department of Petroleum Resources (DPR), the Department of Weights and Measures of the Federal Ministry of Petroleum Resources (MPR) and the Nigerian Navy (Abubakar, 2000). In this process, the fiscalisation and defiscalisation would result in the production of two important documents, the certificate of quantity and that of quality.

The certificate of quantity, which is issued by the MPR, contains multiple fields indicating the measurement, volume and weight of oil cargo. Also, the NNPC is required to secure the certificate of quality and that of origin from DPR in order to indicate the type of crude oil lifted. Two additional documents are issued by the vessel master, including Master's Receipt for Document and Master's Receipt for sample. These documents provide evidence that the agreed crude oil type is loaded in a given period. Banks, however, are not interested in the contents of the product types or its description, rather they are concerned about its total volume (Scotiabank, 1999). However, this can assist the importer not only in identifying the content and classification of crude oil shipped, but also in processing import clearance, as it

may be required in certain countries (Ogbu, 2008). Again, the carrier and insurer are likely to use some of these documents for verification purposes. Basically, because of the complexity, volume and processing nature of these documents, where some are generated manually, there is a tendency of process and behavioural risks, especially when the task is assigned to inexperienced staff (Bergami, 2011). In the spirit of this, adequate policies to manage such risks are needed through appropriate control mechanisms.

With regard to transportation documents, the bill of lading stands as evidence of crude oil received in the contract between the exporter and carrier company for delivery to the consignee at the importing country (Connerty, 1999). This is the most important document in international trade, certainly because it functions as a document of title belonging to its holder who controls the physical custody of the goods (Frías 20109). In Nigeria the bill of lading is subject to the Carriage of Goods Act LFN 2004 (COGSA) which covers the period between the goods' loading and when they are discharged from the ship. Also the legal regime that governs carriage of goods by sea can be traced to the International Convention on Carriage of Goods by Sea (Usoro, 2011).

In order to effect the transfer of crude oil ownership from exporter to importer, the transport contract must specify which of the two types of bill of lading to be issued – the order and straight. The order bill of lading, which is commonly used in the letter of credit today, is issued as a negotiable 'to order' of a named party. The importer's name is not shown on the 'order bill of lading,' it only incorporates the provision that the shipping company will notify the receiving party on arrival at destination (Aigbokie, 2008). In general, this contract of carriage can be transferred with a blank endorsement. On the other hand, the straight bill of lading, or Non-Negotiable Sea Waybill, is addressed specifically to the named consignee to whom the merchandise is to be delivered. Articles 21 and 22 of UCP 600 contain specific rules related to bills of lading (Harry and Warfield, 2000; Usoro, 2011). However, there may be a possibility of defect in the documents by one or more risk elements, which may be caused by error or omission. For instance, it is most likely that the

bill of lading will be rejected if it is submitted marked as 'non-negotiable (Mann, 2000).

Furthermore, the bill of lading contains details such as the name of the vessel carrying the crude oil and its flag of nationality, as well as the descriptions of the shipment. This indicates that the letter of credit requires extreme compliance of documents, which the exporter must take extra care over while preparing it in order to secure payment. Scotiabank (1999) noted that some critical issues have to be addressed in order to make a bill of lading valid, these are itemised below:

- The bill of lading must be 'clean' reflecting Article 27 of UCP 600
- The details and descriptions of the goods must be consistent with the commercial invoice and other documents.
- The port of loading and that of discharge are stipulated as the credit requested.
- The bill must mark the chosen Incoterm such as 'freight paid' or 'freight prepaid.' Statements such as 'fright payable' or 'fright to be paid' are not acceptable.
- When a letter of credit requires 'on board' bill of lading, 'shipped on board' evidence, marked or stamped 'on board', the exporter must indicate, as appropriate, the date on which the goods were loaded on board. More so, indicating goods 'on deck' on a bill of lading is not acceptable unless the letter of credit permits such expressions.
- The letter of credit specifies the period of time from the date on which the bill of lading is to be presented, usually after 21 days 'on board' endorsement. Therefore, banks should refuse such documents and consider them to be of 'stale date.'
- The bill of lading must provide the name of the agent as well as his signature.

When the goods are to be transported by air, the processing of the documents is quite different. The procedure is far less complicated than with a bill of lading. Thus, an Air Waybill indicates the receipt of goods to be transported by air, together with the descriptions of goods consigned to the named party (Youssef, 1998). However, one of the basic features of both bill of lading and air waybill documentation is that it is the exporter who gives

instructions to the carrier by supplying relevant information regarding the shipment. Consequently, any mistake in the instruction may amount to significant problems.

Some of the documents listed on table 2.1 are not featured in letters of credit, neither would they be tendered to the bank, but rather remain prerequisite in obtaining other necessary documents from the third parties. These documents can be those introduced by the Nigerian legislative provision in order to ensure quality and maintain security (Kula et al. 2015). For example, Navy certificates are only issued to ascertain that the crude oil is legally exported, but it is not presented to the bank. The letter of credit requires 100 percent documentary compliance, as explicitly specified in the UCP 600, based on the doctrine of strict compliance (Yan & Xiao, 2013).

2.7.6. Presentation and Examination of Documents

In the standard practice of export letter of credit, the requested documents are not presented directly to the bank that issued the letter of credit in the first place, but rather logged to the advising bank in the exporter's country, or the confirming bank in the case of confirmed credit (Baker, 2000). In reality, the advising and confirming banks may be the same establishment. However, the advising bank does not automatically become a confirming bank and there is no prerequisite for a confirming bank to be the advising bank (Obayemi et al. 2015).

The crude oil export letter of credit contract usually adopts irrevocable letters of credit in which the documents are sent directly to the issuing bank for examination (Connerty, 1999). The UCP 600 specifically provides the actions to be taken in the documentary examination, and the extent to which documents could either be accepted or rejected based on a single discrepancy. According to Article 14(a) of UCP 600 "a nominated bank acting on its nomination, a confirming bank, if any, and the issuing bank must examine a presentation to

determine, on the basis of the documents alone, whether or not the documents appear on their face to constitute a complying presentation" (Bergami, 2011 p.90)

It is further revealed in Article 14(b) of UCP 600 that the banks have a maximum period of five banking days to perform their examination duties following such presentation (International Chamber of Commerce, 2006). It is important to note that the confirming bank is not only required to carefully examine whether the documents are in the right order, but also to ascertain whether goods were shipped according to the latest shipment date and documents have been presented in a given period (Biswas, 2011). Thus, after reviewing, documents are sent to the issuing bank for further compliance and reimbursement. The payment undertaking is given by the issuing bank. However, the risk that confirming banks may face is whether the documents would be accepted by issuing banks after settling with the exporter. For this reason, most of the advising banks become reluctant to confirmed letter of credit, especially when the letter of credit is issued from countries with volatile political or economic uncertainties (Briggs 1994).

The beneficiary may also be at great risk of rejection as a result of discrepancies (Baker, 2000). Thus, acceptance or rejection of documents depend largely on the documentary compliance. This is not a simple procedure, as the rule states that payment embodies the promise of the issuing banker to pay on that basis. Therefore, failure to submit complete documents at the right time will amount to rejection and incur non-payment risks. Nevertheless, Baker (2000 p.1) revealed that "60 to 80% of the documents presented to the banks do not comply with letter of credit requirements, at least according to the banks". This is not surprising, as preparing this documentation and presenting it to the bank for payment is seen as inconvenient to most exporters (Whitehead, 1983; Biais & Gollier, 1997).

2.7.7. Payment Settlement

Payment is the final stage of an export letter of credit. The success of getting paid depends on the performance of the exporter's obligation by complying with terms and conditions of the letter credit (David, 1997). In confirmed letter of credit, once the documents are matched with underlying agreements, the confirming bank first examined the documents must pay the exporter immediately. This shows that the exporter can obtain payment even before the issuing bank receives the documents. This is because the bank has established the direct obligation to pay the exporter and then submits the documents to the issuing bank for reimbursement (Mann, 2000). Article 12 of UCP 600 addresses the issues on bank-to-bank reimbursement arrangements between claiming and issuing banks (ICC Banking Commission, 2005; Dole Jr, 2008). Figure 2.4 presents the process of presenting documents and payment in the letter of credit. However, if the corresponding bank decided not to be primarily liable for the letter of credit but only to forward it to the exporter, as authorised by the issuing bank without confirmation, an agency relationship is thereby imputed (Obayemi et al. 2015).

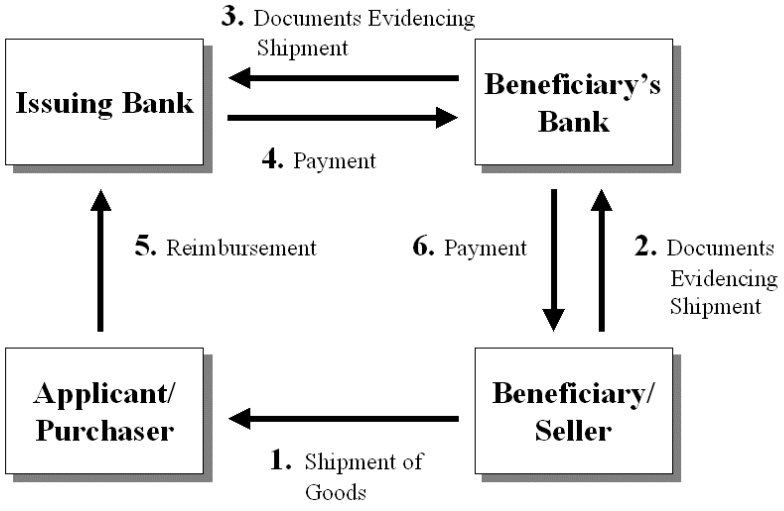

Figure 2.4: Payment by Letter of Credit

Source: Mann (2000)

In the literal payment process, upon comparing the details presented with the terms tendered on the letter of credit, the advising bank would indicate its acceptance of documents to the exporter and effect payment. In the United States, for example, the funds can be obtained from the issuing bank's dollar deposit account in the 'reimbursing bank' (Mann, 2000). The process of clearing reimbursement is considered to be quite efficient which normally takes five days. Nonetheless, Baker (2000) argues that after receiving the documents the issuing banks usually review and examine them on their own. However, should the bank discover that they do not comply strictly with the terms, it has the right to reject the documents on the grounds of discrepancies, and demand refund of the amount paid and interest incurred (David, 1997). This may be the reason why advising banks usually insist on conformity of the documents against the letter of credit provisions before they can accept them.

For a letter of credit that was built on payment against documents, where payment is to be made at a predetermined date, documents would be forwarded to the issuing bank for further examination before paying the exporter. Therefore, provided the documents comply with the terms and conditions, payment would be triggered on the maturity date (Kula et al. 2015). Article 15 of UCP 600 serves to meet this provision of authority to honour or negotiate the credit. Bergami (2011) argued that the deferred payment settlement may place the exporter in a liquidity pressure position, as the payment is only paid in future. In this instance, the exporter may seek advance payment against future receivables by discounting the proceeds.

It is argued by Kula et al. (2015) that there must often be discrepancies that make issuing banks reject or seek for amendment of the documents tendered. In this regard, payment cannot be made until all conditions have been fulfilled or corrected. However, Article 16 of UCP 600 states that "when an issuing bank determines that a presentation does not comply, it may in its sole judgement approach the applicant for a waiver of the discrepancies"

(International Chamber of Commerce, 2006 p.10). This implies that a request for documents to be honoured is answerable only if the importer elects to waive the discrepancy in the exporter's presentation. The importer may choose to reject the documents if they do not comply with the sales contract. Mann (2000) argues that the decision to accept and make payment lies on the issuing bank's standpoint to fulfil its promise to honour complying presentation. However, it is probably fair to accept that the documents which do not 'appear on their face' and conform the terms and conditions are independent of the importer's right on the sales contract. This is because banks only deal with principles of strict compliance of the documents and act on them as a justification of payment, and not the goods. The next section provides details of where major discrepancy areas are usually found in the letter of credit.

2.8. Documentary Discrepancy Risks in Letter of credit

It is reported by Goode (2005) that the documentary letter of credit minimises risks associated with the customer, bank and country compared with other forms of trade finance, especially when used in distant destinations (Niepmann and Schmidt-Eisenlohr, 2015). However, it is worth noting that when there are documentary discrepancies in the transaction, the risks remain with the exporter until the bank accepts the documents which consequently have an impact on payment (Amiti & Weinstein, 2011; Biais et al., 1997).

The advising or confirming bank usually insists that documents submitted must strictly comply with the terms and conditions, and has the authority to reject documents for any discrepancy, as this is grounds for refusal (Baker, 2000). This puts the bank in a position to cross-check documents vertically and horizontally against each other with reasonable care, and against the provisions in the letter of credit, in order to ascertain complying presentation as postulated in Article 14 of the UCP 600. It is assumed, on this basis, that the exporter must not only present compliant documents, but also present them within the time frame as

allowed by the letter of credit, otherwise they would be considered discrepant (Zhang, 2012).

The high frequency rate of documentary discrepancies has created a negative impression of letter of credit transactions (Kula et al. 2015). For instance, empirical evidence from the study of Baker (2000) revealed that approximately 60 to 70% of the documents submitted to banks do not comply with letter of credit requirements. Similarly, Mann (2000) investigated the existence and the magnitude of discrepancies in 500 documentary presentations, by examining one hundred transactions from each of the five banks studied. The results from the analysis were appalling, showing that only 27 percent of the transactions conformed to letter of credit requirements. Going by the analysis, it can be attested that 365 documentary presentations in the transaction, representing 73 percent, is discrepant. These findings are consistent with the survey by the International Chamber of Commerce, which found a similar response relating to the worldwide documentary discrepancy rate (International Chamber of Commerce, 2008).

The argument is put forward by Bergami (2011), who states that Mann's (2000) survey concentrated more on documentary discrepancies in the import side of transactions. This could be because Mann (2000) relied only on data from selected issuing and advising banks in the United States, disregarding exporters that are principal parties in the letter of credit transactions. Continuing further, Bergami (2011) extended his investigation of documentary discrepancies risks to export letter of credit relating to Australian manufacturing exports to ASEAN countries. His study focused more on exporting firms and banks, as well as forwarding companies who deeply engage in the letter of credit exercises. His findings revealed that about 25 percent of the documents submitted experienced discrepancy risks which largely occurred through internal documentary processes. Whilst Bergami's (2011) research was considered to be a ground-breaking study, an in-depth investigation for the exporters' letter of credit documentary discrepancy risks is needed.

Furthermore, the whole idea of the letter of credit is that a specified amount of money from exports proceeds is made available to the exporter, provided all requirements stipulated in the letter of credit are fulfilled, and the documentary evidence of cargo shipment is properly presented. It is important to note that discrepancy not only involves submitting incorrect documents, but also various other difficulties that may deter the appropriate presentation of these documents (Bryne, 2006). The most essential thing to consider is exact compliance with the instruction in accordance with contract agreement between the exporter and the importer (Dole Jr, 2008). It should be noted that, by its nature, documentary compliance is not an easy task, as any breach of the letter of credit terms and conditions is regarded as a discrepancy. Branches of empirical evidence from the work of Baker (2000) provide six major elements of discrepancy, which are considered risks and perhaps affect the operations of the letter of credit. These are explained below.

2.8.1. Defective Documents

According to Bryne (2006), some documents presented are found to be defective; they either do not comply with the stipulated requirements or are not consistent with each other. In some cases, all documents requested by the importer in the letter of credit are provided, but they are found to be defective in some ways. This is regarded as non-compliant because they do not conform exactly to the specified requirements (Baker, 2000). For instance, most of the bills of lading are found to be not clean. This means that the information does not clearly indicate the name, address, and capacity of the person who signed it as well as that of the carrier. It is noted that the bill of lading must be endorsed if endorsement is required. The importance of wording in the bill of lading is very important, for instance, if it is not marked ‘freight collected’ or ‘freight prepaid’, as required in the letter of credit agreement, it is considered discrepant (Manganaro, 2011).

Kula et al. (2015) revealed that exporters are widely presenting the multimodal bill of lading, as opposed to the actual ocean bill of lading called for by the letter of credit. It was observed

by Kula et al. (2015) that this would cause documents to be rejected, as the documents are only going to be accepted if they indicate 'on board' and contain the name of the vessel alongside the port of loading. The staff responsible for securing the document find it difficult to supply the actual information required by the carrier (Bergami, 2011). In a similar situation, the exporter erroneously submitted a multimodal bill of lading where the contract clearly specified that the shipping terms were based on FOB, which does not indicate whether the inland freight is prepaid. Therefore, the exporter failed to meet the port-to-port shipping requirement (Baker, 2000).

Some defect discrepancies come from the inability of the exporter to secure a sufficient amount to cover the shipment, especially when the contract terms are CIF or CIP (Muûls, 2008). The exporter may provide the wrong insurance document or arrange an improper insurance policy (Zhang, 2012). This may be in respect of the amount, currency, or type of the cover. With the issue of a sales contract built based on CIF or CIP, insurance documents must be endorsed so as to give the exporter the benefit of the policy obtained (Whitehead, 1983).

2.8.2. Inconsistent Documents

Because of the complex, risky and manual nature of letter of credit processes (Zhang, 2012; Kula et al. 2015), defects and inconsistencies can be manifested while generating internal documents, such as the draft, commercial invoice, packing lists and certificate of analysis. As Bergami (2011) puts it the majority of documentary discrepancies occurred during in-house documentation. Bills of exchange and commercial invoice are probably the most fundamental documents in the letter of credit transaction. These documents contain multiple data fields which are expected to provide details that mirror consistent information in other shipping documents. As UCP emphasises, these documents must not only be correct but also consistent with one another, with regard to name, addresses, description of goods, spelling, weight, value and volume, including total value, marks and number (Whitehead,

1983). It should be noted that complying with consistency requirements is one of the most challenging and complex tasks for the exporter, probably because of the voluminous nature of the documents (Baker, 2000).

It is argued by Sakchutchawan (2009) that documentary discrepancies are likely to be more pronounced in processing external documents by posing error, delay or omission risks elements. This assertion may be true, considering the fact that the exporter engages with different external parties in order to fulfil the requirements. In practice, a large number of parties obviously contribute to this risk exposure (Baker, 2000). In other words, the greater the quantity of the documents involved, "the greater the number of data fields to be completed and, consequently, a greater propensity for data mismatch" (Bergami, 2011 p.149). In this context, some discrepancy elements are beyond the exporter's control. For example, transport documents, which are prepared at the terminal, are only produced according to the instruction of the COMD (Ogbu, 2008). However, staff who act on these instructions prepare these documents according to their interpretation, which may be the reason behind the discrepancy risk in the operations.

2.8.3. Shipment Delay

One of the most challenging issues is for the exporter to make the goods available to the buyer or its carrier for shipment, depending on the Incoterm, before the 'latest shipment date' elapsed as requested by the importer in the letter of credit (Baker, 2000). It is the responsibility of the exporter to act in accordance with Article 16 of UCP 600 based on shipment requirements (ICC Banking Commission, 2011). Therefore, necessary action is needed to effect timely shipment of the goods and presentation of the documents to the bank within the stipulated time frame (Bergami, 2011). When the letter of credit specifies that the shipment should be done on a particular date, which is the deadline, the bank may not consider documents after this date and will deny payment to the exporter (Sakchutchawan, 2009).

This problem is likely to be exacerbated when the importer refuses to extend letter of credit contract period. Consequently, this would provide an additional cost and possibly escalate to other problems. Although the export permit and the Navy certificate are required for operational and control purposes in crude oil export, they do not feature as part of the letter of credit requirements. However, these documents remain prerequisites and must be produced before the exporter is able to export crude oil (Aigbokie, 2008). These documents, and other important ones have long processes before the exporter obtains them, and in the situation that the exporter should fail to obtain them in a timely manner, this could result in late shipment. This element is regarded as a risk factor caused by delay.

2.8.4. Late Presentation

The letter of credit usually specifies that documents must be tendered to the bank on the fixed date. Failure to comply with this instruction translates into rejection of the documents. This creates a serious problem as the consignment is already on its way on the sea to the importer. Here, the exporter has lost the security element of the letter of credit. More attention was paid to the failure of the exporter to meet the deadline for the submission of documents to the bank (Bryne, 2006; Zhang, 2012). As clearly specified in Article 14 of UCP 600 the documents must be submitted within 21 days after shipment (Baker 2000). Therefore, failure to submit documents to the banking hall within the time-limit, the bank may reject the documents.

Generally, the documentation processing with the third parties and their approval are outside the control of the exporter. The involvement of these parties is necessary for every export from Nigeria; it is a country's export policy that requires statutory documentary compliance. This usually has logistical steps leading to the supply of data contents of the specific documents within the possible time frame given for their presentation, as the letter of credit demands (Bergami, 2011). Nonetheless, the exporter is exposed to a financial risk

when these documents cannot be generated and presented on agreed time to the bank for compliance.

2.8.5. Missing Documents

All documents required must be produced and presented in accordance with the number demanded. The Bill of lading is the most important document in a letter of credit (Mann, 2000). Furthermore, the issuing bank requires a full set of bills of lading. Therefore, any missing among them may cause rejection (Muûls, 2008). From an export perspective, generating documents from multiple sources for compliance is not an easy task. The more documents required to process an export, the greater the risk of missing documents, and possible discrepancy with respect to the letter of credit requirements. This is not a suitable responsibility for inexperienced personnel (Dole Jr, 2008; Fellinger, 1990). Mann (2000), however, states that the request for payment may be honoured "if the buyer waives the defects in the seller's presentations." According to standard settings of letters of credit, for the exporter to obtain payment, the applicant "must provide the bank with documentation the bank can use to obtain payment from the buyer" (Baker, 2000 p.1). Therefore, upon receiving documents and discovering that "they do not comply strictly with terms of the credit, the bank has no right to obtain payment from the buyer" (Baker, 2000 p.1).

2.8.6. Letter of Credit Expiry

It is essential to produce the documents and present them to the bank within the permissible time frame given in the letter of credit. The bank has onerous responsibilities, to examine all documents submitted within five business days before the expiry date (Fellinger, 1990). Therefore, any delay in presentation may lead to rejection of documents. The exporter should remain proactive and submit the documents as soon as they become available. The progress of all outstanding documents should be followed daily, and the use of an export data techniques, such as folder produced by Formecon Service Ltd (Hinkelman, 2012). This

will help to ensure that a daily check and checklist is made to chase up documents which are pending in some department or units (Whitehead, 1983).

2.9. Factors and Causes responsible for Documentary Discrepancies

In assessing the documents, it is important to consider the major factors that influence discrepancy risks in the letter of credit operations. It is, therefore, worth noting the problem faced by export companies while dealing with documents and presentation to Issuing banks for payments. One of the debated reasons for documentary discrepancy in letters of credit is personnel (Baker, 2000). Observation from the literature provides particular reason why documentary discrepancies may be manifested as human behaviour, caused by human beings. The personnel in the export department or terminal who are responsible for documentation are likely to produce inaccurate documents or omit figures, which can cause problems (Briggs, 1994). For example, if the certificate of quantity shows that the volume of exported crude oil is 1,000,000 barrels, conflicting with that of the bill of lading which states 1,000,500 barrels, this discrepancy is strong enough to affect the exporter's payment.

While this problem becomes widespread, an argument was developed by Bergami (2011 p.113) who mentioned that "it's not possible to remove humans from the transaction, perhaps an automated system may be able to assist." Bergami Bergami (2011) further noted that the exporters with internal processing risks can adopt an effective Enterprise Risk Management approach for internal control mechanisms. Accordingly, this can be absorbed from various principles and standard such as AS/NZS 4360: 2004, Risk Management Standard. Because these documents are under the control of the exporting firm, policies and procedures, as well as adequate skilled human resources, are recommended.

In addition, the high discrepancy and rejection rate which claimed up to 70 percent of the total discrepancy surveyed was as a result of long documentary checking procedures (Bergami, 2011; International Chamber of Commerce, 2008). Thus, any flaw in processing of

documents is the result of inadequate internal procedures and policies, which therefore contribute to the documentary rejection or payment delay (Bergami, 2011). In the crude oil export context, some causes of discrepancies that hinder the successful operations of the letter of credit are generated through procedural factors. They include circulation of documents from one department or unit to another, bureaucracy in the system, issuing permits from respective authorities, non-compliance with procedures set and improper checking (Mooney and Blodgett, 1995). In reality, the procedure in obtaining these documents is very complex, and each one is needed in order to satisfy regulations and guidelines of relevant agencies (Baker, 2000). However, any inconsistencies with regard to figures in these documents against others would also jeopardise the export process.

In examining the effect of late presentation of documents and credit expiry as a result of non-compliance of Letter of credit terms and conditions. Presentation of documents is one of the critical factors faced by the exporter. According to UCP 600, documents must be at the bank not later than twenty-one (21) days after the date of shipment, as prescribed in Article 14(c) of UCP 600. Most exporters find this very difficult to comply with, as the documents may not be available before the time of presentation (Briggs, 1994). The main challenge to the letter of credit operation in presentation is that the delay in submitting the documents to banks reflects on the payment delay on the agreed date. Ideally, because banks deal with documents, it is only through compliance and timely presentation of these documents that payment can be effected to the exporter (Mooney and Blodgett, 1995 and Bergami 2011).

While providing the reasons for inconsistencies and defects of documents in letter of credit operations, the terminal operations can be seen as the major factor (Hill, 2005). Thus, it is the responsibility of the exporter to produce and prepare all necessary documents as requested in the letter of credit. Consequently, it is not an easy task for the exporter to generate such documents from multiple sources in the stipulated time without any problems. Mann (2000) believes that this risk cannot be eliminated but, rather, can be

minimised. It is an obligation of the bank to cross check these documents tendered against each other as prescribed in the letter of credit. In order to satisfy the letter of credit requirements, the description and value of the goods can be verified. Any variation in the information supplied is consequently regarded as discrepant and the bank would reject the documents. Briggs (1994) suggests that a proper checklist to ensure that the terms and conditions set in the letter of credit are met before shipping the goods and proceeding to the bank for payment.

It is revealed that the failure to achieve documentary conditions relates to the dysfunctional workplace, which may affect the letter of credit process (Mugasha, 2003). According to Bergami (2011 p.170) "Dysfunctional work places, as part of Behavioural Risks, may also be a contributing factor and it may be argued that Process Risks and Behavioural Risks are interlinked, as one has the propensity to affect the other". Lack of adequate training and working environment are also examples of elements that may affect the letter of credit operation. In essence, if the process is not effective enough, it may cause discrepancies in the letter of credit operations.

The external documentation also causes potential discrepancy risks because the exporter engages with different external parties in order to fulfil the letter of credit requirements (Baker, 2000). With regard to the bill of lading, the production of this document is made by the issuing party, that is the carrying company that owns the vessels. It can be noted that the exporter is required to complete both bills of entry, shipping note and bill of lading declaration form (Mugasha, 2003; Niepmann & Schmidt-Eisenlohr, 2017). However, the shipping company only acts on these instructions given by the exporter, according to its understanding. Inaccurate instruction is likely to cause errors resulting in discrepancies and non-compliance problems of conflicting figures. Generally, each external party that issues documents requires relevant information, which may impede the documentary process (International Chamber of Commerce, 2006. In reality, the large number of parties involved obviously contributes to this risk exposure. In other words, the greater the quantity of the

documents involved, “the greater the number of data fields to be completed and, consequently, a greater propensity for data mismatch” (Bergami, 2011 p.149).

2.10. The Emergence of Bank Payment Obligation

The letter of credit is believed to be a resilient payment instrument in international trade for over hundred years. However, it is found to be very complex and intensive in nature (Özkan et. al. 2014). For this reason, several attempts were made to introduce the technology-based solution that can reduce physical documentary process in international trade (Malaket and Casterman, 2013). This attempt has established an additional international payment instrument, Bank Payment Obligation (BPO) by the joint efforts of ICC Banking Commission and SWIFT in June 2013. The ICC established Uniform Rules for Bank Payment Obligation (URBPO) which govern the relationship between financial institutions. Many believed that the emergence of BPO was due to the inefficiency and operating difficulties associated with dealing of physical documents in letter of credit that cause discrepancy risk in the transaction. The suggestion given by the ICC is that Bank Payment Obligation (BPO) can be viewed as an electronic letter of credit. It is regarded as the 21st Century trade settlement (Bailey, 2014).

According to Bailey (2014 p.1), BPO “is an irrevocable obligation of an Obligor Bank to pay a specified amount to a Recipient Bank in accordance with an established Trade Service Utility baseline of a single Trade Service Utility transaction”. To be specific, the importer’s bank (obligor bank) and that of the exporter (the recipient bank) who agree to participate in BPO, submit the data of the underlying trade transaction to the SWIFT central electronic platform, ‘TSU baseline’ which sometimes refers to Transaction Matching Application (TMA). Baseline is therefore established when the export data successfully matched with import requirements. In its literal process, the exporter ships the goods and submits the documents to the obligor bank in order to upload the relevant information about the transaction such as commercial, transport and insurance also called ‘data set.’

As noted in chapter one, there are varieties of payment contracts available for international trade, open account, documentary collection, letter of credit and pre-payment and each can be used according the trade agreement reached between the importer and exporter in the underlying sales contract. Although Letter of credit has been regarded as the mainstay for many decades as the single most versatile payment mechanism in trade finance, there is an evidence of increasing shift from this traditional payment system toward trading on open account method in most markets across the globe (de Meijer and Menon, 2012 and Malaket and Casterman, 2013). Thus, importers pay according to the payment term after receiving goods with no involvement of banks.

Empirical evidence from the study of Foley (2013) revealed that 41.3 percent and 42.4 percent of the trade finance are conducted under open account with pre-payment. Most common payment contracts and the value of transaction respectively did not involve banks intermediation, whereas 5.5 percent and 10.7 percent the transaction are conducted on letter of credit and documentary collection terms respectively. According to Bailey (2014) this shift was the result of multiple challenges associated with letter of credit due to compound documentary discrepancy risks, costs, time consuming and complexities involved.

It is believed that the BPO presents some of the features of letter of credit, but the character in which data is matched is quite different, thereby avoiding some of the risks associated with the more paper-intensive letter of credit (de Meijer & Menon, 2012). The BPO eliminates many time-consuming activities in gathering documents such as invoice and other certificates, and reduces payment delays. It can be noted that the BPO would permit banks to once again tap into large proportion of business transactions currently settled on open account, and play a significant role in facilitating international trade through trade finance, by enabling traders to benefit from functionalities and features introduced in BPO which add value to trade finance perspective (de Meijer and Menon, 2012). The BPO is the better

alternative to letter of credit with some differentiated characteristics, given the minimum data information required by banks in the BPO baseline, and accelerates exchange of document between the trade parties (Bailey, 2014). The exporter can expect a low discrepancies rate and speed the settlement process.

2.11. Summary

Generally, the review in this chapter discussed the definition, types, process and general issues about letter of credit in the international trade transaction. The review shows the complexity of documentary operations. The chapter revealed the aspect of documentary discrepancy risks, which are divided into six major risks and how they affect export letter of credit operations. In addition, it further revealed the factors and causes responsible for these discrepancies. The next chapter concentrates on the research methods and philosophical underpinning that guided this study.

CHAPTER THREE:

RESEARCH METHODOLOGY AND METHODS

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3.1. Introduction

This chapter is aimed at reviewing some of the methodological approaches that this study adopted and provide the justification for the method employed to conduct the study. The chapter is divided into seven sections. Section 3.2 discusses the philosophical assumptions that underpin the research. Section 3.3 provides the various research approaches. In section 5.4 various research methods are discussed. Section 3.5 provides the philosophical assumption used in this thesis and the justification of the chosen research approach and method. The discussion of research design is presented in Section 3.6. Section 3.7 presents the case study research method used in this thesis, while Section 3.8 concludes the chapter.

3.2. Research Philosophy

The emphasis of every research project is acquisition of transferable skills rather than just pursuing knowledge for its own sake (Travers, 2001). Research is the systematic scientific inquiry into a specific problem with the aim of finding solutions to the problem or answers to a given research question (Ryan et al. 2002 Dunne 2003; Sekaran & Bougie, 2016). The main goal of designing effective research is to collect, present, and analyse data fairly (Yin, 2014). Research methodology can be seen as the systematic framework that shapes the facts and translates their meaning into a clear picture using a specific method (Crotty, 1998; Mackenzie & Knipe, 2006). Methodology is usually adopted to systematically solve the research problem. However, according to Ryan et. al. (2002), the adaptation of the chosen methodology depends on the researcher's assumption when conducting research, using logic in solving his or her research problem (Mahmud, 1997; Snape and Spencer, 2003).

Generally, it is argued that the researcher is required not only to know the method of data collection and analysis when conducting a study of a particular phenomenon, but also which techniques or methods are relevant and the reason behind this (Gill & Johnson, 2010). In essence, the researcher must understand the underlying assumptions in various methods as

well as certain criteria in choosing the applicable method against others. These assumptions are collectively referred to as the research paradigm, which influences the way knowledge is studied and interpreted based on the researcher's perspective (Marsh & Stoker, 2002: Snape and Spencer, 2003; Ritchie and Lewis 2003; Mackenzie & Knipe, 2006).

Carson et al. (2001) describes a paradigm as the set of written or unwritten rules which establishes research boundaries and provides direction in research within those boundaries. In other words, a paradigm is an avenue through which the researcher views the social world based on his or her assumptions, concepts and biases (Marsh & Stoker, 2002; Bryman & Bell, 2007; Locke et al, 2010). As mentioned by Travers (2001), in every research process, there is a set of epistemological assumptions. However, there have been arguments regarding paradigmatic frameworks developed between philosophical theories (Burrell & Morgan, 1979).

The Burrell & Morgan's (1979) study has developed an analytical framework which is constructed based on the two independent philosophical dimensions; subjective-objective dimensions and regular-radical dimensions, and the relationships between them (Robson, 2002; Ritchie et al. 2013). Relatively, the subjective-objective dimension is further divided into four mutually exclusive assumptions; ontology, epistemology, human nature and methodology, as illustrated in Figure 3.1 below.

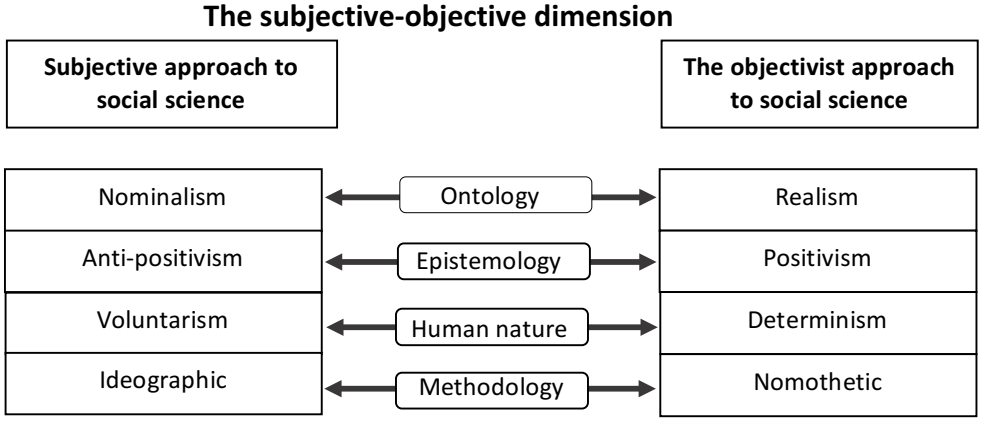


Figure 3.1: A Scheme for Analysing Assumptions about the Nature of Social Science Research.
Source: Burrell & Morgan (1979)

Based on this framework, the researchers recognise and assess the chosen assumption to ensure that it is consistent with their personal belief. However, in order to understand the relevance of these assumptions in social research, it is necessary to explain the meaning of these philosophical assumptions (Adam, 2014).

3.2.1. Ontology (Theoretical Perspective)

The ontological assumption is concerned with the natural reality of the problem under investigation. The term 'ontology' is derived from the Greek word which means study of being (Bell, Bryman, & Harley, 2018). This attempts to answer whether it is an objective nature external to the individual or it is a cognitive construction within someone's mind.

Bell, Bryman & Harley (2018) noted that the ontological assumptions of a researcher can be seen as a cornerstone that predicts other assumptions. Two main elements have been established from the ontological debate, nominalism and realism, with different perspectives. Nominalism assumes that social reality exists or happens based on human imagination or individual consciousness (Hassard, 1991). Realism, on the other hand, opines that the social world is real and complex that exists irrespective of our perceptions and theories. Perhaps it is characterised by facts that can be investigated by the set of variables. The concept of realism maintains the view that social phenomena are discernible, produced by real components that cannot be directly observed (Ryan et al., 2002). It is revealed that both natural science and social science research have been dominated by the realism point of view for more than 30 years (Maxwell & Mittapalli, 2010). This is because social and natural science researches adopt a similar approach in data collection and analysis.

3.2.2. Epistemology

Epistemology is the philosophical theory concerned with the nature of knowledge and elements that make knowledge acceptable in research (Collis & Hussey, 2003; Hassard, 1991). This paradigm places emphasis on the possibility of gaining knowledge of a phenomenon and verifies what can be counted as acceptable truth (Bell, Bryman & Harley, 2018). The concept of epistemology is concerned with understanding how new knowledge is acquired or how existing knowledge is validated (Checkland & Checkland, 1999; Crotty, 1998), and it is also used to confirm the scope, basis and possibility of the knowledge (Guba & Lincoln, 1994). The researcher's epistemological beliefs depend largely on their ontological beliefs.

The positivist, otherwise known as an objectivist, believes that the social world can be observed and explains the events which occur through the search for relationships and patterns between people. Dunne (2003) stressed that knowledge is the collective process where outcome can be tested and predicted by developing a hypothesis. On the other hand, an anti-positivist argues that a particular phenomenon can only be understood through participation and experience, rather than observation (Oppenheim, 1992; Alavi and Carlson, 1992; Myers, 1997).

Furthermore, Bell et al. (2018) established a 'frame of reference' through the combination of natural science and nature of society for analysing social phenomena. They categorised four paradigms illustrated in Figure 3.2 functionalist, interpretive, radical human and radical structuralist.

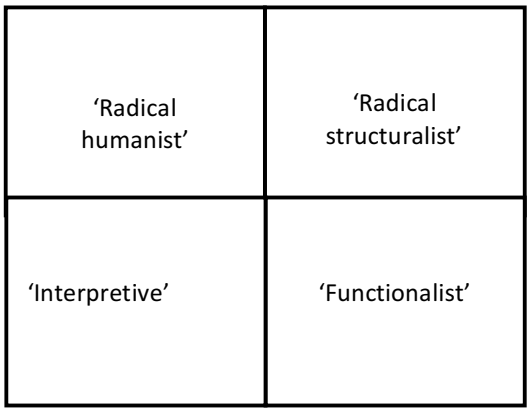


Figure 3.2: Four paradigms for the analysis of social theory
The sociology of Radical Change

Source: Burrell & Morgan (1979)

3.3. Research Approach in Social Science

Research approach refers to the technique adopted by the researcher when conducting research. Traditionally, research is divided into two broad approaches; qualitative and quantitative. According to the literature, qualitative research is adopted to answer questions which are more complex in nature, whereas the quantitative approach adopts a systemic empirical inquiry which is used to turn data into meaning (Liamputtong & Ezzy, 2006; Ritchie et. at. 2013; Creswell & Poth, 2017). In this regard, the researcher's choice of approach is largely dependent on how well the method fits his or her research questions or hypotheses (Locke et. al. 2009). Denzin & Lincoln (2005) mentioned that both methods are committed to different philosophies, research styles and forms of presentation. For instance, the quantitative approach believes in objective reality that presents numeric data to form an opinion, while, from a different angle, the qualitative approach employs observations and words to describe and explain reality (Laughlin, 1999; Blaikie, 2010).

3.3.1. Qualitative Research Method

The qualitative research approach mainly places emphasis on subjective assessments of behaviours, opinions and attitudes (Taylor, Bogdan, & DeVault, 2015; Brewer et al. 1999). It

involves the description of the phenomenon under study based on the researcher's insight and impression (Miles and Huberman, 1994; Carlson et al 2001). Moreover, the qualitative method of inquiry contains different practices through which results present different meanings (Creswell, 2009. Part of the aim of qualitative research is to investigate and understand the meaning or behaviour of an individual or group in a given issue or problem This can be done through observation and interpretation of a phenomenon and the perception of people towards it (Creswell, 2003; Denzin et. al. 2011; Schwandt, 2000). Research using this approach can be conducted on one subject, case or unit over a period of time (Klein & Myers, 1999; Forza, 2002). Creswell (2003) argued that qualitative research has an emergent process that may change when the researcher begins to collect data.

Furthermore, it is important to note that qualitative research can either be interpretive, constructive or inductive in nature (Bryman & Bell, 2007). Unlike quantitative research, which uses figures in its rigorous analysis, qualitative research generates results from interpretation of data. Such interpretation is influenced by the researcher's reasoning, experience, knowledge and background (Creswell, 2003).

3.3.2. Quantitative Research Method

In its natural form, quantitative research involves studies that employ statistical analysis which concentrates on numbers and measurements using hypotheses (Pizam, 1994; Robson, 2002). Because of its objective nature, quantitative research is usually adopted in the natural science research such as chemistry, physics and biology (Robson, 2002). Good examples of quantitative research are simulation, inferential and experimental research. For instance, an inferential approach generates data to infer the relationship or characteristic of the population and makes a judgment from the explicit behaviour or attitude of the population. In essence, the aim of quantitative research is to study, analyse and measure the association and causal relationships between variables in the population (Robson, 2002). It is argued by Wang (2013) that quantitative research such as experiment gives a researcher greater control over the research environment where some variables are tested to understand their

impact on other variables.

Despite varying assumptions of quantitative and qualitative research from the perspective of different scholars, there is a general agreement on their key features and significance in conducting research. Adopting each method relies on the three criteria: The purpose of the research, how the variable will be measured and how the data will be analysed.

3.3.3. Triangulation

Due to conflicting arguments on the suitability of quantitative and qualitative approaches, scholars such as Creswell (2003), Ragin et. al. (2004) and Bryman (2012) share similar beliefs on additional approach in research. This is believed to be the reason behind the introduction of the hybrid methods with a pragmatic perspective into the field of research. This method, which combines some quantitative and qualitative features, is popularly called the mixed method (Walliman, 2011), or methodological triangulation in some cases (Dawes, 2008). It is believed by Creswell (2003) that the practice of mixed method approach has been outstanding, probably due to the convergent nature of both quantitative and qualitative data sets. Certainly, this research provides comprehensive evidence in answering research questions or solving problems (Creswell, 2003).

3.4. Research Method

There are many research methods available for social science research, adopted for different purposes and situations. In practice, the research method provides the researcher with a technique through which empirical data can be collected and analysed with evidence (Pallant, 2001; Neideen and Brasel, 2007; Sekaran & Bougie, 2016). The prominent methods used in social science research include observation, questionnaire survey, exploration, and case studies. Any of these methods has its own merits and demerits (Collis and Hussey, 2003).

Exploratory research is used in research where little is known about the subject matter or where the information on how to solve a similar problem is not available. In this situation, the researcher needs to undertake extensive preliminary research in order to gain familiarity with the situation at hand, before developing the model (Sekaran and Bougie, 2016). Exploratory research is conducted in order to improve the level of understanding of the phenomenon. This research is commonly used when new knowledge is sought or certain causes and behaviour for the presentation of symptoms, events or actions need discovering. Historical research on the other hand involves an objective and systematic synthesis and evolution of evidence with the aim of establishing facts and drawing conclusions about past events. This research covers what happened in the past and explores why and how it happened (Silverman, 1993). Action research is used with a view to initiating changes by engaging work within an organisation (Robson, 2002). It permits a researcher to work with a participant in a team in progress.

A questionnaire is also one of the most significant methods of collecting primary data from the representative sample of individuals. According to Collis and Hussey (2003) a questionnaire is a list of carefully structured questions, designed after considerable testing, with a view to generating reliable responses from chosen population. The questionnaire method is designed to provide a quantitative description of attitudes, trends or opinions of the population by studying the sample of the population (Robson 2002). Creswell (2003) revealed that the questionnaire is the research approach of the positivism paradigm, where the variables under investigation cannot be manipulated. Goles and Hirschheim (2000) argued that the questionnaire is used in order to gain an in-depth understanding of people's perception, history and experience in their proper context.

Further argument for the importance of the questionnaire is made by Sekaran & Bougie (2016) who believed that the questionnaire is a technique which is designed to determine what the population does, thinks or feels about phenomenon under investigation. Despite different research methods, choosing the applicable method has to be made before the data

collection. Bryman & Bell (2007) noted that the resolution on the appropriate method depends on the research objectives, questions, hypotheses or characteristics of the population. It is important to note that this thesis employed a case study in order to answer the set objectives.

3.5. Philosophical Position of Thesis

With the development of several theoretical assumptions, research approaches and methods available for social science research, this section provides the methodology and methods used in this research. These are discussed below.

3.5.1. The Research Paradigm of the Study

As noted by Creswell (2003), before engaging deeply in any a research project, a researcher is required to understand different research paradigms and consider the appropriate one that reflects his or her research questions or objectives. For the purpose of this research, the interpretive paradigm is adopted. As noted earlier, the interpretive paradigm has different assumptions which lead to the methodology (Scotland, 2012). This research adopted nominalism as an ontological assumption. This is justified based on the research position, which is to seek the perception of individuals regarding risk management. Similarly, the anti-positivist epistemology is employed. This is because the assumption argues that reality of knowledge is based on the human perception, experience and interaction. However, with regard to human nature, this research takes voluntarist viewpoints which postulates that people are free to interpret their world within the bounds of certain societal and cultural constraints as opposed to the predetermined interpretation (see Maranda & Comeau, 2000).

3.5.2. Research Approach of the Study

Considering the uniqueness of this study, as well as the characteristics and effectiveness of the qualitative and quantitative approaches, this research emphasises the qualitative approach in designing a letter of credit discrepancy risk management model. The justification for the chosen approach is because of its applicability to this research, as it focuses on gaining insight and familiarity in the research domain (Collis and Hussey, 2003). This is important in the light of this research as this type of research has not been conducted in the area of letter of credit documentary discrepancies in Nigerian crude oil exports.

Furthermore, when considering qualitative research principles suggested by Brannen (1992), we can understand that a researcher can adopt the appropriate method by considering the purpose of the research. Therefore, taking into account the characteristics of letter of credit transactions, the qualitative research methodology is more suitable to this research. More specifically, the case study method, using interview and document analyses, is used in generating qualitative data for analysis.

3.6. Methods of data analysis

This study employed case study and interviews to evaluate the documentary letter of credit discrepancy and risk management in the Nigerian crude oil export. In doing this, the data collected were subjected to descriptive analysis on one hand, and documentary analysis on the other hand. In analysing data, raw information is explained and interpreted so that people can make sense of the meaning surrounding the data (Jensen, 2002). Thus, while research designs, research philosophy and data collection are tailored toward quality in a research, data analysis ensures that people can make meaning out of the research. In the real sense, data come in different forms and can be interpreted in different ways.

Using a descriptive analysis is not without some limitations. For instance, Best & Kahn (2016) argue that the technique affects the generalization of the findings. It means that the study

can only be generalised to a particular group where the samples were drawn. Furthermore, Best & Kahn (2016) contend that conclusions drawn from using descriptive analysis cannot be extended beyond the population from where the samples were drawn from. Unlike the rigorous analytical technique, descriptive analysis tries to simplify data for easy understanding.

3.7. Research Design

Overall, this research introduced and analysed discrepancy risk management models with a view to identifying the model which can be applicable in Nigerian crude oil exports. This was achieved through the review of relevant literature. The development of the 'Export Letter of Credit Discrepancy Risk Model' is based on the various business risk factors which contribute to the six documentary discrepancy risks. They are Defective documents, inconsistencies, missing documents, shipment delays, late presentation of documents and letter of credit expiry. Initially, this is established based on the literature review and further re-affirmed through a case study. These risk factors which are categorised into two clusters – Process and behavioural - are incorporated into the Documentary Discrepancy Risks element in the model. In essence, the model is used to investigate the factors as well as causes of the discrepancy risk in the Nigerian crude oil export letters of credit.

Another important variable in the model is 'environmental risks' which considers customer, bank and country risks in the letter of credit transaction. These variables reflect the perception of individuals who are directly involved in dealing with letters of credit by means of a case study. Hence, this research recognises the importance of quantitative variables in the analysis by using both financial and non-financial facts in analysing data. One of the objectives of this research is to determine the current internal operational strategies adopted by the NNPC in managing the discrepancy effect.

3.8. Case Study

As noted in the previous section, there are a variety of methods available for data collection. However, due to the fact that information is derived from personal interviews with participants, the researcher focuses on qualitative method. The data collection method is used to place emphasis on experience and meaning related to the underlying research (Collis and Hussey, 2003). Therefore, to obtain a more comprehensive picture of the factors and causes of documentary discrepancy risks in Nigeria's crude oil letter of credit exports, it is necessary to understand the perception of stakeholders of the letter of credit discrepancy risks, factors that give rise to these risks as well as risk management approaches. This can be done through a qualitative case study approach, by conducting a semi-structured interview. As Burns (1990) mentioned, a case study is more likely to apply in a research that does not fit into survey, experimental or historical method.

Avison et al. (2008) believed that case study always employs qualitative methods to describe the process and relationships of the event, and presents the results and impressions in writing (Feagin et. al. 1991). Such evidence, according to Leonard-Barton (1990), can be drawn from systematic interviews and direct observations as well as the documents available in the private and public archives. Consequently, this will help the researcher to determine the chain of causality as it is easier to ascertain this in the case study than any other way.

Chen and Hirschheim, (2004) argued that a case study may either be quantitative or qualitative. To support this argument Yin (2009), noted that some case study research go beyond being qualitative, by using a mix of qualitative and quantitative evidence. According to these views, the most important aspect of the case investigation is the collection and analysis of very extensive data that could produce an understanding of the focused entity. Furthermore, Orlikowski & Baroudi (1991) noted that, besides observation and interview, any relevant datum that would helps in describing the phenomenon; from both qualitative

and quantitative sources, is regarded as important to the context. This may be the reason why Burns (1990) referred to it as a 'catch-all' approach. Therefore, the available data to be collected could be enormous.

The case research seems to be one of the few methods that can be applicable to a unique or unusual event, just like crude oil export letter of credit transactions in Nigeria (Liamputtong & Ezzy, 2006). According to Bryman (2012), the basic case study involves an intensive and detailed analysis of a single case. It is usually concerned with a particular case with a complex nature in question. Single case research has been justified by Neuman (2000). Therefore, using NNPC as the case fits well with the circumstance of this study. This is because the underlined 'case' associates case study research with a location, such as an organisation or community. The two main sources of data collections used in this research are documentary analysis and personal interviews. These are discussed below.

3.8.1. Documentary Analysis

Evidence from the research literature suggests that a case study uses multiple sources of evidence. According to Leonard-Barton (1990), this type of research depends solely on the availability of necessary records, documents and interviews. These serve as the sources of description of unique materials about a particular case. For this reason, documentary analysis was used as one of the methods for this empirical research, to enhance the investigation of the subject matter and encourage studying the chain of events in greater depth (Hou and Huang, 2006; Lee and Ozer, 2007).

Documentary analysis in social science research helps the researcher to read and analyse written materials. The documents analysed in this research include the contract for sales and purchase of Nigerian crude oil, the general conditions for sale and purchase of the Nigerian crude oil, 928 letters of credit transactions, shipping documents, invoices, bills of lading and NNPC internal committee reports. To establish an effective documentary analysis,

contents analysis was predominantly employed in this study. Content analysis is commonly used as a research technique in social science discipline, capable of creating valid data from their context (Babakus and Boller, 1992). Neuendorf (2016) explains content analysis as a research technique for analyzing the manifest content of communication objectively and systematically.

3.8.2. Interviews

Interview is the common data collection method used in qualitative research that gives the respondents scope and time to relate their views and opinions regarding a subject within a framework to be explored. Certainly, interviews aim to retrieve more in-depth information about a phenomenon under investigation (Collis & Hussey, 2003). Semi-structured interviews, which are most commonly used in case study research, are non-standardised and allow the interviewee to directly reach the answers. However, the interviewer may change the order of questions, to add or omit some questions depending on the interview situation (Bryman & Bell, 2007).

In this study, interview was prepared before the appointment was made. This included issuing an interview guide to the anticipated respondent in order to minimise the risk of missing some important information. The guide followed questions in a logical order which are generally considered to be easy to answer. In this regard, the participants were given a brief note of the interview subjects to discuss, which covered a short description of the aim and objectives of the research. This would allow participants to prepare before the interview date and time, and access some useful information in advance where necessary. Nevertheless, the order of the questions asked varies according to an individual's department or position. For instance, subjects that relate to policies and decision making were discussed with employees who occupy top management positions.

In respect of the actual conduct of the interview, interviewees were identified, selected and arranged through professional contacts. The researcher's visit to Nigeria in April 2016 helped to establish relevant contacts and interview arrangements. Initially, twenty (20) individuals were recommended across different departments, but due to availability factors and time constraints, only fourteen (14) interviewees were identified from four departments in the NNPC's Crude Oil Marketing Division (COMD) – Contract, commercial, revenue and accounting, and shipping and terminals departments. The respondents from these departments participated in the NNPC's letter of credit processing.

Based on the availability granted by the respondents, all 14 interviews were conducted; nine (9) were face-to-face, while five (5) were conducted by telephone calls from Preston. Essentially, all interviews started with the introduction of the interviewer, a brief description of the project as well as the purpose of the interview. Bryman & Bell (2007) noted, however, the first few minutes of the interview will allow the researcher to establish confidence in the interviewee. As the participants were comfortable with audio recording, all interviews were taped, with the exception of two interviewees who declined to be voice recorded for fear that their privacy may be compromised. In this case, the researcher took full notes during the interview. It was explicitly expressed that all data will be managed absolutely confidentially (Babakus and Boller, 1992; Polit et al., 2001). Each of the interviews conducted lasted for approximately one hour, using English language as the means of communication with exception of three participants who chose to speak in Hausa language. Also during the interview, additional notes were taken in order to help in the data analysis process. Table 3.1 provides interview dates and times, and details of the interviewees.

Table 3.1: Interviews Details

a

Respondent	Experience (yrs)	Department	Interview Date and Time
N1	5	Commercial	April 14, 2016 (10.00-11.00)
N2	4	Shipping & Terminal	April 15, 2016 (09.30-10.15)
N3	10	Commercial	April 15, 2016 (11.00-11.50)
N4	11	Commercial	April 18, 2016 (10.00-11.00)
N5	15	Revenue & Accounts	April 18, 2016 (14.20-15.20)
N6	28	General Manager	April 19, 2016 (10.30-11.15)
N7	16	Contract	April 19, 2016 (12.20-13.15)
N8	10	Revenue & Accounts	April 19, 2016 (15.00-15.45)
N9	25	General Manager	April 20, 2016 (12.00-12.30)
N10	5	Shipping & Terminal	May 17, 2016 (15.00-16.00)
N11	5	Contract	May 21, 2016 (09.00-10.00)
N12	10	Commercial	June 02, 2016 (11.15-12.00)
N13	8	Commercial	June 02, 2016 (13.30-14.00)
N14	3	Shipping & Terminal	June 14, 2016 (10.30-11.20)

3.8.3. The Development of the Interview questions

As the empirical part of this research, a qualitative case study method was used to address the research objectives and justify the key factors in the conceptual model. The intention of the researcher was to seek the views of the practitioners on documentary discrepancy risk. Eleven (11) questions were developed in order to justify the key factors identified in the model. The order of these questions was arranged for suitable conversations. The interview questions were mainly designed following the research objectives, literature review and the establishment of the proposed conceptual model. In this regard, the interview questions were not too specific. This gave room for new questions or discussions, which emerged as follow-ups. Table 3.2 presents the connection between the interview questions and the key aspects in the model.

Table 1.2: Connection between interview questions and the model

Interview Questions	Key variables and associates in the model
1. *Why did your company choose irrevocable letter of credit as the payment contract in your crude oil export?*	▪ This question seeks to understand the motivation behind choosing the letter of credit against other methods, and the method used in assessing customer, country and bank risks as identified in establishing business context.
2. *Did the letter of credit issuance established by the customer's bank comply with terms and conditions originally signed in the sales contract?*	▪ Determine whether late opening of letter of credit and credit amendment contributed to the documentary discrepancy risks.
3. *As a key letter of credit requirement to generate and submit full set of documents, what difficulties do you face in this documentation process?*	▪ Determine the attributes of the NNPC's letter of credit operations that are associated with the delay risk element.
4. *What are the major documentary discrepancy areas highlighted in the crude oil export letter of credit transaction?*	▪ Identify and establish the existence of the key discrepancies; defective documents, inconsistent documents, missing documents, shipment delay, late presentation of documents and letter of credit expiry.
5. *Can you identify some of the factors responsible for these discrepancies?*	▪ Determine the reason why discrepancies are allowed to occurred and the relevance of process and behavioural risks.
6. *What do you thing are the main causes of the discrepancy risks in the NNPC letter of credit operation?*	▪ Determine the possible causes of the discrepancies that affect the operations of letter of credit in the NNPC.
7. *Does this affect your operational process?*	▪ Determine the consequences; impact of the discrepancies and the cost of correcting them?
8. *Considering the rejection of discrepant documents by banks on the first presentation, what is the level of these discrepancies?*	▪ Measure the magnitude and frequency of these discrepancies.
9. *What measures and action are you taking to prevent the discrepancy risk?*	▪ Determine the precautionary measures taken in preventing discrepancy risk and arrangements that are put in place should the problems arise.
10. *What skills and knowledge do you think is requires for the staffs processing letter of credit?*	▪ Determine the level of qualification, experience as well as specific training on letters of credit achieved by the employees. These are related to dysfunctional workplace and productivity risk factors in the model.
11. *Any other issues?*	▪ Incorporate other general issues for letter of credit operational and process risks related to the model

3.9. Summary

This chapter provides the discussion of various types of research; the philosophical assumptions, methodology and methods that are considered when conducting research. It

explains how research differs using an appropriate philosophy and approach that will fit in the study. This research adopted the interpretive paradigm. The justification for the chosen approach is because of the suitability of the descriptive and explanatory research. The chapter describes how case study methods were applied to undertake this study using a documentary analysis and conducted by means of an in-depth interview to further investigate the findings from the documentary analysis. This chapter also discusses how the interview questions were developed. It also explains the selection of participants who participated and how the interview was conducted. The rationale behind choosing a case study is that the research does not fit into survey or experimental methods, rather it seeks to carry out an in-depth study of the subject matter.

CHAPTER FOUR

CONCEPTUAL MODEL FOR LETTER OF CREDIT DISCREPANCY RISK MANAGEMENT

CHAPTER 4: CONCEPTUAL MODEL FOR LETTER OF CREDIT DISCREPANCY RISK MANAGEMENT

4.1. Introduction

The aim of chapters two and three was to review the literature relating to documentary letter of credit discrepancy risks and the Nigerian crude oil sales operation respectively. However, the aim of this chapter is to discuss the conceptual model which has been adopted in this study; the Export Letter of Credit Operations Discrepancy Risk Model. Section 4.2 provides the concept of risk management. Section 4.3 presents various risk management approaches. The development of the integrated model is explained in Section 4.4. Section 4.5 presents the conclusion.

4.2. The Concept of Risk Management

In the popular risk management literature, the conceptual meaning of risk can be confusing possibly because of the multidimensional construct of the term (Rasmussen, 1997). For instance, some scholars view it as unavoidable, being present in every human situation, daily lives as well as public and private sector organisations (Berg, 2010). Others, such as Thomas (1997) and Basili (1997) believe that the broad definition of risk can be justified as unfortunate events which might happen in the future. Other scholars argue that risk is an uncertainty which exists within external and internal environments that is surrounded by predictable events and outcomes (Jüttner et al. 2003). In this sense, risk is viewed as the consequences of potential outcomes in an event, such as political risk and market risk. From the letter of credit view point, risks are often conceptualised as operational risks, ruin or bankruptcy resulting from complex processes, operational difficulties as well as political and economic uncertainties (Miller, 1992; Peters et al. 2010).

According to Waring and Glendon (1998), there are two different types of risks; pure and speculative. The pure risks involve hazards such as health and safety, environment and security which can be reduced, controlled or eliminated. Speculative risks, however, are those associated with business, investments and finance where strategies and policies are required in order to enhance the overall utility or benefit of the organisation (Embrechts et al. 2002).

In worst risk scenario, export companies who adopt letters of credit as a payment mechanism may be severely affected as a result of inefficient processes, customer default, loss of market and financial losses that can be incurred directly or indirectly (Waring and Glendon, 1998). It is argued by Daud & Yazid (2009) that any wrong approach in taking those risks could create some severe financial consequences to the companies. In the context of this research, the business risk aspect, together with that of the enterprise risk dimension is studied, relevant to the letter of credit documentary processes (Adcock & Meade 2017).

The concept of risk management has been in existence for over a hundred years (D'Arcy & Brogan, 2001). Relevant literature tries to explain different methods, processes and applications of risk management in many fields. For example, firms and organisations learned how to adopt fire risk measures through safety practice and the use of building materials after the introduction of fire insurance in 1667, and also shift the risk to another party (Miller, 1992; D'arcy & France, 1992; Rasmussen, 1997; Froot & Stein, 1998; Embrechts, et al. 2002; Peters et al. 2010). However, early lenders adopted different methods in attempting to reduce default risk by restricting the amount loaned to borrowers as well as limiting the number of individuals to be offered a loan (Kontio and Basili, 1997; Dickson, 1995). Furthermore, the term risk management is defined by Dickson (1995) as the process of recognising risk events, their severe consequences and the ability to develop control measures. According to Dickson (1995), it involves identifying, analysing the economic control of those risks which can threaten the earning capacity or assets of the enterprise.

In a similar vein, Jüttner et al., (2003) suggested that the critical aspects of risk management are based on assessing the risk source, identifying risk and adverse consequences, identifying the risk drivers and adopting mitigating strategies. Risk management can also be described as an activity that seeks to reduce, eliminate and control the effect of risk and enhance its benefits (Waring and Glendon, 1998). Observation from the work of Rogers & Ethridge (2013) revealed that identification of such risks can be facilitated by ange in political, regulatory and economic environments in which organisations engage in international trade. Additionally, increases in cost, volatility and instability of market conditions are also contributory factor (Brannan & Taylor, 2006; Wakefield, 2014).

From the foregoing, it can be concluded that risk can only be addressed at the end if it was recognised in the beginning. With regard to letter of credit transactions, the possible risk management option is either to avoid the risk or to reduce it. This can be done by substituting risk with another party or implementing adequate measures; through cost benefit analysis (Epstein & Zin, 1989; Lopez, 2002; Ward & Chapman, 2003). Furthermore, Dickson (1995) argued that a successful method in a particular situation may not be an appropriate model for risk management practice in a completely different environment. It is reported in the work of Bergami (2011) that because of the extensive use of letters of credit there is an opportunity to identify, assess, analyse, treat or avoid risk. However, the cost of reducing risk may be uneconomical (Chorafas, 2001; Blake, 2003).

Several researchers noted that the risk management approach has dramatically changed, from the confined approach to a more proactive approach that incorporates externalities in trade conducts, by addressing the risk through prevention methods developed from policies and practice (Roberts, 2005; Mandel, 2008; Liebenberg & Hoyt, 2003; Kloman, 2003). This shift gave rise to new ways of addressing risk using different frameworks and standards. However, it is important to note that the concepts of letter of credit vulnerability and the risk management strategies are still in their infancy (Raz and Hillson, 2005; Hassan et al., 2016). In essence, this study aims to investigate the causes and effects of documentary

discrepancy risks in Nigerian crude oil export letters of credit operations, especially those related to operational process. This research further seeks to conceptualise a systematic model applicable to letter of credit transactions from the previous approaches. This will be discussed in the next section.

4.3. The Emergence of Risk Management Approaches

Different organisations are faced with different types of risk, ranging from programme, technological, project, political, health and safety to financial, policy, operational and process risks (Verbano & Venturini, 2011; Covello & Merkhoher, 2013; McNeil, et al. 2015). These placed them at the position that requires a coordinated and systematic corporate response. The perception of risk within an organisational setting has drastically changed organisations' attitude to risk management approach (Lyytinen et al. 1998; Saunders & Allen, 2010). Consequently, the risk control system began to change in a manner that reflected the risk in the business environment. It is evidently clear that a number of robust frameworks and standards have been developed to effectively identify, assess and manage risk (Lempert & Collins, 2007). The relevance of these methodologies are considered in this research.

4.3.1. The COSO Framework

During the late 1970s and early 1980s, global business witnessed a series of high-profile corporate failures and scandals, which adversely affected many institutions, investors and stakeholders (Covello & Mumpower, 1985; Caouette, Altman, & Narayanan, 1998). In the same period, there were strong calls for the development of a new framework of laws, regulations and listing standards in order to improve corporate governance and risk management. This led to the establishment of the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 1985 in the United States (Committee of Sponsoring Organizations of the Treadway Commission, 2009). The five private sector organisations are American Accounting Association, Financial Executives International, the American Institute of Certified Public Accountants (AICPAs), the Association of Accountants and Financial

Professionals in Business and the Institute of Internal Auditors, formed a joint initiative to sponsor the National Commission of Fraudulent Financial Reporting in 1987 which is commonly referred to as the Treadway Commission (Verschoor, 1998; McMullen, Raghunandan & Rama, 1996; Committee of Sponsoring Organizations of the Treadway Commission, 2009; Yatim, 2010; Curtis & Carey, 2012).

Certainly, the responsibility of the commission is to mainly address the governance issues. However, in 1992 COSO further released another framework called the Internal Control Integrated Framework, which provides a practical approach, principles and components that would help an organisation to adopt internal control in a dynamic business and operating environment (Committee of Sponsoring Organizations of the Treadway Commission, 2009). Beasley et al. (1999) revealed that this framework was developed in order to mitigate risks to acceptable levels, and support sound decision making and governance of the organization. Part of the reason why COSO become the leading framework and gained wide acceptance around the world could be due to its nature of designing, assessing, implementing and controlling of risk assessment (Lundqvist, 2014). This can be demonstrated in Figure 4.1.

Figure 4.1: COSO Components and Principles Cube

Source: Bergami (2011)

it was argued by Anderson (2007) that, despite the reasonable assurance of organisational objectives offered by the framework, the internal control was unlikely to protect organisations from decisions or judgments or external events that can affect an organisation in achieving its operational objectives. For example, in the letter of credit process, simple errors may occur due to human failure. It is argued that even an effective system of internal control can experience a failure. Therefore, it is concluded that internal control can only provide reasonable but not absolute assurance of freedom from risk. Additionally, Bergami (2011) opined that COSO does not offer any detailed solution on how the framework ought to be implemented. The framework excludes the risk management as part of its internal control definitions and focuses on financial reporting objectives. To this end, it can be concluded that COSO is not appropriate to this research as it is too general in nature. The framework is perhaps a stepping stage that leads organisations to focus more on their risk management practice (Frigo & Anderson, 2011; Curtis & Carey, 2012). It also permitted other risk management frameworks to emerge in the 1990s such as Enterprise Risk Management (ERM) (Beasley et. al. 2010; Hayne, & Free, 2014).

4.3.2. Enterprise Risk Management

Enterprise Risk Management (ERM) is a relatively new term in the field of risk management which emerged in the mid-1990s with a view of responding to the total risks that an organisation faces (Dickinson 2001). The concept of ERM became important so quickly when other forms of risk management became less attractive or incompetent to effectively identify, access and manage risk. According to Sobel (2005), ERM is a discipline and structured approach developed to help management of an organisation encompasses all business risk and understand and manage uncertainties using holistic and integrated approach.

Liebenberg & Hoyt (2003), Lam (2003) and Gordon et al. (2009) believed that the reason for the emergence of ERM can be traced to the increased high profile company failures, and

also the quest for these to improve their corporate governance. This is largely due to the failure of organisations to pay attention to preventable losses (Kleffner et al. 2003). For many years, companies passed a certain amount of risks related to natural catastrophe, credit, fraud, accident or human error to insurance companies (Duffie, & Singleton, 2012; Hoyt & Liebenberg, 2011). However, ERM aims to consider an alternative risk management approach in order to increase shareholders' value and embrace profitable risk opportunities. This is because some insurable risks could be avoided, or their impact reduced through efficient control of loss- prevention and systems (Dickinson, 2001). Thus, it can be observed that risk should not only be insured, but can be managed in a comprehensive manner. In this context, companies can identify, assess, respond, and control the risk consequences of the corporation's leading risk factors with an Enterprise Risk Management system in place.

It is noted from the risk management literature that, a number of risk events such as political risk, physical risk, interest rate risk and investment risk are managed with different approaches by different units within the organisation (Beasley et. al. 2006). In these situations, each function in the organisation developed tools and practices to manage their risk, which was largely independent of the others (Driver & Bernard, 2012). Some of these tools include strategic risk management, integrated risk management, business risk management and corporate risk management (Miccolis and Shah, 2000; Merkley, 2001; Mandel, 2008; McShane et. al. 2011). Consequently, using the wrong approaches in addressing those risks could result in financial losses and costs for the companies. However, Roberts (2005) argued that although ERM is subjected to different aspects of risk management, it did not provide a single integrated approach and proper guidance on how organisations should develop and deploy risk management strategy rather than focus on the basic process framework (Bernstein, 1996; Deloach & Nick, 2000).

A number of researchers such as D'Arcy (1999) and Lam (2003) claim that ERM provides reasonable assurance in achieving organisational objectives. In essence, ERM was built as an ultimate approach that analyses and manages risk with a consistent and comprehensive

framework for the overall and holistic approach to business risks such as strategic, financial, operational and hazard (Merkley, 2001). A common thread of enterprise risk management is that the overall risks of the organisation are managed in aggregate, rather than independently.

Several scholars such as Bernstein (1996) and Daud & Yazid (2009) argued that that the implementation of ERM framework is not as practically straightforward as many think. In fact, it is evidently clear that a robust framework is needed to effectively identify, assess and control tremendous losses resulting from high profile corporate scandals and failures (D'Arcy & Brogan, 2001). This may be the reason why COSO reviewed its 1992 internal control framework and came up with a new version with the name Enterprise Risk Management – Integrated Framework in September 2004 (Daud and Yazid, 2009; Paape & Speklè, 2012; Wu et al. 2015). This is seen as the expansion of the previous version and focuses on eight components and five objectives available for for organisation to evaluate and improve the ERM (Walker and Shenkir, 2008). Figure 4.2 Illustrates the relationship between the components and objectives. The ERM integrated framework tries to fill the impending need and become widely accepted around the world.

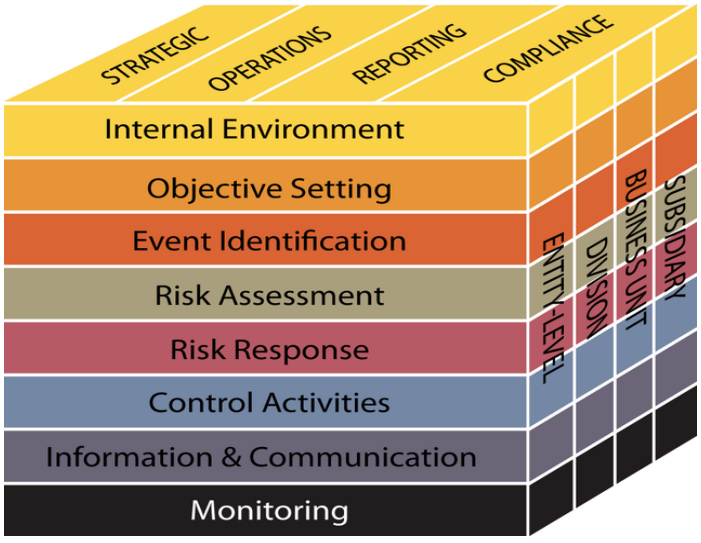


Figure 4.2: COSO 2004 ERM: relationship of objectives and components Cube

Source: Bergami (2011)

The COSO ERM 2004 has components that management adopts to run enterprises and integrate them with their own management procedures (Moeller, 2007). The cube in Figure 4.2 portrays the ability of a firm to focus on ERM components in order to achieve its objectives (Deloach and Nick 2000; Taylor, 2001). The eight components which replaced the traditional five found in the 1992 framework are highlighted below.

4.3.2.1. Internal Environment

Internal environment incorporates the attitude of an organisation and sets the basis for how people view and address risk within the firm they operate. This includes areas such as risk appetite, risk management philosophy as well as integrity and ethical values. This element is placed at the top of the COSO ERM framework components (Committee of Sponsoring Organizations of the Treadway Commission, 2009). In this regard, organisations should first consider ERM control environment as the key for all other components in the management system (Moeller, 2011). This level provides the basis for other components in the organisation's ERM model on how risks related to company's activities are structured. how enterprise identifies risks and how strategic actions and objective should be established.

4.3.2.2. Objective Settings

Organisations must set objectives before the management can identify potential risk events affecting their achievement. The ERM therefore ensures that the set objectives are brought into line with the entity's mission and are also consistent with its risk appetite. Thus, the strategic objectives are high-level goals that organisation should link with its vision or mission. In other words, before management establishes an effective ERM process, the necessary precondition of the objective component of COSO ERM must be outlined (Committee of Sponsoring Organizations of the Treadway Commission, 2009; Moeller, 2011). This will allow the enterprise to develop high-impact strategies, and then select,

develop and implement a series of operations, reporting and compliance objectives in order to achieve its mission.

4.3.2.3. Event Identification

The events that affect the entity's achievement internally or externally must be identified. Events are occurrences or incidences, internal or external to an organisation, that affect the achievements of its objectives or the implementation of the ERM strategies (Deloach and Nick, 2000). The monitoring process emphasises some issues such as budgets, cost and quality assurance compliance. According to Moeller (2011) an enterprise needs to clearly define and monitor significant risk events that require appropriate actions.

4.3.2.4. Risk Assessment

The risk assessment component is regarded as the centre of COSO ERM framework. Organisation uses this component to evaluate the extent of the impact of the potential risk-related events that might affect the achievement of its objectives (Bowling & Rieger, 2005). The entity determines how risk should be managed, depending on their likelihood and their impact after they have been analysed; they are, therefore, assessed on the basis of their nature and characteristics. The methods of risk assessment are identifying and analysing risk event and making judgment of the risk on the basis of a risk analysis (Deloach and Nick, 2000).

4.3.2.5. Risk Response

When the risks are identified and assessed, the next is to determine how organisation should respond to these risks. This is an organisation's responsibility to carefully review the potential impact and estimate risk likelihood and consider the cost and benefit associated to risk (Deloach and Nick, 2000; Moeller, 2011). This largely depends on the entity's risk appetite and tolerance. The risk response can be handled through strategies that could

avoid, reduce and share risk. The enterprise must develop some comprehensive risk response strategies around one or a mix of these four approaches (Taylor, 2001).

4.3.2.6. Control Activities

The control activities tool in the COSO ERM is linked to the risk response component. The organisation should choose the effective control activities, policies and procedures in order to ensure that risk responses are perfectly executed accordingly. Moeller (2011) revealed that many control activities can easily be identified and tested due to accounting nature of internal control system (Bowling & Rieger, 2005). These include separation of duties, audit trails, security and integrity and documentation (Deloach and Nick, 2000). The control activities tend to provide support to assist different key areas specific to individual units within the organisation, single or collective in order to support its ERM frameworks.

4.3.2.7. Information and Communication

The information and communication provides an information flow across COSO ERM component (Moeller, 2011). Information related to the risk events is accurately identified, captured and communicated in a broader sense to the relevant people; in form and timeframe; flowing down, across and up, in order to enable them carry out their responsibilities (Taylor, 2001). In recent days, the information element is normally adopted using information technology (IT) strategic and operational information system. However, communication element goes beyond IT application. It requires organisations to establish strong communication mechanism to make sure all stakeholders received message regarding risks and response strategies (Deloach and Nick, 2000).

4.3.2.8. Monitoring

The monitoring component of the ERM framework model is used by the organisation as a necessary tool to ensure that all components adopted are working and continue to work effectively. The monitoring process is an effective method that helps enterprise in assessing how well the ERM framework is functioning. This can be done through ongoing evaluation within the management activities and modified where necessary (Taylor, 2001).

At certain levels, the ERM has been incorporated into policies, rules and regulations and helped businesses in assessing and enhancing their internal control systems (Davenport and Michelle 2000; ARI Risk Management Consultants, 2001). Nevertheless, the ERM is unlikely to fit this research as the approach does not provide the specific model relevant to letter of credit transactions.

4.3.3. Australia New Zealand Risk Management Standard

The Australia New Zealand risk management standard was first issued in 1995 by the Joint Standards Australia and Standards New Zealand committee which established the AS/NZS 4360: 1995 (ANZ/NZS 1995). According to the proponents of this standard, the concept was developed in order to respond to the impending need for practical assistance and guidance in adopting risk management in private and public sector organisations (Standards Australia/Standards New Zealand 1995). It is important to note, however, that the ANZ/NZS 1995 provides a generic framework for identification, analysis, assessment, treatment and monitoring of risk which is assumed to have broad applicability in enterprises, commercial organisations and government entities (Leitch, 2010; Fleer, 2013).

In the quest to improve the ANZ/NZS 1995 risk management standard, the committee further published a new version of the standard in 1999 called AS/NZS 4360: 1999 Risk Management (AS/NZS 1999). The new standard was seen as an improvement of its original standard, specifying the elements of the risk management process and provide a generic

guide for establishing and implementing of the risk management process involving establishing the context and the identification, analysis, evaluation, treatment, communication and ongoing monitoring of risks (AS/NZS 1999). However, it is argued that the design and implementation of the risk management system can be influenced by the varying needs of an organisation, its particular objectives, its products and services, and the processes and specific practices employed (Joint Technical Committee 1999; Leitch, 2010).

In 2004, the development of COSO's Enterprise Risk Management – Integrated Framework in the United States came at the time when Australia and New Zealand revised their standard and came up with AS/NZS 4360: 2004 (Standards Australia/Standards New Zealand 2004). As expected, the new version enhanced the overall risk management process by establishing a systematic risk management programme as can be demonstrated in Figure 4.3.

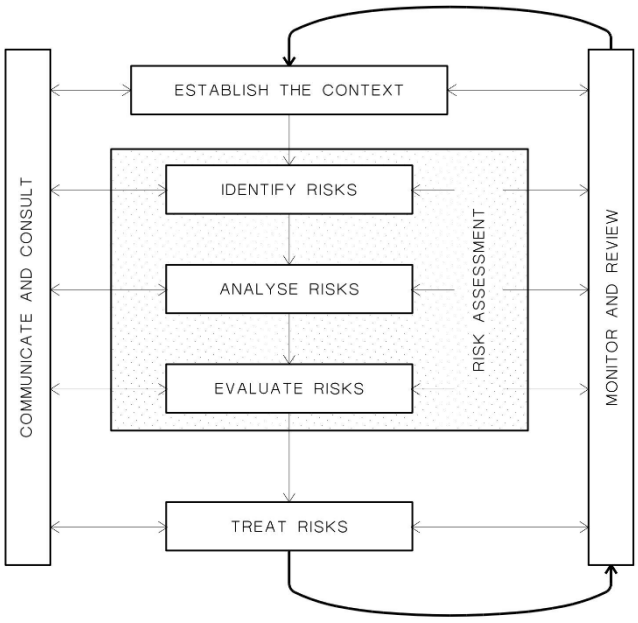


Figure 4.3: AS/NZS 4360:2004 Risk Management Overview

Source: Bergami (2011)

As can be seen from the above diagram, the risk management process first starts with the need to 'communicate and consult' element. The standard proposes dialogue with stakeholders and focus on consultation rather than a one-way flow information from the decision maker to other stakeholders (Feng et al. 2007). This demonstrates that the perception of both internal and external stakeholders' is as important as the estimate of insiders and experts (Standards Australia/Standards New Zealand 2009). Other stages, according to the AS/NZS 4360: 2004 Standard shown in Figure 10.4, are explained below.

4.3.3.1. Establishing a context

Establishing a context helps to define the relationship between the organisation and its environment and identify the strengths, weaknesses, opportunities and threats. The context includes setting the criteria for risk assessment in the organisation's functions, such as financial and operational, as well as defining the structure of risk analysis (Ahmed et al., 2007). This stage focuses on the environment in which the organisation operates, and seeks to determine critical elements which might support the organisation's ability to manage the risk its faces (Rayner, 2004).

4.3.3.2. Risk identification

Risk identification is concerned with identifying the risk to be managed. It is critical to determine what could happen because it is very difficult to identify a risk at this stage (Rayner 2004). However, the list of events can be identified by considering possible causes and scenarios of risk. There are many ways an event can be initiated which then forms the basis for further analysis, for instance why and how things can arise (Leitch, 2010). Approaches used in risk identification include system analysis, checklists, brainstorming and judgments based on experience and records.

4.3.3.3. Risk analysis

The objective of risk analysis is to separate major risks from minor risks and provide data to support risk evaluation and treatment. It involves consideration of risk sources, their potential consequences and magnitude as well as the likelihood of the event that may occur (Fleer, 2013). The risk is analysed based on a combination of the estimated likelihood and consequences in the existing control measures (Ahmed et al. 2007).

4.3.3.4. Risk evaluation

Risk evaluation involves comparing the level of risk found in the analysis with risk criteria previously established. The output of risk evaluation is prioritised; low risk levels may be acceptable as they do not require treatment, while other risks should be considered for further actions (Fleer, 2013). The risk evaluation requires all units to perform. This will help organisations to identify is potential threat that may affect its operations (Daly et al. 2008).

4.3.3.5. Risk treatment

Risk treatment involves identifying the range of options available for treating risk, assessing those options and preparing a risk treatment plan for implementation. There are many instances wherein risk can be avoided, transferred or retained (Daly et al. 2008). In essence, risk can be retained by default, this is likely when there is failure to identify or appropriately transfer the risk. It should also be noted that control measures can be used in order to reduce the likelihood and consequences. The right control may involve effective policy, procedures or physical changes (Ahmed et al. 2007).

4.3.3.6. Monitoring and review

It becomes necessary for the organisation to monitor the risk in order to understand its effectiveness. Despite the effort made by AS/NZS 4360, it can be argued that It is not possible to create a standard means of integrating risk management across an organisation for all situations successfully, because it was only established to be applied to individual departments, projects or processes (Rayner 2004; Ahmed et al. 2007; Daly et al. 2008). On

one occasion, criticism was levelled at AS/NZS that it was not designed to create uniformity in the risk management system. Consequently, AS/NZS 4360 may not be applicable for this research simply because it lacks comprehensive details in the context of letters of credit (Ahmed et al. 2007).

4.3.4. International Organisation for Standardisation (ISO) 31000

While there are many options for risk management available to implement and achieve organisational objectives, in 2009 the International Organisation for Standardisation (ISO) came up with a new standard called ISO 31000 to answer some of the persistent questions regarding risk management (Martinez, 2004). This standard was the result of the working group and technical advisors from more than twenty (20) countries. It is believed by Gjerdrum and Peter (2011) that the ISO 31000 is the revise of the AS/NZS 4360:2004 to create standard that can be used by different organisations for any type of operation in any country, regardless of type, size or complexity. Others, such as Purdy (2010), argued that the new standard was developed in order to respond to the 2008 global financial crisis, so as to improve stakeholder confidence, governance and operational efficiency.

Relevant organisations have published guides on ISO 31000 and information on how organisations should successfully implement risk management, while minimising losses (Martinez, 2004). One of these efforts is the joint effort of the major risk management organisations in the United Kingdom, the Institute of Risk Management (IRM), the Association of Insurance and Risk Managers (AIRMC) and the Public Sector Risk Management Association which provides an overview of ISO 31000 requirements and practical guidance and advice on designing suitable frameworks with regard to ERM implementation (Institute of Risk Management, 2010). One of the unique features of ISO 31000 is that it is not specific to any industry or sector; in fact, ISO 31000 may be applied to any public, private, community, enterprise, group, association or individual. For instance, the concept of ISO

31000 can be applied to a wide range of activities and can be used throughout the life of an organisation, and, including strategies and decisions, processes, operations, projects, functions, assets, products and services (Standards Australia/Standards New Zealand, 2009). It was revealed by Gjerdrum and Peter (2011) that the ISO 31000 offers organisations effective risk management procedures that would help them in identifying and treating risk and also improve the identification of threats and opportunities throughout the organisation. Therefore, if an organisation effectively implements it as outlined, it will help them comply with regulatory and legal requirements and international norms.

The above mentioned principles are also linked to the framework that integrates processes in managing risk in an organisation. Many such as Leitch (2010) and Lalonde & Boiral (2012). believe that the given framework provides a foundation for a risk management process to be implemented and ensures it is adequately reported. The organisation can adopt this as a basis for decision making and accountability. However, the success of risk management is largely dependent on the effectiveness of the management of the framework. The flow of ISO 31000 can be demonstrated in Figure 4.4 below.

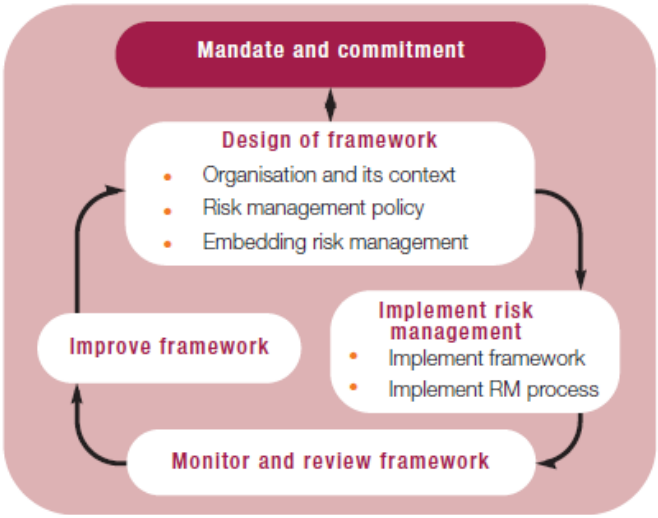


Figure 4.4: ISO 31000 Risk management Framework

Sources: IRM 2002

The component parts of the framework are that the organisation is required to establish a mandate and commitment by providing rigorous and strategic planning for achieving successful risk management at all levels. Hence, the risk management can also be designed, implemented and monitor the process as well as continually improving the framework. The framework consists of arrangements, policies and organisational structures to implement, sustain, and improve the process (Purdy 2010).

Furthermore, Gjerdrum and Peter (2011) argued that the ISO 31000 standard largely copied the AS/NZS 4360:2004 step-like process for managing risk. There is considerable duplication between the two standards with regard to risk assessment and the application of the 'communication and consultation' and 'monitor and review' elements. This process is illustrated in Figure 4.5. In view of that, an organisation can carry out a critical review of its existing risk management settings in the light of ISO 31000. Within this new process, establishing context includes taking into account the internal and external parameters and setting out the scope and risk criteria for other process steps.

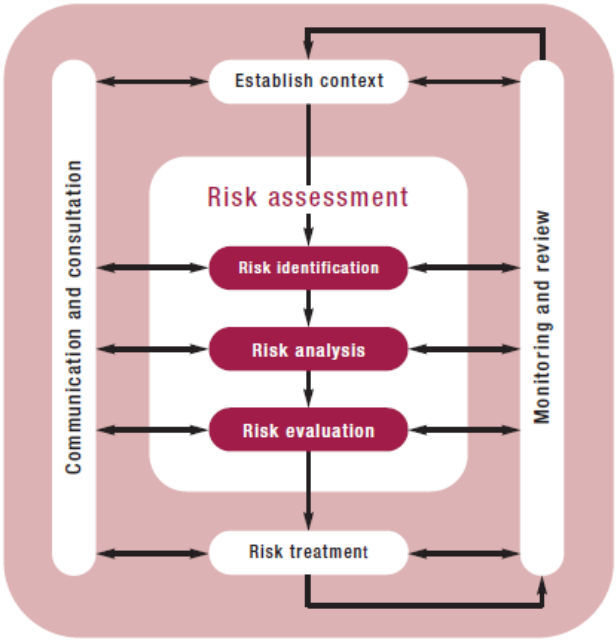


Figure 4.5: ISO 31000 Risk Management Process

Sources: IRM 2002

The ISO 31000 process shows that the backbone of the risk management process is preparing for and then conducting risk assessment that could lead to a necessary risk treatment (Purdy 2010). Although it can difficult to use the entire risk management process in the letter of credit transaction, the consideration of some aspect is worthwhile.

4.3.5. Hazard and Operability (HAZOP) Analysis

The Hazard and operability (HAZOP) philosophy is a Process Hazard Analysis method used worldwide for investigating not only hazard but also operability problem, by studying the impacts of any deviations from design conditions (Dunjó et al. 2010). It is noted that HAZOP is a qualitative industry best practice method for distinguishing and controlling procedure security risks (Labovský et al., 2007 Isimite and Rubini, 2016). Dunjóa et al. (2010) defined HAZOP as the application of a formal, critical and systematic examination of the engineering and the process of existing or new facilities to evaluate the potential fault of individual bits of equipment, and the consequences for the office in general. According to Dunjóa et al. (2010) the concept of HAZOP first emerged with the objective of identifying possible hazards in facilities which manage highly hazardous materials. Hazard and operability (HAZOP) study is viewed as one of such devices for the systematic risk identification, analysing and evaluation of process and operability hazard (Khan & Abbasi; Isimite and Rubini, 2016).

According to Kotek and Tabas (2012) and Johnson (2010) If the HAZOP study achieves its objective of identifying and assessing all situations that have nontrivial likelihood and outcome consequences, then the risk treatment can be combined to yield the total risk by process units. The HAZOP qualitative analysis techniques use a systematic approach in identifying possible hazard areas and making sure that appropriate measures are put in place to help prevent accidents. Isimite and Rubini (2016) revealed that the dynamic simulation of HAZOP provides an alternative pathway for the sequence of events that lead to the accident.

The qualitative investigation strategy uses an efficient way to deal with the problem derived from.

The objective of the HAZOP study is to identify the potential hazard operability issues in the process through hazard and operability analysis and provide preventive measures (Svandova et al. 2005) It is noted that during a HAZOP study, an additional effort is required for further deliberation using the result of a dynamic simulation. This can make the process more onerous. According to Isimite & Rubini (2016) this activity is can be used as part of the preparatory phase of a HAZOP study. Johnson (2010) used the combination of the layer of Protection Analysis (LOPA) and ascenario-based HAZOP study in order to could help a review team to properly avoid the duplication of effort involved in first doing a HAZOP study to identify scenarios. Kotek & Tabas (2012) revealed that a quantitative HAZOP is used in finding causes deviations and scenario development in order to estimate the final effects and identify safety functions by undertaking the assessment of the severity and probability of each scenario. This allows the organisation to select the most important preventive recommendations for implementation. The United Kingdom Health and Safety Executive acknowledge the need for industry to engage and improve their risk management and control measures (Isimite & Rubini (2016). HAZOP study is therefore followed by further simulation to explore an alternative sequence of events and their consequences. Dunjóa et al. (2010) noted that the purpose of HAPOZ was to eliminate any source that leads to major accidents such as explosions, toxic releases and fires.

According to Kotek & Tabas (2012), the basics of the HAZOP method was created from the need to identify hazardous materials in the chemical industry. The method aimed to identify hazards and proposed measures that could minimize or completely eliminate potential sources of risk. Over the years, the application of HAZOP has been rapidly extended to other facilities due to the recorded success of identifying not only hazards, but also other operational problems. Others such as Isimite & Rubini (2016) suggested the combination of traditional HAZOP with a dynamic simulation to significantly reduce the effort and time

required in HAZOP study (Švandová et al. 2005). The success of HAZOP study lies in its ability to first identify and subsequently analyse the possible scenarios that may cause hazard with different degree of severity.

Dunjóa et al. (2010) reviewed the report of U.K Health and Safety Laboratory. Dunjóa et al. (2010) focused on the hazard and operability (HAZOP) analysis and defined the potentials and state of knowledge for improving its important methodology. The dynamic HAZOP has been used as a possible methodology for identification and accessing the hazards and their associate risks. This method has been used as a methodology to accurately identify hazardous scenarios and consequences for some deviations and their corresponding risk during hazard analysis process (Svandova et al., 2005; Labovský et al., 2007; Isimite & Rubini, 2016). Any quantitative hazard evaluation method that can be adopted in identifying risk scenarios in terms of their event sequence, initiating causes, safeguards and consequences can be extended to record much of the result of HAZOP study.

Kotek & Tabas (2012) revealed that the objective of HAZOP study in industry is to focus either on safety assessment with consideration of possible risks for operators or equipment, or the operability of maintaining the quality of the product. From the practical point of view, the application of the HAZOP in industry requires the following factors as provided in Kotek & Tabas (2012).

- Possibility of degradation / decomposition of raw materials
- Possibility of a failure of the human factors
- Possibility of an exothermic runaway of reaction, decomposition hazard from the raw materials, reaction mixture, intermediates and final products
- Possibility of an undesirable side reactions
- Possibility of a utility failure

Although HAZOP has made considerable progress in the past decades, literature such as Svandova et al. (2005) and Dunjóa et al. (2010) suggest that the dynamics of HAZOP studies

demonstrated a pathway for evolution process variables of hazard should safety barriers be breached in a given incident. In this regard the HAZOP study does not provide a specific model that deals with the risks associated with letter of credit. Furthermore, there is a particular risk management approach developed by Bergami (2011) which is applicable to letter of credit transactions. This model may be a suitable framework for this research. This model was used in Bergami (2011) in assessing the documentary discrepancy risk in the Australian export letters of credit. In effect, this helps in identifying documentary discrepancy risk elements as well as making suggestions for addressing them.

4.3.6. Export Letters of Credit Business Risk Model

The export letter of credit business risk model developed by Bergami (2011) operates within the context of a trading environment, divided into three risk categories; Environmental Risk, Behavioural Risk and Process Risk. Bergami (2011) shows that the risk elements identified within the circle, as they appear in Figure 4.6 significantly affect the documentary compliance and consequently have a great impact on the exporter's payment. The emphasis of this model is that a number of these risk elements, which are divided into the aforementioned three risk groups, are develop before, during or after the shipment.

Figure 4.6: Export Letter of Credit Business Risk Model
Source: Bergami (2010)

4.3.6.1. Environmental Risks

Bergami (2006) believed that environmental factors, such as customer, country and bank risks, exist in export organisations especially micro and medium firms, and consequently require proactive measures to reduce their impact on transactions. Bergami noted that the bank risk and country risk are linked to political and economic factors. Considering these factors, organisations employed letters of credit as the payment contract for the export sales. This provides payment security by substituting the importers' default risk with that of their bank. According to Bergami (2007), the customer risk element can possibly be reduced using export credit insurance to cover the risk of payment default by the customer and the country of destination. Fundamentally, the model justified that exporters should take these risk elements into consideration as can explained below.

4.3.6.1.1. Customer risk

From the risk management point of view, letters of credit were adopted to take care of the interest of the exporter by providing them with payment security. There are a number of economic, social and political factors that may force an exporter to assess an overseas buyer as "being an unacceptable financial risk". An assessment on customer can be done through financial examinations, credit reference and checking of track record in order to assess the information regarding the customer. However, it is argued by Bergami (2010) that these may be difficult, if not impossible, probably due to the absence of trade history between the exporter and the varying nature of disclosure obligation in different countries.

4.3.6.1.2. Country Risk

It was revealed by the Bergami (2011) that the exporter is required to make an assessment of the country of the buyer and understand the financial and regulatory implication in respect of payment. Primarily, the key issue of concern is the country's social and economic stability. According to Bergami (2011), information regarding country risk analysis can be found in public data such as OECD or other sources.

4.3.6.1.3. Bank risk

Bergami (2011) noted that the exporter is subject to payment default spread over two banks that issue and advise the letter of credit. While proving this point, it "may be comparatively more difficult to assess a bank's standing in a foreign country" (Bergami, 2011 p.132). Not all banks have financial strength and stability. Consequently, banks with a problem of financial standing or which are located in a poor country may be likely to default on their financial obligation due to lack of funds. An example of two Saudi Arabian banks by the author; AWAL Bank and The International Banking Corporation are given, where the banks failed to meet their financial commitments despite their devotion to letter of credit.

4.3.6.2. Process Risk

According to Bergami (2011), this risk involves four elements that are likely to affect the operation of letters of credit. These can be explained below.

4.3.6.2.1. Hazards

This element involves risk that occurs due to unforeseen circumstances before or after the shipment, such as delay, loss, or damage of the exported goods. An example given by the author is that a missing shipment date is a breach the letter of credit requirement.

4.3.6.2.2. Errors, Omissions and Delays

According to Bergami (2011 p.172) the errors on documentation are "data that conflict with the LOC requirements, or among the documents presented, thereby causing a non-complaint presentation". Error risk elements can be manifested as incorrect goods descriptions, price or consignment detail. Similarly, omission involves missing data in the documentation process. This can cause chaos in an organisation as the documents will be rejected on discrepancy basis. On the other hand, delay is linked to hazard as a result of inability to act on a specific date as requested by the letter of credit. Bergami claims that these risk elements are caused by human or machine activities in the letter of credit process.

4.3.6.2.3. Frauds

This is intentional misrepresentation. It can be true that an "exporter may be subject to fraud where the LOC is received directly from the issuing bank not the through a local bank…and if the goods are shipped, payment may never eventuate if the LOC is not genuine" (Bergami, 2011 p.172).

4.3.6.2.4. Proactivity Loss

This risk element includes "inappropriate work rules and missing controls" (Bergami 2011 p.173). An example given by the author is that the exporter is subject to the resources that is required to correct the discrepancies when they occurred. This element is also a contributing factor to behavioural risk.

4.3.6.3. Behavioural Risk

The behavioural risk group arises when there is long procedure, poor policies and lack of standard operating procedure or member of staff are not committed to follow due process. This according to Bergami (2011) may lead to chaos in a work place.

4.3.6.3.1. Opportunity Cost:

Bergami (2011) noted that it is fundamental for an exporter to meet the requirements of the letter of credit, as any minor discrepancies can affect payment for the goods exported. It can also be observed that this element is related to business practice, people knowledge and people skills. According to Bergami (2011 p.135) opportunity cost "is a difficult risk to mitigate, particularly where third parties are involved and insurance for documentary errors is not routinely available". He noted that exporter must be aware of the financial consequences of this risk.

4.3.6.3.2. Dysfunctional:

Reflecting dysfunction workplace risk to letter of credit transactions, Bergami (2011) links this element to challenges faced by an exporter in meeting a deadline, especially when there is excessive pressure to meet organisational objectives. He further noted that this may be triggered by process risk. One of the examples of this risk element is inability of the exporting firm to meet shipment on the latest shipment date or lodge the document on appropriate dates.

4.3.6.3.3. Productivity Loss

This element, which can also be found in the process risk, is related to poor management practice or poor worker's commitment. It is revealed that "it is certainly easy to imagine documentary discrepancies caused by a less than zealous employee or one who is not committed to the tasks assigned to them" (Bergami, 2011 p.136). Consequently, this risk has a serious impact on the letter of credit process.

Although Bergami's (2011) model became ground breaking in identifying risk elements associated with letter of credit transactions, it can be observed that the model did clearly explain the major causes of the discrepancy risk and the strategic components necessary to deal with the threat.

4.3.7. Fishbone Diagram (Ishikawa Diagram)

The Fishbone diagram was established as a tool for analysing process dispersion in any operation. It is also referred to as the 'Ishikawa diagram' because it was developed by Kaoru Ishikawa in 1968 (Hekmatpanah, 2011). This diagram illustrates the potential causes and sub-causes that lead to an effect and helps in data-collection and problem-solving efforts toward the most likely causes of the problem (Hill, 2005). In a typical Fishbone diagram, the effect is usually that the problem needs to be solved, by brainstorming the root of the causes

with arrows laid alongside, with further branches of causes 'bones' toward the symptom (effect) demonstrated as a fish skeleton. Because of this function, the concept is called a cause-and-effect diagram. Figure 4.7 shows how causes and effects lead to the problem.

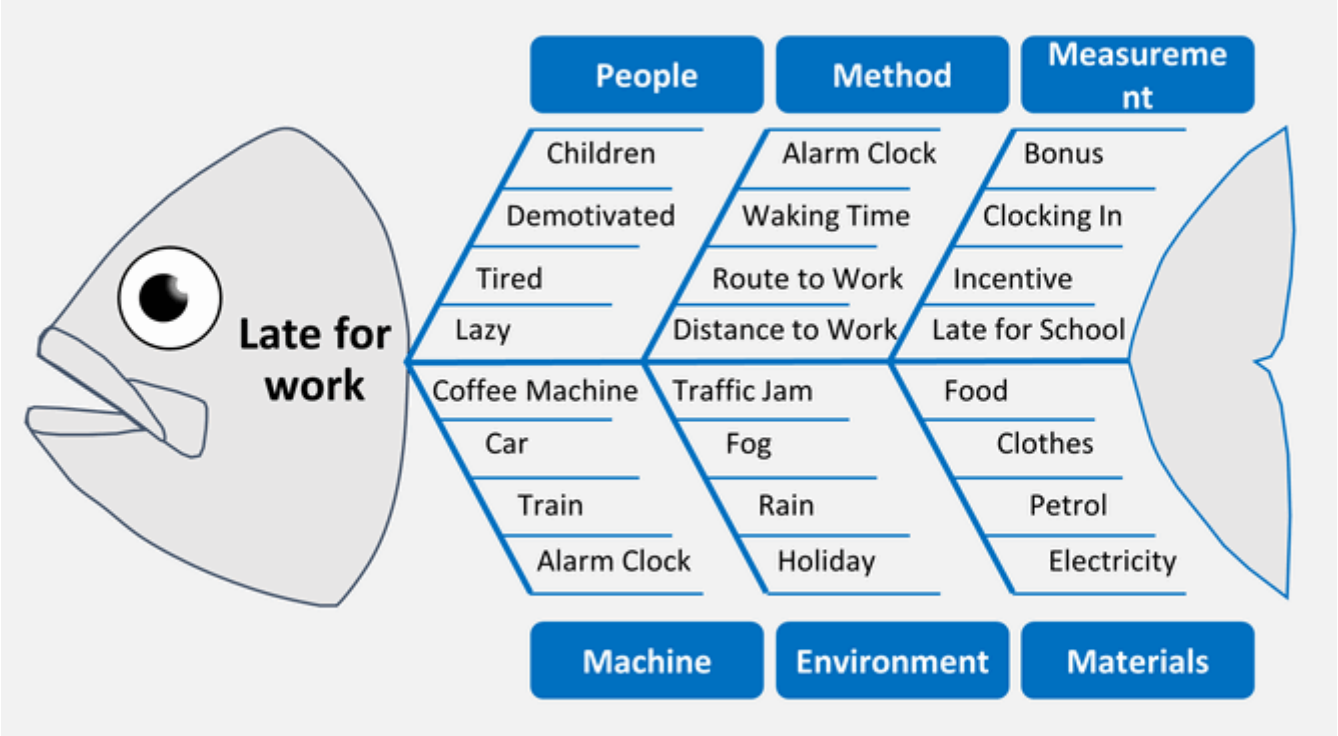


Figure 4.7: Fishbone Diagram
Sourse: Cpanj (2018)

According to Ishii & Lee (1996), Hill (2005) and Wong (2011) the Fishbone diagram is built up through the problem statement to provide details using four steps.

- **Step 1: Problem statement**

The analysis of the symptom and causes lead to the problem, which is the root arrow effect, in order to get a focus on the problem statement with clarity and consensus. An example of

a problem given by Hill (2005) is 'flight departure delay'. After discussion, this might be refined to poor resolution of technical queries. This statement helps focus the task of getting to the actual root of the problem. This can be regarded as the head of the fish, along with its backbone, illustrated in Figure 4.7.

- **Step 2: Major causes**

The next step is identification of the major categories of causes, which are then laid out as the larger bones at an angle connected to the backbone root arrow effect. In a production and manufacturing process, the major causes could be machinery and equipment, people, measurement, environment and method. For service processes, on the other hand, the causes are often procedure, people, location and policies. Some of these are examples given by Hill in relation to the airline service. For instance, the flow of the process can be seen as the major cause of flight departure delay (Wong, 2011). It is noted that, the key of the major causes is to use the categories appropriate to the problem at hand

- **Step 3: Detail causes**

This step identifies the detail causes within each of the categories. Thus, questioning each major cause repeatedly to probe deeper as to 'why does this happen', by adding it to the sub-bone of the causes (Ishii & Lee, 1996; Hill, 2005).

- **Step 4: Principal causes**

At the final step, it increasingly identifies a more detailed level of principal reasons of the causes, and continues to organise them under related categories, by breaking down the diagram into smaller causes if the detailed cause has too many sub-branches (Ishii & Lee, 1996; Wong, 2011).

The analysis of the Fishbone diagram helps in identifying the causes that warrant further investigation, until it is clear that the actual root causes have been found. In the context of the Fishbone analysis, it is important to look at the causes that appear more than once within

the major cause branches or across several sub-causes in the whole diagram. According to Hekmatpanah (2011) the fishbone structure sketch by the diagram helps team members in an organisation to think in a very systematic way. It is established that a Pareto Chart can be used to determine the cause to be focused on first. It is suggested by Wong (2011) that the company should look at the balance of the diagram and check for comparable levels of details for most of the categories. It will help to determine the causes that appear repeatedly, representing the root of the causes as well as the measures for each cause, so as to quantify the effects of any action to take (Ishii & Lee, 1996). Further more, Ishii & Lee (1996) revealed by that the root causes analysis can be used to improve products, services or processes, and it can be applied to any area in which the company is experiencing a problem.

4.4. Export Letter of Credit Operations Discrepancy Risk Model

The development of the Letter of Credit Discrepancy Risk Model can be traced to the general literature on letter of credit and risk management reviewed in this research and also the Fishbone diagram. Although it appears that all risk elements identified in Bergami's (2010) model are relevant to letter of credit transactions, the model is not fit enough to answer the objective of this research. Therefore, it may be wise to produce an integrated model for the purpose of analysis. The variables used in this model are generated with a theoretical backing derived from different articles. Firstly, the environmental risks which includes customer, country and bank as well as letter of credit operations were generated from Bergami's (2011) model. Secondly, it can be noted from the study of Baker (2000) and Mann (2000) that six types of discrepancies, defective documents, inconsistencies, absence of documents, shipment delays, late presentation and credit expiry, are considered to be outcomes or effects to be examined using the Fishbone diagram in the letter of credit operations. According to Mann (2000), the presence of any of these discrepancies in the letter of credit process would have an impact on the exporter's payment. This stands as the basis of investigating the root factors and causes of the problems, as illustrated in Figure 4.8.

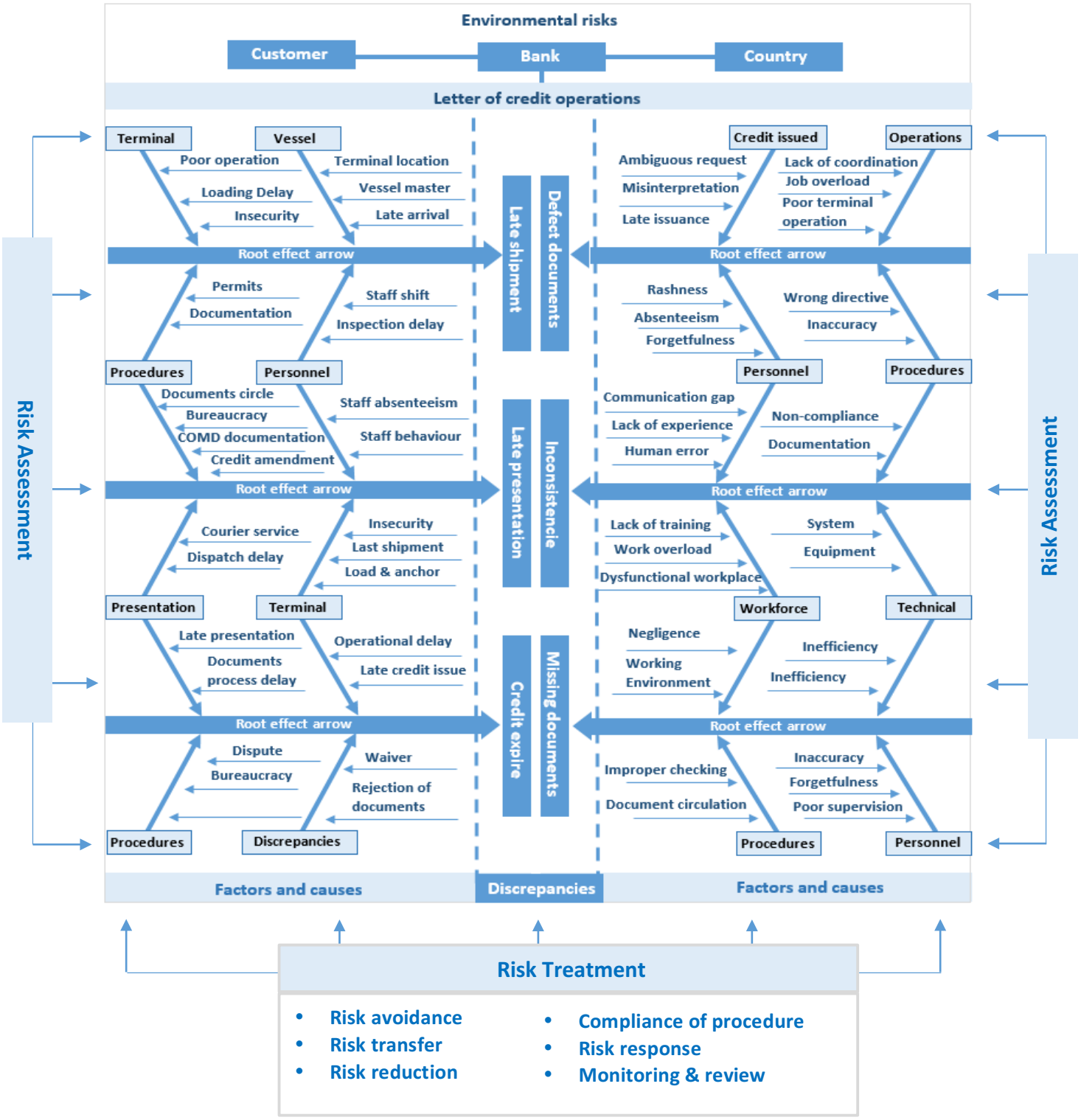


Figure 4.8: Export Letter of Credit Operations Discrepancy Model

Source: Author

4.4.2. Environmental Risk

The main objective for adopting a letter of credit is for the exporter to offset customer risk with its bank rather than relying on the buyer's promises to pay on the due date. A suggestion given by Niepmann and Schmidt-Eisenlohr (2014) is that a letter of credit is considered in order to reduce the financial risks. Another suggestion in the study of Briggs (1994) is that before establishing the letter of credit as the payment contract with the customer, three elements around the company's external environment must be considered. The customer by whom the sales contract was signed, the country of destination and the banks that facilitate the payment. This is because, these risks directly affect the export letter of credit operations, especially for micro and medium enterprises. According to Bergami's (2006) model, the exporter needs proactive measures in order to reduce the impact of environmental risk on letter of credit transactions. These are explained below.

4.4.2.1. Customer Risk

While engaging in letters of credit, especially for large transactions, customer risk is a familiar concept to the export organisation, whether to export or not. According to Briggs (1994) it is extremely important to understand the distinction of elements around the buyer risk, the willingness and ability of the purchaser to settle. Therefore, it is essential for the exporter to perform independent enquiries, seeking information and opinions from informed sources on both the ability and moral character of the buyer during the preparatory work. Additionally, Hao and Xiao (2013) revealed that the beginning of risk in letter of credit is to deal with someone who has bad credit or ambiguous background. On the other hand, the 'can't pay' category can be researched through enquiries addressed to banks or credit agencies and trade references (Mooney & Blodgett, 1995). Consequently, these reports are just opinion based, subject to the the experience the bank had with the customer and this also normally attracts charges for the service. However, it is argued by Briggs (1994) that the competition in international trade may force some exporters to accept the less secured customers for fear of losing orders.

4.4.2.2. Country Risk

Although the exporter is more concerned about customer risk than country risk, an assertion given by Briggs (1994) is that the importance of researching an overseas market cannot be ignored. Conventionally, the economic and political factors are two circumstances that determine the level of risk applying in a particular country. Consequently, this stresses the need for the exporter to investigate the financial country risk before establishing a letter of credit with the potential buyer from the opposite country. Many scholars such as Moschouri-Tokmakidou (1996) and Hummels & Schaur (2013) believe that this can be done through understanding the financial position from the country's balance of payments records.

The records of every country exports and imports are available in the public domain, published by different international organisations such as the IMF, World Bank and OECD, as an indicator of the of the nation's economic health. Naturally, it is seldom that a balance of payment is achieved in the import-export transaction between countries with normal outcomes of surplus or deficit in trade. However, in cumulative trade dealing among countries, the debtor country can either use its foreign reserve to achieve equilibrium or borrow foreign currencies in order to effect settlement (Briggs 1994). Moreover, this is more pronounced in less developed countries having few export potentials while struggling to achieve balance. Considerably, the country of destination is the paramount concern to the exporter, who may find it a substantial deterrent to export goods to the debtor nation.

The economic aspect of country risk is the danger for exporting to a market which is potentially or actually financially unsound. Another component of country risk is political risk which is likely to arise from internal or external factors such as an unstable government, foreign exchange control, import restrictions and internal or regional conflicts (Schmidt-Eisenlohr, 2013). These are factors that may contribute to the country risk by threatening the smooth conduct of the trade operations, increasing the cost of insurance and

transportation, and perhaps, if the insurrection became widespread, it could escalate to other problems such non-payment (Grassi, 1995).

Furthermore, it is believed that these problems can be overcome through insurance against both buyer and country risks. This type of trade insurance is popularly known as credit insurance. The credit insurance is intended to cover the associated risks in a single policy appropriate for exporting goods to the selected or multiple markets at a premium (Goode, 2005). Consequently, it is quite unrealistic for exporters to expect insurance coverage for the same price with countries with high risk exposure. Perhaps, this would attract a highly prohibitive premium. From the letter of credit view point, the exporter may strengthen trade payment security by adopting extreme terms such as irrevocable and confirmed credit (Anderson, 2007).

4.4.2.3. Bank Risk

Certainly, international trade involves the participation of one or more foreign banks to facilitate the transactions. However, not all these banks have the same market strength and financial stability. More importantly, the letter of credit issued by a reputable bank would provide more payment security to the exporter than a less-prestigious one. As identified by Youssef (1998), there are four elements that influence bank rating in letter of credit transactions. These are history of delaying or actually reneging on payment, habit of rejecting documents with trivial discrepancies, domiciles in a country notorious for foreign exchange restrictions, and being located in a country classified as high risk exposure (Hummels & Schaur, 2013). Therefore, the exporter can set up a criterion for the various institutions they are willing to deal with. If the bank is located in a country considered to be a high risk area, the letter of credit can be strengthened by seeking for irrevocable confirmed credit. There is always the possibility of doing business with a letter of credit provided the contextual nature of the transaction is established, and also an additional payments guarantee is provided (Briggs, 1994). Accordingly, the difficulties may arise when the exporter is dealing with a new bank.

Furthermore, the scrutiny of three major risk determinants such as country, customer and bank in the business context, would provide the exporter with clear answers regarding three complex trade questions: who is the right customer to trade? Which market or country has less risk? and are the banks involved capable of handling export business transactions? Using these considerations, the exporter can establish a sales contract with the importer, by negotiating and fixing the clauses of the credit which can be seen as the basis of the letter of credit. Hao and Xiao (2013) identified some of these clauses such as type of credit, issuing date, choose the banks (if possible), name of the required documents and number of copies and expiry date of the letter of credit. Other complex clauses may be whether or not transfer at another port would be allowed and if the content of the letter of credit could be allowed to be changed by the parties. These and other terms and conditions, as well as ambiguous and excessive requirements of the UCP 600 are believed to be the source of documentary discrepancies in the letter of credit operations (Sakchutchawan, 2009).

4.4.3. Letter of Credit Operations

In every letter of credit transaction, the most important consideration is that "the issuing bank will pay the agreed contract amount when the exporter proves that it delivered the goods, for example, by providing shipping documents confirming the arrival of the goods in the destination country" (Niepmann and Schmidt-Eisenlohr, 2014 p.113). However, before any payment is made, the exporter must strictly comply with the letter of credit clauses, and present documents to the bank, otherwise it would be discrepant (Sakchutchawan, 2009). In practice, these documents are normally called shipping documents such as bill of lading, certificates of quantity, commercial invoice and insurance certificate which are requested in the instruction laid down in the first place. However, as noticed in the UCP 600, the duty of the bank is only to examine the documents 'on their faces alone' and pay the exporter against compliance presentation (Mann, 2000). Nevertheless, the documentary discrepancy

risks can be manifested within the letter of credit operations; from the credit issuance to the time of presenting documents, making it difficult or impossible to achieve payment security.

4.4.4. Documentary Discrepancy Risks

Using the Fishbone diagram, the integrated model identified six major discrepancy effects to be analysed. Consequently, the exporter faces the risk of payment delays or, at worst, non-payment in the event of any of the six discrepancies identified by Baker (2000) and Mann (2000) defective documents, inconsistent documents, missing documents, late shipment, late presentation and credit expiry. This problem statement would help the exporters to focus and determine the actual root of the problem within their letters of credit operations. These discrepancy effects are explained below.

4.4.4.1. Defective documents

Baker (2000) claims that some exporters submit documents that are found to be defective in some ways and conflict with the requirement stipulated in the credit. Examples of this risk given Mann (2000) can be, wrong consignee or consignor, absence of signature or stamp, inadequate dating, dirty bill of lading, wrong insurance documents, wrong vessel, flag or port of departure. This may be simply a typographic error that changes the meaning of the word.

4.4.4.2. Inconsistent documents

Even when documents are correct, there is a possibility that they may not be consistent with one another, particularly as to name, address, description of goods, spellings, value or volume. According to Alavi (2016) some documents can be inconsistent but may still not conflict with each other.

4.4.4.3. **Missing documents:**

Every letter of credit comes with its documentary requirements. The importer is not only required to provide specific documents, but also a number of originals and photocopies of these documents. Therefore, the inability of the exporter to produce a full set, by omitting one or more original documents, would create a discrepancy and the applicant is much more likely to refuse the documents. This is usually the most serious discrepancy, especially when the document missed is an important one (Baker, 2000).

4.4.4.4. **Late shipment**

This discrepancy risk arises when the "shipment is required by a particular date in the letter of credit and the deadline is not met" (Whitehead, 1982 p.82). According to Alavi (2016), the exporter will face the problem of extending the letter of credit, which translates to additional costs, and possibly escalates to other problems.

4.4.4.5. Late presentation

Reflecting the UCP 600 requirement, documents specified in the letter of credit "must be tendered within a time-limit after the shipment, failure to do so means that the documents will be rejected" (Barnes, 1990).

4.4.4.6. **Letter of credit expiry**

The letter of credit is expected to operate within the limited time boundary given in the credit. Essentially, all documents are to be submitted before this time limit expires. Reflecting the UCP principle, a bank would reject documents that are presented out of time on the grounds of credit expiry discrepancy.

Consequently, the irregularities found in the documents as a result of the above discrepancies may cause them to be non- compliant with the letter of credit requirements. In effect, laying down these already identified discrepancy risks on the Fishbone would allow organisations to map out risk factors as well as major causes, analyse, evaluate and treat the

risks as well as take control of their occurrences. There are many factors which are believed to be responsible for the emergent of discrepancy risks, as well as symptoms that seem to be the details of causes that lead to the root arrow effects which are detailed below.

In order to get a focus of the discrepancy risks with clarity and consensus, discrepancy risks are separated into ten (10) risk factors laid to the root effect arrow were presented in Table 4.1.

Table 4.1 Discrepancy Risk Factors

Terminal	Procedure	Vessel
Late shipment Late presentation Credit expiry	Late shipment Late presentation Credit expiry Defect documents Inconsistencies Missing documents	Late shipment
Personnel	**Technical**	**Credit issuance**
Late shipment Late presentation Credit expiry Defect documents Inconsistencies Missing documents	Inconsistencies Missing documents	Defect documents
Discrepancies	**Presentation**	**Workplace**
Credit expiry	Late presentation Credit expiry	Inconsistencies Missing documents

4.5. Summary

This chapter reviewed various risk management models. This chapter presents the integrated model 'Export Letter of Credit Discrepancy Risk Model' which is applied to underpin this study. The chapter explains why the integrated model is appropriate in this

study. The model is going to be used to investigate different variables identified in the next chapter.

CHAPTER FIVE

OVERVIEW OF THE NIGERIAN CRUDE OIL EXPORT

CHAPTER 5: OVERVIEW OF THE NIGERIAN CRUDE OIL EXPORT

5.1. Introduction

This chapter outlines the historical background of the Nigerian oil industry. Further discussion is aimed at examining and understanding Nigerian crude oil sales and the context in which the letter of credit is adopted in the transaction. Section 5.2. discussed the historical evolution of the Nigerian petroleum industry. Section 5.3 examined the role of the NNPC in Nigerian crude oil sales, the joint venture agreement, production sharing contracts and the role of the Nigerian Petroleum Development Company (NPDC). Section 5.4 focused on the mechanism of Nigerian crude oil sales. The section further examines the domestic crude allocation as well as the Nigerian equity crude lifting. Section 5.5 provides the conclusion of the chapter.

5.2. Historical Perspective of the Nigerian Petroleum Industry

The review of Nigerian oil exports cannot be discussed without reference to the history of the Nigerian oil and gas industry. The first oil exploration for crude oil was begun in 1908 by the German company, Nigerian Bitumen Corporation. This pioneering effort was not successful due to the outbreak of the First World War in 1914 (Frynas, 2000; Bello and Butt, 2004). However, the search for oil was continued through a concession given by the British Colonial Government of Nigeria to Shell/D'Arcy in 1937 (Alabi & Ntukekpo, 2013). Although there had been other prospecting efforts, the first oil in commercial quantities was discovered in Olibiri, Bayelsa State by Shell-BP in 1956 (Akinrele, 2003; UNCTAD, 2006; Balouga, 2012). Subsequently, the continuing development of oil fields in the region provided Nigeria with the opportunity to export its first cargo of 5100 barrels of crude oil in February 1958 to Britain (Omerade, 1990; Odularu, 2008; Thurber et al., 2010).

The success story of crude oil discovery ushered Nigeria onto the international oil export stage, and it became an investment destination by attracting other International Oil Companies (IOCs) (Adam, 2014), where nine (9) oil majors joined oil exploration and development activities in the country (Belgore, 2003; Nwaokoro, 2011; Abutudu and Garuba, 2011). While the country potentially has plenty of crude oil, its export proceeds are limited only to the collection of royalties, taxes and rent from oil production by IOCs. This is probably due to lack of manpower, technology, capital, market and regulatory capacity to administer the industry (Omoleke and Adeopo, 2005). It is argued that throughout the 1960s, Nigeria only remained active in issuing licences and oversight functions by the Ministry of Mines and Power rather than deeply participating in the oil and gas activities like its peers such as Saudi Arabia, Iran and Venezuela (Atsegbua, 1999; UNCTAD, 2006; Nwokeji, 2007; Gboyega et al., 2011). This permitted IOCs to use their integrated systems and carry out the crude output export and marketing activities in the country.

The Nigerian government's desire to end foreign dominance of the economy and enhance control of its oil industry has resulted in the introduction of the Petroleum Act of 1969. (Omoregbe, 2001; Nwokeji, 2007; Odularu, 2008). Others argued that the longstanding public demand to have permanent sovereignty over natural resources, could be the reason for such changes (Adam, 2014). However, the guidelines of the Declaration of Petroleum Policy adopted by the Organisation of Petroleum Exporting Countries (OPEC) and resolution XVI of 1968 require all OPEC member states to have control of their hydrocarbon resources. Specifically, when Nigeria joined OPEC in 1971 as the eleventh member (Ikein, 2017), its position suddenly went beyond oversight functions to direct participation, and perhaps ended the traditional concession held by IOCs, and shifted all ownership rights and control of petroleum resources to the Federal Government of Nigeria (Hosman, 2009; Audu & Osuala, 2013).

Gradually, Nigeria began to acquire large participatory interests in the oil and gas operations and assets of IOCs through a sweeping, economy-wide nationalization program, where

Nigeria acquired investment of oil industry with equity participation of minimum of 60 percent (Nwokeji, 2007). Because Nigeria lacked crude oil trade knowledge and investment backing throughout the 1960s and early 1970s, a special arrangement was made between NNOC and IOCs, whereby oil companies exported and sold a significant volume of government equity. Certainly, these companies were able to meet buying government's oil allocation under the buy-back option by applying a negotiable price (Klieman, 2012). The remaining crude oil available to the Nigerian government, known as 'retained oil', was then directly marketed by the NNOC. It was revealed that the first Nigerian crude oil buyers were Tenneco Oil Company and Gel Senbergy Minerotoil GMBS of West Germany in 1973 after the Civil War (Ogbu, 2008).

Although the crude oil industry is considered as the mainstay of the Nigerian economy, the export activities only began to play a role after the Nigerian civil war which lasted between 1967 and 1970 (Odularu, 2008). It is argued that this period, which is referred to as the 'oil boom', made Nigeria rely solely on oil exports, neglecting its important agricultural base. Nigeria's oil sector continues to be the major driver of the economy and contributed 14.8 and 13.8 percent to Gross Domestic Product (GDP) in 2011 and 2012 respectively. The proceeds from oil and gas exports accounted for more than 98% of the country's total exports, and about 83% of the government's revenue. To many scholars and economists such as Odularu (2008), Sambo (2008), Odumugbo (2010), Chete, et. al. (2014), this may not be surprising, considering the nation's status as the fifth largest oil exporter in the world, holding an estimated 37.119 billion barrels of oil reserves and 187 trillion standard cubic feet of proven natural gas reserves.

5.3. The Role of the NNPC in Nigerian Crude Oil Exports

The Nigeria's position as a member of OPEC is considered to be key determinant that led to the formation of the Nigerian National Oil Corporation (NNOC) on April 1, 1971 to function as the National Oil Company (Umar, 2005). The company was later changed to the Nigerian

National Petroleum Corporation (NNPC) after merging the Ministry of Petroleum Resources and the NNOC (Adam, 2014; Ayoade, 2009; Gboyega et al., 2011). The NNPC was given a mandate to engage and regulate all upstream activities; exploration, development, production and export, as well as downstream oil and gas activities which include refining, petrochemical, marketing and price control in the Nigerian domestic markets. Because the focus of this study is crude oil export, the upstream industry is relevant here.

The NNPC is regarded as an integrated oil and gas company, wholly owned by the Nigerian Government with eleven subsidiaries. After its creation, the NNPC first acquired a 35% interest in the Nigerian Agip Oil Company (NAOC) through its subsidiary National Petroleum Investment Management Services (NAPIMS) (Lawal, 2008). By 1979, Nigeria gradually expanded its NNPC's interest in all IOCs' oil and gas projects with a maximum 60% participation interest (Garba, 2000; Iledare and Suberu, 2010). Table 5.1 provides details of the gradual government acquisitions in the IOCs. It can be observed from the table that Nigeria surrendered its influence in the oil and gas operation for nearly 15 years after the discovery of oil in commercial quantities in 1956. The corporation's major partners have been Shell, Mobil, Texaco, Agip, Total and Elf. By 2004, these companies provided a combined amount of 90 percent of crude oil production in Nigeria (Gidado, 1999; Nwokeji, 2007; Hassan, 2013). Moreover, since 1999, the country has rapidly increased the number of concessions to Non-Western IOCs, where NNPC engages in contracting partnerships with the new players from countries such as China, Indonesia, India and Malaysia (Andreasson, 2016).

Table 5.1: Participation Interest of the NNPC in Nigerian Oil and Gas Concessions with the IOCs

IOC (Operator)	NNPC's Interest (%)	Date of Acquisition
Elf	35	April 1971
	55	April 1974
	60	July 1979
Agip/Phillips	33	April 1971
	55	April 1974
	60	July 1979
Shell-BP	35	April 1971
	55	April 1974
	60	July 1979
Shell	80	August 1979
	60	June 1989
	55	August 1993
Mobil	55	April 1974
	60	July 1979
Chevron	35	April 1973
	55	April 1974
	60	July 1979
Texaco	55	May 1975
	60	July 1979
Pan Ocean	55	Jan 1978
	60	July 1979

Source: Lawal (2008)

From a different perspective, the Department of Petroleum Resources (DPR), which was created in 1970 as a result of the expansion of the Ministry of Petroleum Resource, was responsible for administering the bidding and allocation process of oil and gas blocks throughout the country (Audu & Osuala, 2013). In 1990, the Nigerian government introduced oil and gas blocks allocation to the national companies with the objective of boosting indigenous participation in the oil sector. These oil block holding companies are regarded as the industry players in oil and gas development, producing and exporting

without government participation (Lawal, 2008; Mitchell and Stevens, 2008; De Vita, et al. 2016). Furthermore, it can be inferred that the NNPC plays a significant role in the Nigerian oil and gas industry. The company also receives Nigerian government's share of crude oil called 'government take' available for export in three main ways, Joint Venture Agreements (JVAs); Production Sharing Contracts (PSCs), and crude from Nigerian Petroleum Development Company (NPDC) (Watts, 2004; Osuoka, 2007; Ribadu, 2012; Osuji, 2017; Oshionebo, 2017). These are the three main sources of Nigerian crude oil that NNPC exports.

5.3.1. Joint Venture Agreement in Nigeria

The joint venture agreement was the first oil arrangement made between the NNPC on behalf of Nigeria on one hand and IOCs on the other hand, which was made in accordance with the Petroleum Act of 1969 and NNPC Act of 1977 (Nlerum, 2007). Usually, in the Joint Venture (JV) arrangement, the IOCs participate in the oil exploration at their own cost under the Joint Operation Agreement (JOA). However, the NOC may elect to participate in the development and production operations when the oil reserve is commercially viable. The agreement connotes the legal relationship between the co-owner of the licence, lease or concession and the government that spells out rights and obligations for the conduct of the joint operations (Ogri, 2001; Wright and Gallun 2005; Nwaokoro, 2011; Famakin et. al. (2012). Given that the JV is formed by a group of companies, the focus on JOA is exclusively upon crude oil exploration, production and sharing of oil among participating parties (Umar, 2005; Andreasson, 2016).

In Nigeria, the NAPIMS represents NNPC in managing, regulating and controlling joint venture activities, and also participates as a non-operating partner, leaving the IOC as the operating partner (Wright and Gallun 2005). Each JV operates one or more licence issued by the government, which are mainly located on Nigeria's southern coastline. As shown in Table 5.2, Nigeria holds an average of 57% working interest in six JVs accounting for two-thirds of Nigerian equity oil (Sayne et al. 2015).

Table 5.2: Joint Venture Agreement in Nigeria

	Operator	(% interest)	NNPC (%)
1	Shell	30	55
	TotalFinaElf	10	
2	ExxonMobil	40	60
3	ChevronTexaco	40	60
4	Agip Oil	20	60
	Phillips	20	
5	TotalFinaElf	40	60
6	Panocean	40	60

Source: Adam (2014)

The future cost of drilling, development and production under JV is literally funded by the joint partners according to their equity interests as stipulated in the JOA and Memorandum of Understanding (MOU) (Oguine, 1999; Boateng & Glaister, 2002; Adewuyi & Oyejide, 2012). Thus, every year, the operator presents an operating budget to the participating interest holders for their approval based on the cost projection for the running of the venture (Ameh, 2006). According to Lawal (2008), this cost would be covered by the monthly cash call from the respective partners according to their shares, allowing IOCs to recover all or a portion of the exploration cost. However, Ameh (2006) argued that the JVs in Nigeria have been identified as having poor funding due to the inability of the NNPC to meet its cash-call obligation. As a result, an alternative funding agreement was designed to let IOCs take capital allowances to recover up to the applicable rate of the Petroleum Profit Tax (PPT) for the calendar year of the principal. This structure is allowed by the Petroleum Profit Tax Act (Ribadu, 2012). This certainly reduces the government's taxable oil available for export from the many oil projects in the country.

A close look at the JOA would indicate that the NNPC has no operational role beyond receipt of the crude proportion according to the government's equity shares in the JV (Lawal, 2008). Although the previous arrangement permits operators to lift significant crude oil on behalf

of Nigeria, the later modification allows the government take to be lifted and marketed by NNPC (Ribadu, 2012). Consequently, the balance which is apportioned to the interest holder is subjected to royalty and Petroleum Product Tax (PPT) given to the DPR and Federal Inland Revenue Service (FIRS) respectively (Adam 2014; Thurber et al., 2010; Gboyega et al., 2011). However, when oil recovery attains a certain level, the operator and the NNPC are entitled to negotiate the shared oil ratio.

5.3.2. The Production Sharing Contract in Nigeria

Under a Production Sharing Contract (PSC) the government awards an exploration and production licence to one or more IOCs for the responsibilities of oil block operations in accordance with the Production Sharing Agreements (PSA) signed between the parties. The origin of the PSC model can be traced to Indonesia where state-owned company Pertammina first used the contract method in an arrangement with American Oil Company in 1966. This concept was later to become worldwide and referenced in many countries (Gidado, 1999). Under the PSC fiscal settings, the IOCs bear the entire risk of oil and gas exploration and production, utilising its technical and financial resources until oil is found in commercial quantities (Ameh 2006; and Bako, 2006; Adam, 2014). However, the IOC that serves as an operator recovers all its costs from the crude oil allocation produced, known as cost oil throughout the project, although certain limits may apply.

The PSC operators usually pay a specific percentage of crude oil produced which is called royalty to the host government as agreed in the terms of contract (Saidu and Aujara, 2014; Wright and Gallun 2005). Moreover, the remaining balance based on crude production, referred to as profit oil, is divided between the government and the operating companies in the proportion spelt out in the PSC (Sayne et al. 2015). According to Saidu and Aujara (2014), host countries give more emphasis to profit oil as its net revenue after all necessary deductions. It is noticeable that this type of contract is the worthwhile concept which is

applied in a number of countries such as Malaysia, China, Libya, Egypt and Peru, reflecting basic features of the Indonesian model (Sayne et al. 2015).

As with the above-mentioned countries, PSC features are found to be evident in the Nigerian oil and gas contract arrangements, with the power given to NNPC on behalf of the Nigerian government to sign and execute the contracts. Even though the fiscal terms may be different (Hosman, 2009), the notion of royalty oil, cost oil, profit oil and tax oil is exclusively specified in the contract and rules of Nigerian oil activities. Table 5.3, below, presents the proportion of the Nigerian PSC with effective and expired dates. Ameh (2005) argues that the PSC is quite a new contractual arrangement in Nigeria, which mostly covers acreage in the inland basins as well as shallow and deep offshore areas in the delta region. Another argument put forward by Agoro (2001) is that the Nigerian government adopted PSC in order to retain control of the oil fields and also reduce pressure on cash call in the previous JOA with IOCs as a result of financial bottleneck. By 2016, over $6 billion (USD) was recorded as accumulated arrears related to cash-calls (Peng & Poudineh, 2017).

Table 5.3: PSC Agreement with Dates

Operator	Oil Block OPL/OML	Effective Date	Year Relinquished
Addax	OPLs 98/118	06-May-98	
	OPLs 90/225	06-May-98	
Statoil	OPL 217	18-May-93	
	OPL 218	18-May-93	
Texaco	OPL 213	01-May-93	
Conoco	OPL 220	02-Jul-93	
Elf	OPL 222	01-Apr-93	2000
	OPL 223	01-Apr-93	2000
	OPLs 803/806/809		
SNEPCO	OML 118	01-Apr-93	
	OPL 219	01-Apr-93	
	OPLs 803/806/809	01-Apr-93	2001
NAE	OPL 211	01-Jul-93	
	OML 125	01-Jul-93	
NAE/NPDC	OPL 209	01-May-93	
Esso	OPL 209	01-May-93	
	OPL 214	13-Jun-02	
Chevron	OPLs 801/805/810/812/814	02-Oct-94	2000
	OPL 250	28-Nov-01	2000
Mobil	OPL 221	01-May-93	
Petrobas	OPL 324	20-Dec-01	
Phillips	OPL 318	14-Feb-02	
Oranto	OPL 320		
Ocean Energy	OPL 256	24-Jan-03	

Source: Lawal (2008)

It can be observed from the table above that some Oil Majors operating in Nigeria are also among the IOCs. These companies together with other independent oil companies, both foreign and indigenous companies have the PSCs for oil exploration and production in line with the predetermined agreements signed with NNPC (Agoro, 2001). In a similar way to JV operations, tax oil and royalty are channelled to FIRS and DPR respectively, and further sold by the NNPC on behalf of the Government. It is noted that, in 2013, the NNPC exported a

combined government take of 285,544 barrels per day from PSC crude oil, which approximately account for 30% of the daily production (Sayne et al. 2015).

5.3.3. NPDC Crude Oil Operations

The NNPC directly engages in oil and gas operation through its subsidiary, the Nigerian Petroleum Development Company (NPDC). The company was created in 1988 in order to expand NNPC's influence and independent operation in upstream exploration and production (Nwokeji, 2007; NNPC, 2016). The company covers a range of activities in upstream oil and gas in five states: Bayelsa, Edo, Delta, Imo and Rivers in the Niger Delta region. The NNPC has awarded its equity in many of its onshore and offshore oil blocks to NPDC (Sayne et al. 2015). These interests placed the company in various JVs, PSCs and service contracts with other oil majors. This can be shown in the Table 5.4 below.

Table 5.4: NPDC's Participation in Nigerian Oil Exploration

NPDC Interest (%)	Concession	Operating Partner
5	OPL 256	Devon Energy
10	OPL 223	Elf
10	OPL 244	Agip
10	OPL 332	BG Nigeria
15	OPL 214	ExxonMobil
15	OPL 251	Ashbert/NPDC
20	OPL 318	CoonocoPhilips
20	OPL 325	Ashbert/NPDC
25	OPL 242	Devon Energy

Source: *NNPC (2015)*

For instance, the NPDC has the highest of 25 percent participating interest in OPL 242 and the least of 5 percent in OPL 256 all with Devon Energy as the operating partner as presented in Table 5.4. The production output of NPDC and its shares in operating partnership with IOCs are regarded as wholly Nigerian crude and is channelled to the Nigerian Federation Account (Abubakar, 2000; Sayne et al. 2015). The NPDC was transformed in recent years with a significant global presence in oil and gas exploration and production, delivering value to stakeholders and applying the best industry technology and practice (NNPC, 2016).

5.4. Mechanism of NNPC Crude Oil Sales

Crude oil sales remain Nigeria's major source of revenue (Ribadu, 2012), accounting for roughly 70% of government income. Essentially, because of the early presence and massive investments of IOCs in the Nigerian oil and gas industry, all oil exploration and production installations such as oil platforms, pipelines and terminals belong to the IOCs (Atsegbua, 1999; Ovadia, 2013; Katsouris & Sayne, 2013; Ifesinachi & Aniche, 2014). This makes the NNPC as the only crude collecting party when the government take is due. It is noticeable that the oil terminals which are the main crude oil storing centres are the only channels through which the NNPC exports its oil. Currently, there are 24 terminals located in the three zones: Eastern (in Warri, Delta State), Western (Port Harcourt, Rivers State) and Lagos (Aigbokie, 2008; Ogbu, 2008). This is demonstrated in Table 5.5. Usually each contains up to 2 million barrels of oil.

Table 5.5: Terminal Operators in Nigeria

S/N	Terminal	Production (bpd)	Fiscal Regime	Location	Operator	Zone
1	Bonny	250,000	JV	Onshore	SPDC	Western
2	Bony River	(Akpo)155,000	PSC	Offshore	Total	Lagos
3	Qua-Iboe	400,000	JV	Onshore	ExxonMobil	Western
4	YOHO	45,000	JV	Offshore	ExxonMobil	Western
5	Brass	97,000	JV	Onshore	NAOC	Western
6	Amenam	65,000	JV/AF	Offshore	EPNL	Western
7	Antan	42,000	PSC	Offshore	Addax	Western
8	Okwori	18,000	PSC	Offshore	Addax	Western
9	Okono	21,000	Independent	Offshore	NPDC/AGIP	Western
10	Ima	900	Independent	Offshore	AMNI	Western
11	Obe	0	Independent	Offshore	Cavendish	Eastern
12	Ukpokiti	500	Independent	Offshore	Express/Atlas	Eastern
13	Escrabos	175,000	JV	Onshore	Chevron	Eastern
14	Forcados	250,000	JV	Onshore	Shell/Snepco	Eastern
15	Abo	22,000	PSC	Offshore	Agip	Eastern
16	Bonga	200,000	PSC	Onshore	Shell/Snepco	Lagos
17	EA	,000				Eastern
18	Erha	93,000	PSC	Offshore	ExxonMobil	Lagos
19	Pennington	19,500	JV	Offshore	Chevron	Eastern
20	Usan	117,000	PSC	Offshore	ExxonMobil	Lagos
21	Sea Eagle	40,000	JV	Offshore	Shell/Snepco	
22	Agbami	240,000	PSC	Offshore	Chevron	Lagos
23	Tulja	18,000	PSC	Onshore	Sterling Oil	
24	Oyo	12,000	Independent	Offshore	Allied Energy	
Total Average bpd		**2,283,900**				

Source: Aigbokie (2008) and Ogbu (2008).

5.4.1. Domestic Crude Allocation

Out of the total crude equity allocated to Nigeria, the NNPC assigns 445,000 barrels per day of crude oil know as Domestic Crude Allocation (DCA) to its subsidiary, the Pipeline and Product Marketing Company (PPMC) in order to distribute it among four state-owned refineries for domestic process and consumption (Odularu, 2008; Balouga, 2012). The refineries, two in Port Harcourt and one each in Kaduna and Calabar were established in the

1970s with a combined capacity of 438,750 barrels per day day (Nwilo & Badejo, (2006). These are the NNPC's subsidiaries, operating independently. The combined production of these refineries are not able to meet the domestic demands. This is probably due to negligence and non-implementation of Turn-Around Maintenance (TAM) which originated in the 1980s. This certainly has significant impact on the economy. Ultimately, in order to meet ever growing consumption, which stood at about 40 million litres of oil per day, the NNPC opted to engage in petroleum products supply strategies by using the Offshore Processing Agreements (OPA) and Oil-for-Product Swap arrangements in order to close the gap of using the excess crude of domestic allocation (Fubura et al., 2015).

5.4.2. Nigerian Equity Crude Oil Lifting

The balance of crude oil given to Nigeria after DCA is termed 'equity crude' (Ribadu, 2012). The volume of this equity crude, which mostly comes from JVs and PSC provided the NNPC with combined shares of over 1 million barrels per day available for export, representing almost 53% of the Nigerian crude oil production (Akinrele, 2014; Sayne et al. 2015). For instance, in 2015, the NNPC sold a total volume of 144,568,446 barrels of crude oil. Out of this volume, 4% and 37% are posted as royalty and PPT respectively (NNPC, 2015). Moreover, the Crude Oil Marketing Division (COMD), which is the strategic unit in the NNPC, was given responsibility for all crude oil marketing and sales to a wider range and number of buyers using letters of credit as a payment instrument.

The COMD structures crude oil sales contracts almost exclusively through a sales contract agreement called 'term contract' established between the NNPC and the successful bidders. These typically last for a one-year period. It is noted that the NNPC occasionally executes one-off 'spot sales' transactions for individual cargoes (Ribadu, 2012). However, the process of selecting companies to lift Nigerian crude oil is based on the bidding practice following the request for applications that set out criteria before the final award. One of the critical structures in Nigeria is that, for a company to qualify for crude oil export, it must be either a

bona fide end user that owns a refinery, a globally established large crude trader or a company that has an export oil refinery in Nigeria. Additionally, the companies must have a minimum of $100 (USD) million turnover as well as $40 million (USD) net worth. Prior to 2015, this financial requirement was considered harsh, where lifting companies are required to have $500 millions (USD) and $100 millions (USD) as their turnover and net profit respectively (Ughamadu, 2003). The change in this policy may not be unconnected with the desire of the Nigerian government which encourages domestic companies to participate in crude oil trading.

Notwithstanding this criteria, Sayne et al. (2015) argued that COMD does not consistently follow the actual bid evaluation effectively. In fact, the process is more of a discretionary selection rather than an open competitive tender. In the same vein, (Ribadu, 2012), observed that the majority of the contract holders who lifted the country's oil from 2002 to 2011 are the trading companies who did not have renowned expertise in crude oil trading. It is revealed that Nigeria is the only OPEC country that sells almost 100% of its crude oil to private commodity traders, rather than direct sales to foreign refineries (Sayne et al. 2015). Table 5.6 contains 21 companies that signed the lifting contracts with COMD in 2015 which rolled over to 2016, including two NNPC oil trading subsidiaries – Duke Oil Incorporated and Hyson. Observation shows that the number of the companies is quite pared down when compared with 43 companies awarded in 2014-2015.

Table 5.6: Nigerian Crude Oil Term Contract 2014-2015

S/N	Nigerian Companies	000bpd	S/N	International Traders	000 bpd	S/N	NNPC Trading	000 bpd
1	MRS Oil and Gas	60	9	Trafigura	32	16	Duke Oil	90
2	Oando PLC	60	10	Vitol SA	32	17	Calson/Hyson	32
3	Sahara Energy	60	11	Mercuria	32		**Refiners**	**000 bpd**
4	Forte Oil PLC	45		**IOCs**	**000 bpd**	18	Emirates NOC	60
5	Northwest Petroleum	45	12	ENI Shipping & Trading	32	19	Indian Oil Corporation	60
6	Eterna Oil	45	13	Totsa SA	32	20	Cepsa (Spain)	60
7	Emo Oil & Petroleum	45	14	Exxon Sale and Supply	32	21	Saras SPA (Italy)	60
8	A.A. Rano Nigeria	45	15	Shell Western Supply and Trading	32			

Source: Payne and George (2015)

5.4.2.1. Term Contract

On average, the NNPC sells 1,000,000 barrels of crude oil per day divided into 20 to 30 cargoes per month, with a standard cargo lifting capacity of 950,000 barrels (Ibiezugbe, 2008). It is reported that most of the companies that hold term contracts who were allocated cargoes are more of intermediaries who later sell their cargoes to either their parent companies or other major buyers (Esan, 2005; Adewuyi & Oyejide, 2012). Upon signing the contract, both the NNPC and the buyer become bound with the provisions that govern the agreement therein, and lifting companies must pay $2.5 million (USD) as a commitment fee to the NNPC (Atta, 2003; Aigbokie, 2008).

The contract explicitly states that all payment from crude oil would be made based on the letter of credit. However, COMD only accepts irrevocable letters of credit issued by first class Nigerian or international banks accredited by the NNPC (Suleiman, 2010). This can be seen as an effort to minimise the customer default risk that may arise in the transaction. One major reason that the NNPC declines to adopt confirmed credit is probably because all banks involved in its oil payment transaction are well rated, internationally recognised and are unlikely to default. Hence, the sales contract specifies that all cargoes are sold based on Free

on board (FOB) Incoterm, the buyer being responsible for transportation and associated risks (Magnus & Piltz, 2016).

5.4.2.2. Lifting Programme (Laycan)

As can be deduced subsequently, the volume of crude oil available for the COMD to sell on behalf of the Nigerian government is determined by the participating interest of the NNPC in the JV, PSC and SC as well as 100% crude oil of NPDC. This government equity or take is therefore deliberate between the oil producing companies and the COMD every month (Atsegbua, 1999; Ughamadu, 2003). The outcome of crude lifting analyses allows the NNPC to develop crude oil lifting programmes for the next two months according to crude oil production and quantity to be allocated to each off-takers (Ogbu, 2008). The offer letters are then issued to these companies and are expected to respond through acceptance letter to the COMD (Abubakar, 2000). It is noted that lifting companies use these letters as evidence of their crude holding and also allow them to search for a second buyer (Fubura, 2015). This trade tradition is only practiced in the Nigerian crude oil export model.

Reflecting the term contract, it is mandatory for the lifting company to nominate at least five (5) vessels from which COMD would choose the appropriate one. The reason attached to the vessel assessment is for COMD to select the most suitable ship that can be well pitted in the designated crude oil terminal (Aigbokie, 2008). Thus, oil tankers come with different sizes, depending on the usage, cargo type, quantity capacity, passage length as well as port restrictions. Usually the standard cargoes for crude oil export in the NNPC are the Very Large Crude Carrier (VLCC) and the Ultra Large Crude Carrier (ULCC) which have capacities of up to two million barrels of oil (Ibiezugbe, 2008).

Furthermore, the actual crude oil process will begin after the COMD has accepted a nominated vessel based on the laydays and cancelling, or simply ‘Laycan’, where the lifting company would issue Documentary Instruction (DI) to the COMD. The Laycan, refers to the

period by which the nominated vessel must tender its readiness for crude oil loading, expressed in two dates (Ogbu, 2008). For example, the laydays could be 28th October while 2nd November is for cancelling. Where these days are not followed appropriately, shipment delay discrepancy may be likely to occur. Consequently, the result can be devastating, requiring one party, the NNPC or Lifting company, to pay demurrage costs depending on who fails to perform its obligation (Tella, 2006; Sallau, 2014).

It is important to note that these crude oil export operations in Nigeria are largely affected by hazard risks that regularly interrupt or cause the total shut down of the terminal where crude oil is exported. To sum up, the civil unrest in the Niger Delta region has caused oil and gas operations to become ineffective (Watts, 2004). Consequently, the attacks on oil facilities negatively affect not only crude oil production and export, but also the Nigerian economy at large.

5.4.2.3. Letter of Credit Issuance

As can be seen in the literature on letter of credit, the process is usually originated from the buyer. In the Nigerian context, the lifting company is expected to instruct its bank to issue the credit at least 6 days before Laycan. It is important to note that this credit must mirror the terms and conditions in term contracts originally signed, as well as payment instructions (Suleiman, 2010). However, this stage is characterised as the most critical and challenging to both the NNPC and its customers, possibly due to credit amendments that involve negotiation and counter-negotiation on complex clauses appearing in the credit issued. Consequently, only successful performance of the NNPC by meeting documentary obligation as required by the credit will permit the issuing bank to effect payment of the crude oil exported 30 days after the bill of lading date, as agreed in the contract (Suleiman, 2010; Fubura, 2015). It is noted that all the proceeds from these transactions are paid into a NNPC/CBN designated account with JP Morgan Chase Bank in New York, United States (Ribadu, 2012).

5.4.2.4. Shipping Documentation

The documentation process is the most important and difficult part of the crude oil export procedure in the NNPC (Sayne et al. 2015). As noted in Chapter two, the documentary groundwork allows the exporter to generate all necessary documents requested in the letter of credit and present them to the bank for payment. Some of these documents are not specifically mentioned as requirements in the credit, but serve only as prerequisites for other documentary processes. The lifting company would first furnish Shipping and Terminal (S&T) department in the COMD with documentary instructions (DI) stating all documentary requirements regarding a particular cargo (Ogbu, 2008). This implies that the NNPC may start its documentation processing even before the letter of credit is issued.

The majority of these documents are prepared at the terminal of loading, where the terminal operator, and the representatives from COMD, DPR, Nigerian Navy, Nigerian Customs, MPR, Nigerian Immigration as well as the buyer's agents are present during the documentation process (Tella, 2006;) Perhaps the major role of these parties is to receive information that spells out details of the loading from COMD before these documents become available. Such information includes names of the consignee and consignor, Laycan, type and the quality of crude oil to be exported, the terminal of loading and the port of destination as well as the given price (Ogbu, 2008). Other important documents including the cover letter, invoice and price valuation are prepared in-house at the NNPC's Headquarters. The most important consideration with regard to this documentary process is that any defect or inconsistencies would result in discrepancies and may subsequently affect the NNPC's payment (Whitehead, 1983). This research was built to investigate the significance of some variables such defective documents, late shipment and inconsistencies.

5.5. Summary

The review in this chapter focused on the NNPC's crude oil operations as demonstrated in its participatory role in the oil and gas industry. The chapter revealed that crude oil belonging to the government for export comes from JV, PSC and NPDC. The review showed the mechanism which the NNPC uses in selling the Nigerian crude oil on behalf of the government. It is also noted that the term contract for the crude oil lifting is established between the NNPC and lifting companies. The chapter also explained the mechanism of Nigerian crude oil sales using letter of credit and also the documents involved in the process.

Chapter 6:

CASE STUDY ANALYSIS

CHAPTER 6: CASE STUDY ANALYSIS

6.1. Introduction

This chapter is primarily concerned with the analysis of the data collected based on the case study using documentary analysis and interviews. The analysis is designed by reflecting the elements in the integrated export letter of credit discrepancy risk model in for easy interpretation, the chapter is structured into seven sections. Section 6.2 involves the analysis of environmental risks identified in the integrated model. This is followed by the descriptive analysis of the letter of credit operations within the NNPC as discussed in section 6.3. Section 6.4 provides an analysis of letter of credit documentary discrepancy risks in NNPC. Moreover, section 6.5 analyses the factors that contribute to the NNPC's Discrepancies risks. Section 6.6 involves analysis of interview responses on the causes of discrepancy risks, using the elements in the integrated model in Figure 4.8. Section 6.7 provides the risk treatment and operational strategies for documentary discrepancy risks applicable for NNPC. Lastly, Section 6.8. summarises the chapter.

6.2. An Analysis of Letter of Credit Environmental Risks

The main objective for adopting the letter of credit is for the exporters to substitute customer risk with the banks rather than relying on the buyers' promises to pay on the due date. A suggestion given by Niepmann and Schmidt-Eisenlohr (2014) is that letter of credit is employed in order to reduce financial risks. A suggestion in the study of Briggs (1994) is that, before establishing the letter of credit as a payment contract with the customer, three risk elements around the company's external environment must be considered. The customer with whom the sales contract was signed, the country of destination and the banks which facilitate the payment. Therefore, in reflecting NNPC's environmental risk with integrated export letter of credit discrepancy risk model, it is essential to conduct risk

assessment for these three elements, the NNPC's crude oil customers, the banks involved in transmitting payment and the importing countries in the context of its risk appetite.

6.2.1. Nigerian Crude Oil Customer Risk Evaluation

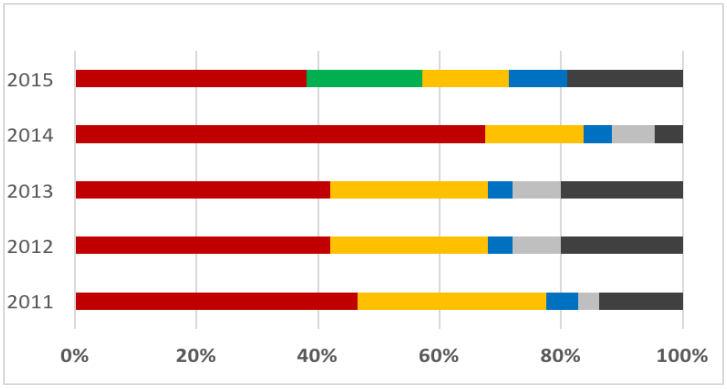
Customer risk in letter of credit operations is a familiar concept to export organisations, especially when engaging in large transactions. There are various indices that are used in customer classification according to their risk level. As noted by Briggs (1994), it is extremely important to understand the distinctive elements around the buyer risk and the ability and willingness of the purchaser to pay on due date. A suggestion given by Hao and Xiano (2013) is that the exporter would be better establishing a face-to-face trade relationship when looking for partner or trade opportunities. This is to say both importer and exporter should know each other or at least they should have met. It is argued that the beginning of risk in any letter of credit transaction is dealing with a customer who has bad credit or an ambiguous background. This suggests that evaluating a trading partner by NNPC would be the best way of avoiding falling into a damaging situation (NNPC, 2013).

The data indicated that the NNPC set out criteria, general guidelines and policies for any crude oil lifting company that would qualify as its customer. These guidelines are published on the NNPC's website and national dailies. Thus, any company seeking to buy Nigerian crude oil must either be one of the following:

- foreign end user who owns refinery or retail outlet company that built an export oil refinery in Nigeria,
- a large volume trader with global recognition and network, who engaged in crude oil over the last three years.

In addition to this, the company must at least have an annual turnover and net worth of $100 million (USD) and $40 million (USD) respectively (Ughamadu, 2003). These can be

regarded as the risk management tools that may be able to mitigate customer default and streamline crude oil transactions in Nigeria. Figure 6.1 presents the classes and numbers of crude lifting contract holders from 2011 to 2015.



	2011	2012	2013	2014	2015
Nigerian Traders	27	21	21	29	8
IOC Traders	-	-	-	-	4
International Traders	18	13	13	7	3
NNPC Subsidiaries	3	2	2	2	2
Refineries	2	4	4	2	4
Bilateral Governments	8	10	10	3	-
Total	**58**	**50**	**50**	**43**	**21**

Figure 6.1: Crude Oil Term Contract Holders

Source: NNPC (2013)

Observation of the data shows that 'refineries' and 'bilateral governments' who are considered to be end users of the crude oil present a lower risk. Nevertheless, NNPC crude allocation to these categories are insignificant, despite the fact that the crude oil proceeds from these categories are considered to be guaranteed. It is also indicated by the data that IOC traders who are the subsidiaries of IOCs operating in Nigeria as well as International traders who have deeply engaged in the crude oil trade for many years appeared to score well in financial refutation and also met NNPC's term contract requirements.

These data are relevant in providing some measures of reputational risk and cost to evaluate customer risk in a very sensitive crude oil export letter of credit transaction (Fubura, 2015).

Interestingly, one possible explanation could be that the data would assist NNPC in overall risk assessment of its contracting parties, identifying their financial capacity, reputation and integrity and also set a credit risk score for each customer to assume. Consequently, these reports are just opinions based on the company's experience and also normally attract charges for the service. However, it is argued that the competition in international trade may force some exporters to accept the less secured customers for fear of losing trade orders.

6.2.2. Nigerian Crude Oil Country of Destination Risk Analysis

It is generally accepted that the exporter who sends goods to another country worries more about the likelihood of payment default and misconduct by an overseas buyer. However, the economic and political factors are two circumstances that determine the level of risk applied to a particular customer's country. This stresses the need for the exporter to investigate the country's risk before establishing the letter of credit with the potential buyer, especially when exporting to a country with relatively unstable economic conditions (Schmidt-Eisenlohr, 2013; Niepmann & Schmidt-Eisenlohr, 2017). Probably this can be explained by the demand of Nigerian crude oil globally as it enjoys good international reputation in the refining world, because of its low sulphur content. Therefore, it is probably not surprising to see some developed and emerging economies looking to import Nigerian crude. What is interesting to note is that crude oil accounts for over 90% of the Nigerian exports and therefore it is essential for NNPC to assess the country risk exposure of Nigerian crude oil buyers (NNPC, 2015).

Scholars such as Mooney and Blodgett (1995) and Briggs (1994) believe that the country risk can be measured through understanding the financial position from the country's balance of payments records. These records and figures are available in public domains published by different international organisations such as IMF, World Bank and OECD, as an indicator of the nation's economic health. Data presented in Table 6.1 show major countries that import Nigerian crude oil with their level of risk exposure based on the OECD country risk classification in relation to three major risk groups high risk, medium risk and low risk

(Bergami, 2011). For some countries, such as Cameroon and Ivory Coast, the risk exposure appears to be high.

Table 6.1: Nigerian Crude Oil Export Credit Risk Classification by Country of Import

Country	Volume of Crude Oil Import%	OECD Country Risk Level	Total %	Low Risk %	Medium Risk %	High Risk %
France	7.1	0	46.3	46.3		
Germany	1.8	0				
Netherlands	15.0	0				
Spain	10.5	0				
Sweden	1.5	0				
Italy	2.8	0				
United Kingdom	4.6	0				
United States	3.0	0				
China	1.4	2	1.4		39.1	
India	20.0	3	23.4			
Indonesia	3.4	3				
South Africa	7.4	4	7.4			
Brazil	6.9	5	6.9			
Senegal	1.4	6	4.4			4.4
Ivory Coast	3.0	6				
Others	10.2	*	*	*	*	*

**Data is unavailable*

Source: NNPC (2015) and OECD (2017)

The data in Table 6.1 indicates that nearly half of the crude oil exports, accounting for 46.3%, is traded with countries with low risk exposure, while 4.4% engages with two high risk countries in Africa. Relatively, 29.1% of the crude oil trade volume, which is mainly exported to some Asian countries and South Africa, are categorised in the medium risk group. The lower risk group comprised countries with high income such as OECD countries and other high income Euro-zone countries and therefore, transactions which involve obligors in these countries are classified as '0 risk level', possibly because of their market price discipline. Figure 6.2 presents the distribution of Nigerian crude oil by region.

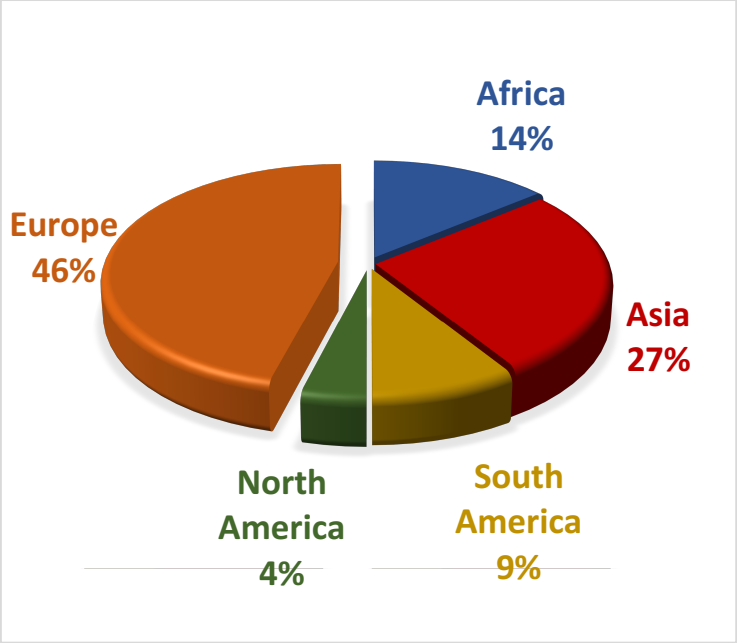


Figure 6.2: Nigerian Crude Oil Distribution by Region

Source: NNPC (2015)

Furthermore, in order to understand the significance of the risk exposure of the importing country, it is important to reflect these in the value of exports to these countries. Figure 6.3 shows the volume and value of crude exported by NNPC for the period of five years. These data only indicate the degree of trade conducted between the NNPC and contracted lifting companies.

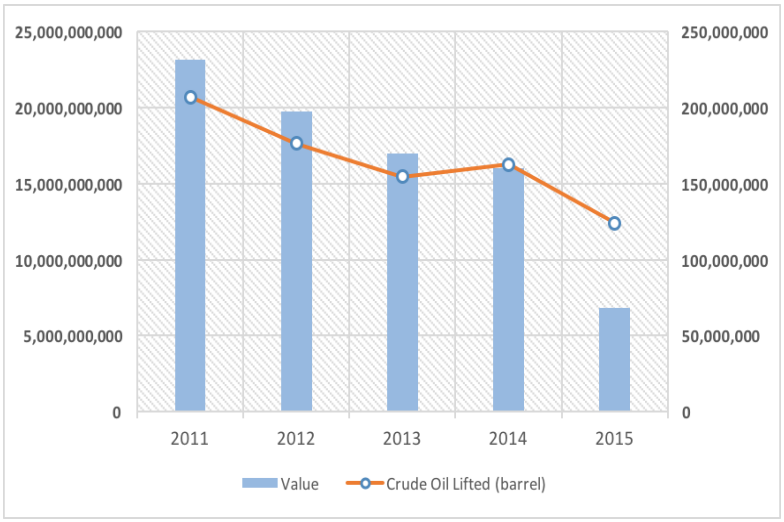


Figure 6.3: Value of and Volume of Crude Oil Exported by NNPC

Source: NNPC (2015)

It can be noted from Figure 6.3 that Nigeria received the highest revenue of $23 billion (USD), in 2011 with total exports of 206,787,031 barrels at average crude oil price of $111.91 (USD). The country suffered a revenue setback in 2015 where only 123,829,981 barrels of crude were exported with a value of $6.82 billion (USD) at $55.12 (USD). There may be other possible explanations in relation to this circumstance. One positive explanation could be the fall of oil prices globally.

Although the categorisation of the importing country is important, observation shows that the Nigerian crude oil sold to intermediaries is purchased by refineries and other traders located in the developed and emerging economies such as Europe and Asia. A different explanation could be that some of the trade conducted between NNPC and these traders, especially Nigerian traders, is conducted through a transferable letter of credit, where the second buying company may have been established in the countries listed in Table 6.1 The interviews seem to support this notion, because there is correlation between increasing

economic activities and crude oil demand in these countries. Hence, the most important consideration is that the data explain that Nigerian crude oil appears to be exported to less risky countries, and moreover, the export to high risk countries are seem to be managed by irrevocable letter of credit.

6.2.3. Bank Risk Analysis in NNPC's Payment Contracts

As revealed by literature sources, letter of credit is the most secure financial technique among international trade finance instruments (Kazmierczyk, 2006). Data show that the letter of credit is a mandatory condition for all companies who sign contracts for crude oil lifting with NNPC as a payment security. This is explicitly stated in Article 13 of the contract for sales and purchase of Nigerian crude oil:

"The BUYER shall procure that such Letter of Credit shall be opened with and confirmed by a reputable first class Nigerian bank approved by the SELLER or a first class international bank acceptable to the SELLER" (NNPC, 2013 p.26).

In addition to this, a top management official at NNPC explained the reason why NNPC chooses to trade only by letter of credit:

"We adopted letter of credit for our crude oil lifting so as to minimise the credit risk. Considering the geographical distance of the crude destination, determining the credit worthiness of the buying company is a major problem. By using the letter of credit, we can avoid such risk. In other forms of trade finance buyer may like to delay payment on the basis of quantity of crude supplied. However, payment is not affected in letter of credit even when the importer rejects the goods".

More importantly, the NNPC's request for buyers to issue letters of credit from reputable first class banks in Nigeria and abroad should provide it with more payment security and eliminate bank risk. As noted by Mann (2000), the settings of the letter of credit believed to a complex financial instrument, involving corresponding banks – nominated bank, advising bank and confirming bank as the case may be. Thus, the banks that issue letters of credit to

NNPC are usually located in foreign countries. Therefore, to make the letter of credit work, these issuing banks authorise another bank (nominated bank) with credit available to pay the crude proceeds into NNPC's designated accounts. The same procedural and technical roles apply to the advising banks, who act at the request of the issuing banks in advising the credit.

Because NNPC reviewed its letter of credit payment policy, where confirmed letter of credit credit was removed in 2014, there would no longer be a need for the confirming bank. Although confirmation is usually requested in international trade, this is more applicable when exporting goods to countries which seem to be economically unstable or if the letter of credit is issued by a bank located in such unstable countries (Kazmierczyk, 2006). Table 6.2 show the list of banks that issue letter of credit to NNPC and their total assets, short-term and long-term ratings.

Table 6.2: Fitch Default Rating for NNPC's Letter of Credit Issuing Banks

S/n	Bank	Country	Total Assets USD (billion) (2016)	Short Term Default Rating	Long Term Default Rating
1	Rabobank	Netherlands	781.9	F1+	AA-
2	HSBC	United Kingdom	2,374.0	F1+	AA-
3	ANZ Bank	Australia	698.0	F1+	AA-
4	BNP Paribas	France	2,496.8	F1	A+
5	J.P. Morgan	United States	2,490.0	F1	A+
6	Citybank	United States	1,792.0	F1	A+
7	Standard Chartered	United Kingdom	674.3	F1	A+
8	ABN Amro	Netherlands	469.6	F1	A+
9	ING	Belgium	197.8	F1	A+
10	Credit Agricole	Switzerland	2,094.5	F1	A
11	Societe Generale	France	1,674.4	F1	A
12	Sumitomo Mitsui	Japan/Belgium	1,515.0	F1	A
13	Natixis	France	703.5	F1	A
14	Santander Group	United Kingdom	372	F1	A
15	Deutsche Bank	Germany	1,676.0	F1	A-
16	Mizuho	Japan	1,640.0	F1	A-
17	Credit Suisse	Switzerland	979	F2	A-
18	Unicredit	Italy	1,166.0	F2	BBB+
19	Comerzbank AG	United Kingdom	758.0	F2	BBB+
20	Zenith	Nigeria	15.5	B	B+
21	GTB	Nigeria	10.2	B	B+
22	United Bank for Africa	Nigeria	17.0	B	B
23	Access Bank	Nigeria	11.8	B	B
24	First Bank	Nigeria	24.9	B	B-
25	Diamond	Nigeria	6.7	B	B-
26	Fidelity	Nigeria	4.2	B	B-
27	Ecobank	Nigeria	5.9	WD	WD
28	Stanbic IBTC	Nigeria	3.2	NA	NA
29	Sterling	Nigeria	2.7	NA	NA

WD* = Withdrawn
NA* = Not Available
Source: Osiris (2017)

It can be concluded from the data from Table 6.2 that the bank risk attached to the NNPC's crude oil payment is insignificant, probably due to the fact that all banks that issue the letter of credit to NNPC are world class rated banks. Nearly all banks in the above Table 6.2 are considered to be strong and have less default risks in both short term and long term loans. This is due to the size of their total assets and market share. Data from the interviews shows that NNPC's judgement for selecting such banks is based on the banks' rating, their working knowledge and active involvement in oil trading. They are also better informed about interpreting oil letters of credit around the world. All payments are made into the CBN/NNPC Crude Oil and Gas Revenue account with JP Morgan Chase in New York. The value of one letter of credit transaction is estimated to be $23 million (USD) per transaction in 2015. Usually the transaction is based on cargo lifting with a capacity of up to 950,000 barrels. The crude oil value chain payment for Nigeria is given in Figure 6.4.

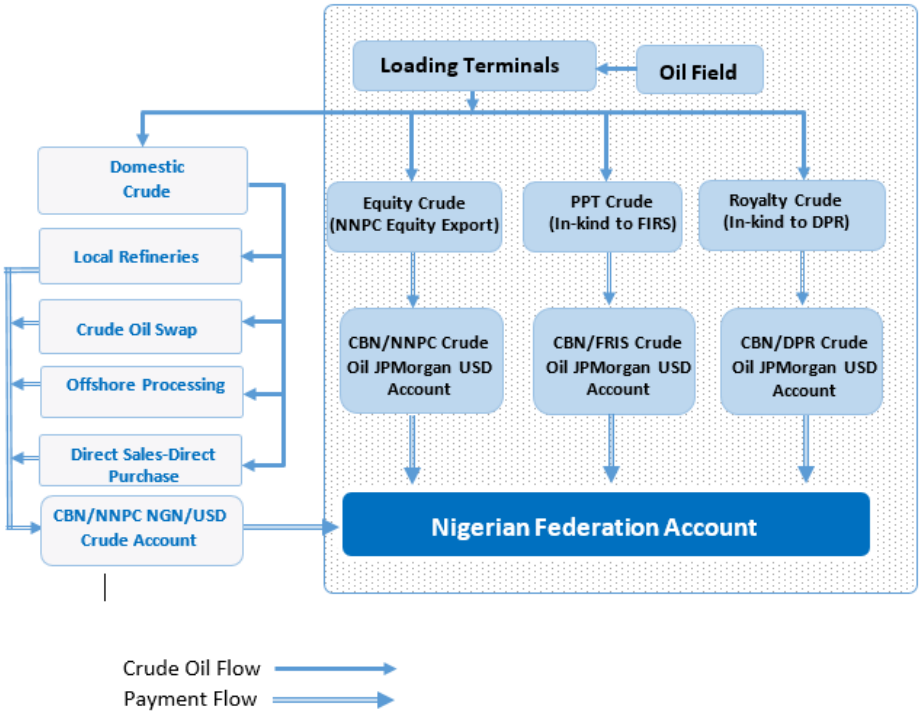


Figure 6.4: Crude Oil Sale Flow
Source: PWC. (2015).

Furthermore, the analyses of three major risk determinants in the letter of credit transaction such as country, customer and bank risks would provide the exporter with clear answers regarding three complex trade questions. Who is the right customer to trade with? Which market or country has the lower risk? Are the banks involved capable of handling export letter of credit business transactions? Following these criteria, the NNPC can establish sales contracts with lifting companies, by negotiating and fixing the clauses of the letter of credit which can be seen as the basis of the letter of credit. Hao and Xiao (2013) figured out some of these clauses such as type of credit, issuing date, chooses its bank as advising bank (if possible) and establish a consensus on required documents, number of originals and copies and expiry date of the letter of credit. Other complex clauses could be, whether or not transfer at another port would be allowed and if the contents of the letter of credit could be allowed to be changed by the parties. These and other terms and conditions, as well as ambiguous and excessive requirements of the UCP 600, are believed to be the source of documentary discrepancies in the letter of credit operations (Sakchutchawan, 2009)

6.3. Letter of Credit Operational Process in Nigerian Crude Oil Sales

Typically, the Nigerian crude lifting contract makes reference to the two parts of the term contract. Firstly, NNPC and the prospective lifting company must reach an agreement on the 'contract for the sales and purchase of the Nigerian crude oil' duly signed by them. Secondly, the parties must stand by the general conditions for sale and purchase of the Nigerian crude oil. Certainly, this will reflect in the documentary requirements set by the letter of credit during the purchase contract negotiation.

For NNPC to fulfil its obligation, the lifting company must apply the letter of credit in time, usually five days before the first lifting day as specified in the contract. According to the NNPC's general conditions of crude oil sales (NNPC, 2013), failure to open an acceptable

letter of credit in due time as agreed would constitute a breach of contract and the buyer would be liable to pay a $100,000 (USD) penalty. Responses from the interviews revealed that this action was introduced due to a high level of failure to issue credit in time by the customers. A possible connection to this is probably that late letter of credit opening affects NNPC's operation at the terminal such as delay in crude oil loading, documentary processing and presentation of documents to the bank.

Furthermore, every letter of credit specifically addresses the choice of the delivery term which are generally used throughout the world so as to define the responsibilities of each trade party regarding transport risk and cost. This term popularly known as Incoterms. It can be noted from the literature that the Incoterm 2010, which contains ten international trade terms, expects the buyer and seller to settle on one term on who takes responsibilities with regard to cargo insurance, loading, delivery, freight and other risks and cost. It is essential for the exporter to abstain from dealing with Incoterm that would exposes it to risks and cost at the importer's end, such as import customs clearance, insurance policy or payment of import duties and taxes. For instance, transport risk, cost and charges in the Delivery Duty Paid (DDP) trade term at the importer's end may cost more to the exporter than anticipated.

The lowest risk term available for exporters is ex-works. This places minimum responsibility on the exporter who provides the goods at the named place, usually the exporter's factory or depot (Luk, 2011). This shows that the exporter has no responsibility for transportation risk and costs regarding goods damaged in transit. This trade term is common in intra-European goods movement, usually by trailers, which best avoid air and sea freight movements. However, once the crude oil is loaded on the vessels, the buyer assumes all risk and cost. The FOB term specifies in the contract that the lifting company must comply with all Nigerian statutory requirements regarding completion and perfection as well as other documentations such as Single Goods Declaration (SGD) and any other fundamental requirements set by the Nigerian Customs Service. According to Article 17 of condition of Sales and Purchase of Nigerian crude oil:

"The BUYER shall be responsible for the payment of all amounts in respect of taxes, duties, imposts, fees, charges and dues of every description imposed or levied by any governmental, local or port authority on the Crude Oil delivered hereunder, or on its export, delivery, transportation, ownership, sale or use, in respect of any stage after risk in such Crude Oil has passed to the BUYER. All taxes, duties, imposts, fees, charges (including, without limitation, pilotage limitation, quay dues) in respect of the Nominated Vessel incurred at the loading Terminal shall be solely for the BUYER's account".

Although the burden of letter of credit documentation and operations is increased compared with ex-works, as a case point, interestingly, the NNPC has no obligation to enter into a contract of carriage (International Chamber of Commerce, 2006). On the other hand, the buying company would then be responsible for all documentation regarding insurance, export customs clearance and other applied charges. Generally, the NNPC supplies the crude oil in conformity with the term contract and letter of credit provision and then loads the oil on board the vessels nominated by the lifting company at the named terminal of shipment. Consequently, as NNPC tries to cut down responsibilities and risk, there are certain unavoidable risks and costs to bear (Mann, 2000; Baker, 2000). Thus, the terminal operations, procedures as well as the personnel who process the export letter of credit may cause a delay risk in loading and by implication affect the shipment time and presentation of documents to the bank.

6.3.1. Shipping Documentation Process

Shipping documents are the most important documents used in the Nigerian crude oil export letter of credit because of their status as the main requirement for payment. Hence, written information is given to the COMD tagged as Documentary Instructions (DI) not later than ten days before the crude oil lifting date. Such instructions list all types and numbers of documents NNPC should produce for the effective letter of credit transaction. Table 6.3 below shows the typical documents requested in the DI.

Table 6.3: Required Documents in the Nigerian Crude Oil Export Letter of Credit

S/n	Document	Originals	Photocopies	Third Party
1	Bill of lading	3	3	Terminal Operator
2	Certificate of Quantity	1	3	MPR
3	Certificate of Quality	1	3	DPR
4	Certificate of Origin and Authenticity	1	3	DPR
5	Cargo Manifest	1	3	DPR
6	Tanker Time Sheets/Statement of Fact	1	3	Terminal Operator
7	Ship Ullage Report	1	3	DPR
8	Master's Receipt for Samples	1	3	DPR
9	Master's Receipt for Document	1	3	DPR
10	Documentation Receipt	1	3	DPR
11	Commercial Invoice	1	0	COMD
Total Documents Needed		13	30	

Source: Aigbokie (2008) and Ogbu (2008)

According to Sakchutchawan (2009), the requested documents give the buyer considerable assurance that the crude oil loaded and shipped complies with the specifications of the sales contract. The risk of producing shipping documents and certification can be measured through cumbersome, lengthy procedures and bureaucracy. As noted in Table 6.3, the majority of these documents are produced by DPR which processes the certificates based on instructions given by NNPC and in accordance with the letter of credit. The quality and sample of crude oil are not only demonstrated in the certificate form, but also issued in gallons in order to ascertain initial sale contract agreement about the type of crude oil to be loaded. Reflecting relevant data that is consisted with one another may be a difficult task for the NNPC.

Furthermore, the bill of lading and tanker time sheet are produced by the terminal operator reflecting details of other documents supplied by the COMD. As noted in the literature, the bill of lading is the most sensitive document in all shipping documentation as it details the number of barrels and the type of crude oil on board, the terminal of loading and port of

destination. In producing this document, the Terminal Operators only rely on written instructions and relevant data supplied by the COMD. The certificate of quantity represents the details about the number of barrels lifted from the terminal, including details of the shipment such as names of consignor and consignee, the name of the tanker and port of destination (Ogbu, 2008). This certificate is issued by the Nigerian Ministry of Petroleum Resources acting as the overseeing agency of the government. Customer or appointed agent such as Master of the nominated vessel, as well as the terminal operator or appointed agent of NNPC fully participate in the volumetric and temperature measurement (Abubakar, 2000). The basis of this is connected with fulfilling the letter of credit requirement that requires the Master of the nominated vessel to sign the bill of lading as conclusive evidence of the quality and quantity of crude oil loaded onto the vessel, on behalf of the customer.

It is important to note that the whole crude oil terminal operation and loading process is done in conjunction with a joint inspection team, comprising the COMD's representative, Nigerian customs and DPR (Aigbokie, 2008). The working environment as well as staff behaviour remain the main factors that contribute to the risk elements of defect, inconsistency and missing documents discrepancies within the letter of credit operations. Unavailability of staff in this process may translate to shipment delay, late presentation as well as letter of credit expiry.

Notwithstanding the instruction of documents to be submitted, the buyer shall specify other information to the NNPC such as the quantity of crude oil to be loaded, crude grade and steam, vessel name, flag and year-built, summer dead weight of vessel (SDWT) as well as draft and length over-all (LOA). These, for most parts, represent the precautions of a careful buyer. The additional information that would be required in the documentation process are the estimated time of arrival (ETA) for the vessel to load, the agent, inspector, consignor, consignee and destination of the cargo. This information may be mandatory, due to the effective documentary compliance as requested in the letter of credit (Tella, 2006). Additionally, for any vessel to be sailed out of Nigeria's shore, a Nigerian Navy certificate

must be issued from the Nigerian Navy who controls the exit of every vessel exporting from Nigeria, in particular crude oil. This requirement is not surprising, because Nigeria records a high number of piracy and oil theft incidents in the Gulf of Guinea (Alabi & Ntukekpo, 2012). Data also suggest that NNPC must secure a quarterly export permit from the Ministry of Trade and Investments, this is typically required in order to satisfy export requirements by the Nigerian government and failure to do so may affect the entire operation.

Other documents produced by the Terminal Operator and MPR are also subject to the same risk as they are processed by personnel. In the context of documentary discrepancy risk, it is important to determine the difficulties and commitments level of the Terminal Operator, DPR, MPR and other third parties and how they carry out documentary instructions against letter of credit requirements as given by COMD. The next section will focus on how NNPC puts these documents in order before submitting to the bank.

6.3.2. Preparation and Submission of Documents to the Bank

The mechanics of the letter of credit in crude oil export operations is based upon documentary production. As explained by Miller (1959), the parties to the credit are exclusively concerned with the rights, liabilities and interests in the transaction, and the proceeds of the credit solely determined in reference to the documents. The COMD, as a unit predominantly in the NNPC, is responsible for collecting all shipping documents from all 24 terminals. It is necessary to consider the internal documentation process and also establish the overall risks before final presentation to the bank. The satisfactory documentary compliance of the letter of credit by the exporter embodies a two-fold system of contractual responsibilities. Firstly, it places the beneficiary at the critical stage to secure all required documents as stipulated in the advised credit. Secondly, the bank's responsibility is to examine such documents in order to ensure that the submitted documents meet the customer's documentary stipulations.

Observation from the documentary operations suggests that, after inspection, loading and documentation at the terminal, the full set of shipping documents are transmitted to COMD's S&T office in Abuja through three COMD regional offices in South East, South West and Lagos (Aigbokie, 2008). However, the risk of delay in producing and transmitting these documents from these terminals to Abuja may largely affect timely presentation to the bank. Moreover, the documents are also subject to extra examination by the Commercial Department of the COMD in order to detect possible discrepancies for corrections before the final presentation (Ogbu, 2008).

The risk of internal documentation, such as price valuation and invoice, is not considered high. The price valuation contains the valid cost of crude oil shipped to the customer, which may be likely to differ from the original value asked for by letter of credit (Sallau, 2014). This is because the crude oil trade has an escalation clause, which means the price will not be known until some days after the bill of lading is issued. Data from the interview show that price valuation usually takes some days to process. Therefore, the full set of documents has to be submitted to the bank and payment would be made based on the original price on the letter of credit until valuation is ready. However, this payment concept cannot be found in the UCP 600, since the the rules do not mention that the price has to be given after the letter of credit is issued.

Technically, the price escalation clause may be considered as a discrepancy, although this is not viewed as a significant problem in NNPC's letter of credit transaction, because there is no evidence that presenting documents to the bank for payment without price valuation is a hurdle. One major reason could be that the letter of credit usually asks 5 percent payment method, meaning that the bank could pay 5% more or less (+/- 5PCT) depending on the result of the price valuation before or after payment. The commercial invoice is the final document to be produced by the COMD's Revenue and Account Department. All documents are submitted to the advising bank and then forwarded to the issuing bank. Data show, however, that the Revenue and Account Department posted the documents using the DHL courier

service directly to the issuing bank of the foreign or local company. It is important to note that it usually takes three days before these documents arrive in the issuing bank's country, which add presentation delay risk to the process. As stated in the contract, NNPC expects the crude oil proceeds to be credited to its JP Morgan accounts 30 days after the bill of lading date.

There are some elements of delay, errors and inconsistencies that may arise in the context of letter of credit documentary operations. Certainly, effective operations risk management in the letter of credit would minimise the likelihood of these documentary discrepancies such as errors, omissions and delays before the final submission of documents to the bank. The analysis of these discrepancies in relation to Nigerian crude oil export letters of credit is discussed in the next section. In order to operationalise the letter of credit Discrepancy Risk Management Model can be used to analyse the discrepancies, which will be explained in the next section.

6.4. Letter of Credit Documentary Discrepancy Risks Analysis in NNPC

The integrated discrepancy model for letter of credit operation using a Fishbone diagram replica identified major discrepancy factors, causes and effects. In applying a Fishbone diagram to the letter of credit operations, the effects which are discrepancies are identified by brainstorming the root of the causes with arrows laid in the diagram, with branches of causes 'bones' toward the symptom (effect). This is demonstrated as a fish skeleton as can be seen in Section 6.6. The analysis of symptoms, factors and causes result in problem, which is the *root arrow effects* or discrepancies, in order to get a focus on the problem statement with clarity and consensus. As shown in the Export Letter of Credit Operations Discrepancy Model, where the exporter faces the risk of payment delays or, at worst, non-payment in the event of any of the six discrepancy problems, defective documents, inconsistent documents, missing documents, late shipment, late presentation and credit expiry occurred.

Any discrepancy found in the documents as a result of these six discrepancies may cause them to be not in compliance with the letter of credit requirements (Jimenez, 1997; Zodl, 2002). Generally, as shown in the literature, the duty of the bank is to scrutinise the documents presented by the exporter against possible discrepancies identified above. If the bank is satisfied that the documents comply with the letter of credit requirements and instructions, it may honour them and make the payment at sight or at a predetermined date. It must be noted that the bank, in making this determination, is circumscribed at all times by the order of its customer and in accordance with UCP 600. This means that it exercises no discretion outside the strict confines of its mandate. As indicated by Kula et al. (2015), documents submitted must be strictly complying because if any discrepancy is found on the documents, the exporter will lose the right to collect payment, or will be left to rely on the mercy of the importer to waive the discrepancies.

It may be crucial for the NNPC at the time of letter of credit operations to mirror exactly the sales contract agreement and other documentary instructions subject to the UCP 600 principles with regard to issues such as price, crude oil type, the quantity to lift, shipment date, presentation date and most importantly, documentary requirements for the credit to be honoured. One of the most serious difficulties existing in the present letter of credit is the questions of consistencies and uniformity in the use of concepts and terms as revealed by Sakchutchawan (2009). Many factors and causes that affect letter of credit operations are too complex, especially in crude oil export. In order to investigate this problem, the analysis of documentary discrepancy risks in Nigerian crude oil export transaction is divided into two parts. Firstly, the documentary content analysis was adopted in order to ascertain the nature and frequency of the discrepancy risks in the letter of credit operations. Secondly, the interviews were analysed, confirming the characteristics of discrepancy risks as well as the factors and causes that are responsible for these risks.

Indeed, the documentary data collected and analysed are related to 960 letters of credit transaction documents of NNPC's crude oil export. The data provide a complete picture of the documentary discrepancies. Their nature and frequency are based on information and content analysed. Accordingly, the data only suggest exploratory justification. This is because the information collected is not valid for statistical analysis which requires large samples. Thus, the data are based on NNPC cases.

6.4.1. Documentary Content Analysis

As expected, the data established the existence of documentary discrepancies in the Nigerian crude oil export letter of credit lodgement. As revealed by Mueller (2013), the issuing bank checks the documents presented, carefully examines them and then decides whether to accept or reject them. When reflecting this to the strict compliance principle, "the issuing bank undertakes to honour the credit exclusively upon documents, which on their face appear to constitute a complying presentation" (Mueller, 2013 p.28). Essentially, the UCP 600 permits banks to perform this action within five days as stated in Article 14(b). These discrepancies found in documents are mainly associated with the documentary checking procedure of the issuing banks on first presentations. As shown in Table 6.4, out of 960 transactions, documents relating to 928 letters of credit were examined.

Table 6.4: **Documentary Examination Status**

Status	**Results**
Documents examined	928
Documents not examined	32
Discrepant Documents	167

The data in Table 6.4 presents a surprising result of 167 discrepancies, representing 18% of the documents examined. This is considerably lower than the level of discrepancies identified by the ICC. Notably, the data indicated the details about the types and frequencies of discrepancy. Technical examination of the documents revealed that the identified discrepancies in NNPC's letter of credit operations is not just about submitting defective or

inconsistent documents, as noted in the literature, but also about failing to comply with other terms and conditions initially agreed upon in the underlying sales contract. These discrepancies, however, do not suggest a serious problem for the NNPC. Although they indisputably create operational problems and other delays during presentation, they do not suggest that NNPC's default is because of insignificant defects such as technical inaccuracies in the product description or price.

6.4.2. Documentary Discrepancy Risk Assessment

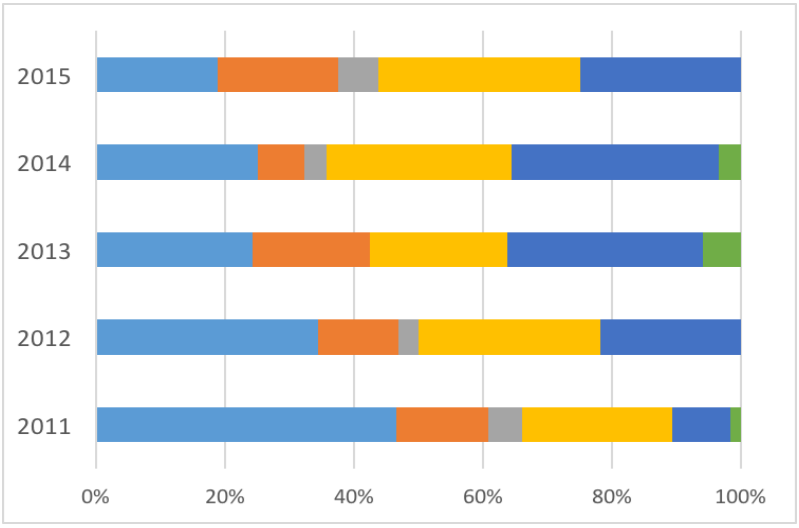
It is suggested by Kraaovska (2008), Baker (2000) and Mann (2000), that there are a number of common discrepancies that are found to be significant in letter of credit operations. As discovered in the data, there is a wide array of documentary discrepancies that exist in the NNPC letter of credit operations. Table 6.5 below shows the frequencies of the six discrepancy effects in the NNPC's letter of credit operations.

Table 6.5: **The Discrepancies Breakdown**

S/N	Discrepancy	Occurrence	Percentage
1	Late presentation	57	34%
2	Late Shipment	43	26%
3	Inconsistencies	35	21%
4	Defect Documents	23	14%
5	Missing document	5	3.%
6	Letter of credit expiry	4	2%
	Total Discrepancies	**167**	100%

The data from Table 6.5 show the frequencies of the discrepancy risks spread across six categories. Late presentation and late shipment recorded the highest level of discrepancies, collectively accounting for 60% of the total discrepancies. The 57 discrepancies found in late

presentation, representing the highest level of 34%, may probably be due to technical operation of the crude oil activities in both terminals and internal documentary processes. It is the usual process for the full set of shipping documents to be prepared at the respective terminals which are located in the very remote area where oil is loaded on the vessels, in the continental offshore in some cases. Similarly, late shipments, which account for 26%, could also be a contributing factor in late presentation of documents. According to the data, the inconsistent documents accounting for 21% caused rejection of documents, especially when data in the bill of lading are inconsistent with other documents. The bank may reject the documents, putting NNPC at risk of non payment or requires corrections which further takes time in the process and consequently delays the payment. The least discrepancy occurrences, as shown in Table 6.5, is letter of credit expiry that accounts 4%. The reason for this lower rate could be that the letter of credit is opened to last for 90 days, before it expired. This does not imply a significant problem. Consequently, when the discrepancies are considered annually within five-year sample in this research, 2011 was recorded as the year with the highest discrepancy rate, as reported in Figure 6.5.



	2011	2012	2013	2014	2015
Late Presentation	26	11	10	7	3
Defective Documents	8	4	6	2	3
Missing Documents	3	-	1	1	-
Late Shipment	13	10	7	8	5
Inconsistencies	5	7	10	9	4
Credit Expiry	1	-	2	1	-
Total	**56**	**32**	**36**	**28**	**15**
Percentage	**33%**	**19%**	**22%**	**17%**	**9%**

Figure 6.5: Discrepancy Rate Per Year
Source: Letter of Credit documents examined

6.5. Factors Responsible for Discrepancy Risks in NNPC's Letter of Credit Operations

The previous section provides an analysis of the classifications of major discrepancy risks and their frequency in the NNPC's letter of credit operations in crude oil sales. This section evaluates nine factors responsible for the discrepancy risks in the letter of credit operation.

6.5.1. Terminal Operation

Terminal operation is the operational exercise to deliver the crude oil to the customer according to the Laycan programme. One of the interviewees (N2) from the Shipping and Terminals department commented that: “Terminal operation is the key of our crude oil export operations. We produce the set of shipping documents in the terminal of loading and therefore any delay in their processing may affect the entire letter of credit operations”. The operations involve different pertinent aspects connected to control the crude oil export activities; from the oil fields, to the terminal and finally to the customers. The objective of a terminal operation is to provide a set of technical procedures to manage machines, vessels, and people within the facility to enable a unified link to effective management of the terminal. Many respondents regarded terminal operation as a factor responsible for the discrepancy risk in letter of credit operations. This is because a significant number of discrepancies occur at the terminal. A participant among the interviewees, (N14) expressed the view that: “obviously we faced some technical problems while loading, which can translate to late loading of crude oil”.

The terminal presents a great challenge that may not allow exporters to meet the latest shipment date as specified in the letter of credit. Another important consideration is that there are parties allocated to each of 24 terminals, such as Terminal Operator, Customs, Navy, DPR staff, COMD representatives, customers’ representatives, Ship Masters etc. Each party executes its responsibilities for the purpose of effective crude oil loading and documentary production. However, one interviewee (N10) expressed the view that: “there is lack of coordination between these parties before, during or after loading as well as documentation”. This variable, tagged ‘terminal’ in the export letter of credit operations discrepancy model, becomes apparent in relation to the root effect arrow for 4 out of 6 discrepancy risks; late shipment, late presentation, credit expiry and defective documents.

6.5.2. Bureaucratic Procedures

There is an official procedure with regard to the crude oil export letter of credit operations. This procedure involves the loading and documentation process, the retention period, control of documents as well as activities designed in the terminal and COMD office. Thus, the NNPC produces an up-to-date Laycan programme on crude oil available for loading as well as shipping documentation. This process was characterised by interviewee (N3) as a factor by saying; "there is a long bureaucratic procedure in our system especially when it comes to signatory approval". This is not a problem only for the COMD, but for the entire NNPC. This is the major problem that is holding up the letter of credit process. The letter of credit procedure also involves operational decisions that would ensure that the programmes could be supported without delay. The NNPC usually designs shipping and loading programmes ahead of time, normally before the letter of credit is issued. However, an interviewee (N2) noted that "we hardly execute these programmes effectively as planned". This could be due to delays in the documentary process, permits issuance and presentation to the bank. As observed, every letter of credit issued from the bank comes with a number of requests. As mentioned by interviewee (N2); "there are also other requirements that are not mentioned in the letter of credit which we have to process, but sometimes the procedures are quite lengthy and delayed before we obtain them". Consequently, complying with the procedure is reported to be a major concern in the NNPC's letter of credit operations that give room for discrepancies to occur.

6.5.3. Crude Oil Vessel

In the Nigerian crude oil export industry, the vessel is considered to be a risk factor through which late shipment discrepancy may occur. There are certain requirements for the vessel to load crude oil in a particular terminal. This depends on the route to the terminal and the quantity to upload. More so, the Laycan programme provides details for laydays as well as

cancellation time. It is revealed from the interviews that in many cases, these days are not followed appropriately. According to interviewee (N14), late shipment is usually caused by shipping companies. The respondent said that “lifting companies have an attitude of late response, despite that we send them our Laycan programme as early as possible”. Similarly, interviewee N6 added that this is happening “because it is the responsibility of our customers to bring the appropriate vessels for the loading of crude oil volume, as stated in the contract. Again, interviewee N10 said that “most of the times we have to wait for the vessel to arrive before we can start the loading activities and this affects our operations”. This risk factor is not only allowing late shipment discrepancies to occur, but its consequences can be devastating, requiring one party, the NNPC or lifting company, to pay demurrage costs depending on who fails to perform their obligation.

6.5.4. Personnel Factor

Personnel are the human resources that operate the letter of credit in the NNPC. They are present at various stages of the process, from receiving credit issued, crude oil loading, documentary processing to the presentation of required documents to the bank. This is regarded as the major factor in all six documentary discrepancy risk categories. Relatively, the human factor can be said to be present at any time during the NNPC’s letter of credit operation. One of the major considerations is that documentary discrepancies are manifested by human beings and not caused by machines. The high tendency for errors in the documentary process is likely to occur when there is a manual generation of internal documents. Interviewee N3 provides the strong reasons for this factor by saying “the staff operating at the terminal naturally affect the process of loading. It usually come with delay or human error in operating machinery”. An additional consideration that links to this factor is human error. Interviewee N8 stated that “the people that process the shipping document at the terminal and other documents at the COMD office are subject to human factor”. It is observed that each activity in letter of credit operations is supported by a designated

individual, either in the terminal, the COMD office or in the third parties' operations. With the exception of a few cases, no one can perform another person's duties. Consequently, the situation where someone is absent or delays in performing his/her duties may delay or force the entire process to be extended.

6.5.5. Discrepancy Factor

The discrepancy itself can be counted as one of the factors that give rise to the risk. Evidence from the data shows that discrepancies found in documents affect the time window allowed for the letter of credit to operate before it expires. Thus, the procedures in fixing discrepancies can allow another discrepancy to occur, as mentioned by interviewee (N12) who had to say; "the discrepancies on documents require us to cooperate with banks and customers in order to resolve them either through waiver or correction".

6.5.6. Presentation of Documents

Presentation of required documents to the bank 21 days after the bill of lading date has become a challenging phenomenon in the NNPC's letters of credit. The presentation factor is found to be present in two root effects; late presentation of documents and the letter of credit expiry. Analysis shows that this factor usually gives rise to discrepancies, and this causes delay in documentary process or dispatch to the bank. This also manifests in the devastating consequences of discrepancy risks. Data shows that the NNPC either presents documents on time or they delay them. The process of receiving the proceeds of the crude oil sold to customers is quite efficient if the documents are submitted early. However, when documents are submitted more than 21 days after the bill of lading, it will lead to the discrepancy and this may delay payment. Interviewee (N5) mentioned that "the process may take longer than expected and this affects our payment period; that is 30 days after bill of lading date". The assertion from the interviewee shows that the presentation factor has a

great impact on payment. For example, where documents are presented 28 days after the bill of lading date, it would perhaps be difficult for the NNPC to receive its payment 30 days after the bill of lading date. In other words, the payment would be delayed by some days due to late presentation of shipping documents.

6.5.7. Issued Credit

The letters of credit issued by banks usually reflect the clauses in the term contracts signed between the NNPC and lifting companies. The parties also agree to perform based on this contract, as well as general conditions for the sale and purchase of Nigerian crude oil, which is the second part of the contract. As revealed by the interviewees, there are a number of amendments and counter amendments that exist after the credit is issued. According to interviewee (N13) “we seek for amendment for one out of three letters of credit issued”. This problem has to do with some changes or lack of understanding of some clauses by the customer. This typically happens when the NNPC is dealing with new customers who have signed the term contract for the first time. Moreover, some of the causes of defective documents discrepancy, such as ambiguous requests and misinterpretation of some contract clauses, are believed to occur within this factor. For instance, when credit is issued with some clauses contradictory to those signed in the original contract, the NNPC insists that the customer must amend the highlighted areas. Sometimes, however, the NNPC goes ahead with the process using the original contract while the amendment takes place later. Interviewee N7 provides the reason why this factor becomes an issue by saying: “where we acted on the wrong information given in the credit issued, the problem can be devastating”.

6.5.8. Workplace Factor

It is important to understand how well process risk is affected by the workplace factor in an organisation. It is noted by Baker (2000) that some documentary discrepancies such as late presentation, inconsistencies of documents and late shipment are caused by lack of training, work overload, staff negligence or the nature of the working environment. Some of the respondents mentioned that a combination of too much work as well as too many demands

within a limited boundary would create a problem within the NNPC's letter of credit operations. According to Bergami (2011) there is a strong correlation between a dysfunctional workplace and the risks attributed to the letter of credit process in a firm, where each may affect the other. It can be recalled from the data in section 6.4.2. that 21 percent of the discrepancies in the NNPC's letters of credit are said to be inconsistent. The workplace contributes towards their occurrences. In this sense, adequate training for staff is essential; staff commitment is also important for risk management in the context of the letter of credit operation.

6.5.9. Technical Difficulties

Although there is an argument that the letter of credit is considered as the perfect payment instrument in international trade, providing security against non-payment, nevertheless it entails a complex technical procedure. This is the factor which is responsible for causing discrepancies in the letter of credit operation, such as missing documents and inconsistencies in documents. Like other factors, the technical difficulties provide space for some elements to cause discrepancy effects. For instance, inefficient facilities or malfunctioning equipment may cause data inconsistency with other documents. This factor is also connected to the personnel who operate the oil terminals. Despite readily accessible crude oil loading guidelines, documentation procedures and Laycan programmes, there are some technical failures that may be inappropriate to the system.

6.6. Analysis of Interview Results on the Causes of Discrepancy Risks

This section provides an analysis from the interview conducted with fourteen experts from four departments in the NNPC's COMD. They are contract, commercial, revenue and accounting, and shipping and terminals departments. The interviewees were carefully selected based on their experience in the letter of credit processing as well as their level of managerial position achieved. As earlier noted in Section 5.7.2, the purpose of adopting the interview research tool for this study is to further ascertain the issues that emerged from

the findings of the documentary analysis. Consequently, six broad discrepancy areas and nine risk factors were highlighted in the Export letter of Credit Operation Discrepancy Risk Model as needing further clarification from the chosen experts who participated in the interviews. The interviews further identify the detailed causes within each category. Moreover, the interviewees identified more factors attributed to the causes, and continue to organise them under related categories, by breaking down the diagram into smaller causes if the detailed cause has too many sub-branches.

6.6.1. Perception Related to Shipment Delay

The letter of credit literally authorises the date on which crude oil has to be shipped out from the terminal of loading on or before the latest shipment date mentioned in the letter of credit. This important date must be reflected in the bill of lading. The performance of this condition depends on the interaction of the discrepancy risk factors such as procedure, personnel, terminal and vessel. A good match of the Laycan programme and terminal operations produces a successful loading outcome, within the time allowed by the credit, while delay in loading and shipping would result in many problems that prohibit the bank from paying the exporter or slow down the payment process in accordance with the terms and conditions. The shipment delay occurs before or during the loading, whereas the former relates to conditions within which the shipping company is immersed, the latter relates to the terminal operations managed by the IOC on behalf of the NNPC.

The causes that influence this discrepancy include the terminal location, the vessel master, late arrival, insecurity, late shipment, operations, loading, permit, documentation and Laycan. As such, a mixture of these causes, peculiar to crude oil exports, were identified and the findings were overwhelmingly negative. The enquiry through the interview brought to light an important revelation.

6.6.1.1. Terminal location

All crude oil terminals are located in remote areas and this has been seen as the cause of the late shipment. The widespread geography imposes an additional difficulty for vessels in trying to locate a specific terminal for their loadings (Oliveira et. al 2016). The perception of the interviewees, below, validates this.

While relating the location to shipment delays, interviewee N2 said:

> "We usually expect nominated vessel at the terminal based on the schedule. However, these vessels perform long distance travel from different continents. Due to the nature of the area, some tankers find it difficult to identify the right terminal location".

One interviewee N14 stated

> "Nearly all our terminals are located in the Niger Delta. This region has been characterised as volatile zone where we face several attacks from militant groups on our facilities. For security reason, vessel has to wait for one or more days until the route to the terminal is safe".

Another response on the security factor was stated by interviewee N3

> "There are some cases of kidnappings of oil workers, especially foreigners, piracy and oil theft in the Niger Delta. This is one big reason some tankers fear to load oil in some specific times in order to avoid risk of being attacked or kidnaped. This also change loading schedule".

6.6.1.2. Shipping company

The literature suggests that it is the responsibility of the customer under FOB incoterm to make necessary arrangements with the carrier for the crude oil transportation (e.g. Bergami, 2006). In other words, it is the shipping company that locates the terminal of loading on time

according to the instructions given by the customer. It is in this regard that the views of the interviewees are stated.

The assertion of interviewee N12 revealed that

> "Some customers use shipping companies that are unable to act effectively and efficiently. They do not realise that these companies are busy and unable to collect their crude oil in time".

This perception is further affirmed by interviewee N4 who mentioned that:

> "Well, as the shipping companies act on their customers' instruction, sometime they act on wrong crude type and terminal of loading. When they arrive in the wrong terminal, we have to redirect them to right ones".

6.6.1.3. Late arrival of vessel

It is acknowledged from the data that a shipment delay is caused by the poor weather conditions which affect the loading scheduling. The findings of interviews show that late arrival of vessels affects the loading programme such as latest shipment date.

For instance, interviewee N14 stated that

> "One of the problems we face that interrupts our operations is poor weather condition. In this situation we can not perform our duties until everything stabilized.

Another view from interviewee N2 is that

> "there is a failure for the vessel to arrive to the terminal of loading on time due to many uncertainties. Theses vessels encounters problems such as bad weather on the way, as they usually travel from Europe and Asia crossing oceans to Nigeria".

6.6.1.4. Terminal operations and crude loading

Within any crude oil terminal, from an operational view point, it is possible to identify several instances of planning, programme, process and decision making (Blanko, 2005). Each terminal receives a daily amount of the different oil varieties to store before finally being exported by the customers. Usually, the shutdown of the production fields operations is considered when the storage capacity is about to exceed its maximum level. Responses from

the interviews suggest that there is evidence that technical and time-consuming activities, as well as poor planning within the terminal operation are negatively affecting shipment schedules.

With regard to terminal operation interviewee N9 stated that

> "There are many different parties involved in running the the terminal and each has its own duties. While we make sure that crude oil is loaded onto the customer's nominated vessel according the contract and receive a set of transport documents, others such as terminal operator deals with receiving crude oil from oil fields. I must say that there is lack of coordination among these parties and this create crack that things not go as planned".

Correspondingly, interviewee N10 responded by saying:

> "The vessel has to go through scrutiny of Nigerian Navy, customs and immigration to ensure that it did not violate any law and also check the risk profile before it can be allowed to start loading. This leads to delay".

Similarly, interviewee N2 concurred by saying:

> "The Lay-time and cancelation (Laycan) is usually 36 hours, but within the process, of loading up to 900,000 barrels, we experience technical problem that are beyond our control. This exceeded the expected time of cancelation as well as latest shipment date".

Finally, interviewee N1 reported that:

> "Due to the nature of our operation, delay in the process may causes the vessel to overstay in the terminal, the problem can either be from our side or customer's side. Whoever responsible for the problem would be liable for demurrage payment".

Interviewees N9 and N1 also share the same perception that there is a tendency for the machinery to be faulty and, as a result, loading becomes slow, adding additional loading time to the schedule.

6.6.1.5. Documentation at the terminal

There is a requirement for all documents to be filled in with the data relating to the loading such as customer, vessel and port of destination. There are other paperwork issues that can cause delays in loading. For instance, information regarding loading must be sent to both the terminal and the DPR. However, transmitting this information entails a long procedure. In this regard, responses from the interviews show a general agreement that the DPR lacks efficiency in making documents available before the vessel sails. Below is the perception of the interviewees

While reinforcing the point that DPR contributes to the shipment delay, interviewee N2 stated that

> "We always send details ahead of loading; concerning customer, consignee, vessel, quantity, crude type and Laycan programme to both terminal operator and DPR. We require them to process the information and produce listed documents in order to satisfy the credit issued. But unfortunately, DPR bureaucracy used to delay in processing these certificates. Certainly this affects our operations".

Corresponding to this, another cause of delay in completing the documentation process is expressed by interviewee N13 who said

> "All documents required signatures, stamps and seals so as to validate and authenticate them. When loading is finished, the delay in reflecting these features on documents also delay the shipment".

6.6.1.6. Crude Oil Export Permit

It is the NNPC's responsibility to secure export permits and Navy certificates for all crude oil exports. There would be no loading without these permits. However, a long procedure in obtaining them creates problems that affect the shipping date requested by the letter of credit. According to interviewee N4

"Ministry of Trade and Investment issues export permit to us every quarter of the year. However, when this permit expire we have to apply again which takes time before we secure it. Surprisingly, this is a government body like us, but they are not helping us. There was a time that we had to shutdown our operation because we can't load without permit".

Overall, the causes highlighted in the interviews are summarised in the Fishbone diagram in Figure 6.6 The general conclusion is that factors such as vessels, terminal, personnel and procedures provide room for these causes to exist. This is possibly the reason for late shipment discrepancy in the NNPC's letter of credit operations.

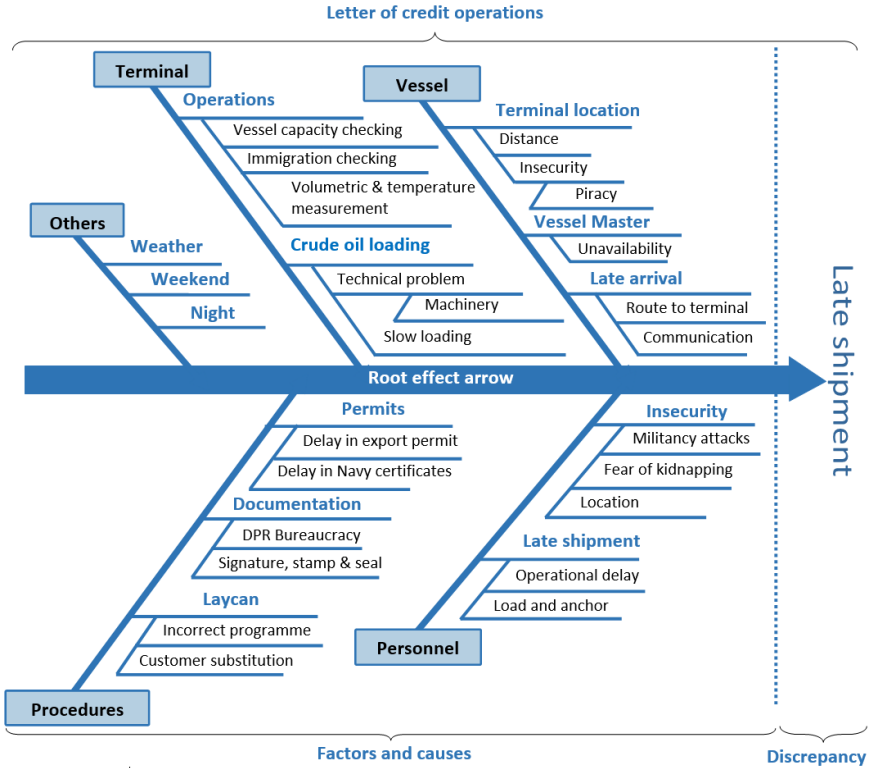


Figure 6.6: Summarised Interview Findings of Late Shipment in Fishbone Diagram Form
Source: Author

6.6.2. Perception related to Late Presentation of Documents

As generally evident from the literature, the NNPC has the responsibility to prepare all documents and other conditions stated in the letter of credit and submit them to the bank within 21 days after the bill of lading date. Submitting these documents without any discrepancy will guarantee the NNPC payment 30 days after the bill of lading date as agreed in the initial sales contract. Although the late presentation is not mentioned in UCP 600, this condition falls under Article 14 of UCP 600, otherwise it is clearly stated in the letter of credit. By inference, documents must be presented to the advising bank or issuing bank on or before 21 days, any presentation outside this rule will result in discrepancy and will affect payment.

In this light, the findings from the documentary analysis suggest that discrepancy in late presentation of document is significant. Subsequently, further enquiries were made on the late presentation discrepancy through interviews. The opinions of the interviewees confirm the findings in the documentary analysis and also provide five major causes of the variable, reflecting discrepancy risk factors. The assertions of the interviewees are related as follows:

6.6.2.1. Credit amendments after oil loading

In several instances the interviewees identified the credit amendment as a cause of late presentation discrepancy. The credit amendment occurs when both parties wanted to adjust or correct some contract articles issued in the credit by the Advising bank at customer's request. Some of these changes usually occurred based on mutual agreement between the NNPC and the lifting company, after the crude loading and before the vessel sails, adding the risk of submitting documents late. Below are the pronouncements of the interviewees.

One interviewee N12 said

> "Documents are delayed because of disagreements between us and customers based on some contract terms. We load and anchor, meaning after loading we keep

vessel by the side of the terminal and also the shipping documents until this dispute is resolved".

In concurrence, interviewee N5 revealed that

"Crude oil price choice by customer is one of the major causes of this disagreement that delay us to presents documents to the bank".

An assertion that further relates this discrepancy to the customer of the NNPC was interestingly delivered by interviewee N7

"Every year we have new customers. These new comers don't have experience on how our letters of credit operate. This affects our operations".

6.6.2.2. Preparing of shipping documents

The interviewees also noted that failure to produce and prepare the required documents in time contributes to the late presentation discrepancy. This cause is similar to late shipment in some cases. Some assertions of the interviewees in this respect are stated below

"One major cause of presentation delay is the bureaucracy in our operating system. This occurred when we try to prepare all shipping documents in the terminal".

One interviewee N14 asserted that:

"We have 24 crude oil export terminals. Ideally, when shipping documents are processed in the terminal, the helicopter used to pick our representatives together with documents every week. However, the documents first go to our regional offices for registration before proceeding them to the COMD office here in NNPC Headquarters".

Another interviewee N2 concurred with this view through this assertion

> "Even when shipping documents arrived here (COMD Shipping & Terminal department), we need additional days to check them to ensure that there are no errors or omissions".

Another respondent, interviewee N12 stated that

> "There are some number of documents that are produced in-house such as invoice and price valuation. The process of producing these documents is time-consuming, adding a delay risk of documents submission".

6.6.2.3. Delay in dispatching documents

A critical moment for the NNPC is the deadline for the documents to be lodged with the bank without availability of one or more documents. The responses of the interviewees are given below

Interviewee N8 reported that

> "Before I post documents to issuing bank, I have to make sure all original documents and photocopies are in order as requested in the credit. In essence, I can't send incomplete documents, I have to wait for other departments to do their necessary checking and then forward them to me".

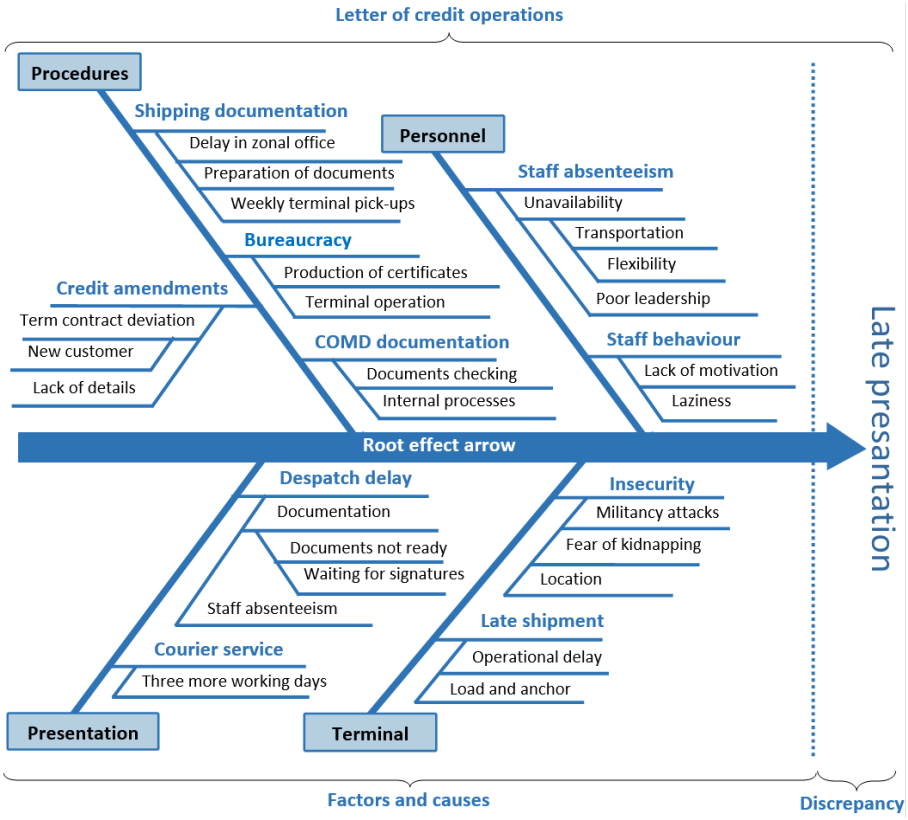
Furthermore, interviewee N6 reiterated this view by saying that

> "The delay in making these documents ready for presentation originated from their source in the terminal. In many cases the document arrived form terminal between 24 and 27 days after bill of lading".

Correspondingly, interviewee N5 said

> "Even when the documents become ready for dispatch, it will take additional 3 working days using DHL to deliver to issuing banks, which are usually located abroad".

The interviews responses above provide the number of causes responsible for late presentation in the NNPC's letter of credit process. These can be illustrated in the Fishbone diagram in Figure 6.7 below.



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Source: Author

6.6.3. Perception related to Inconsistent Documents

As is generally evident from the literature, one of the most important problems encountered by exporters on a regular basis is a string of inconsistencies in documents presented to the

issuing bank. The full set of documents, such as the bill of lading, certificate of quality, certificate of quantity, commercial invoice etc. contain much data relating to the crude oil transaction. However, these documents are not only required to be correct, but must be consistent with one another.

The general findings from the documentary analysis showed that the NNPC experienced a 21% inconsistency discrepancy in their letter of credit operations. Thus, in order to further examine the causes of this discrepancy, interviews were conducted.

6.6.3.1. Human error

Human resources are an integral part of the organisational operations. It is the staff that processes the letter of credit. Many risk incident reports cite human error as a primary cause (Sobel, 2005; Bergami, 2007). Therefore, human error helps in creating inconsistencies in the documentary operations. Below are some of the responses of the interviewees.

Interviewee N12 said

> "It is not necessary to say we can run successful letter of credit process without some wording mistake or conflicted clause on letter of credit content".

To further emphasise this point, interviewee N4 remarked that

> "Those documents are processed by human beings, and there is likely to have some typographical errors on the shipping documents such as; customer's name, bank's name, address, shipment date, crude oil grade or terminal. These errors directly affect our payments, because sometimes banks used them as the basis of rejection".

This view is supported by interviewee N3

> "The manual process increases the risk of errors due to human intervention".

6.6.3.2. Lack of experience

Having appropriate experience and understanding of the letter of credit process are two important attributes in dealing with letters of credit. Inexperienced staff exposed the

organisation to financial losses through inconsistence discrepancies. In this respect, the findings of the interview revealed the following assertions:

Interviewee N9 briefly said that

> "The NNPC, and COMD in particular have well experienced staff who deal with letter of credit, but there are some units that also participated in the process, however, they are not keen in knowing how letter of credit operates they only process documents".

Emphasising the effects of lack of letter of credit experience in crude oil exports and the way it affects NNPC's operations, interviewee N11 asserted that

> "Another problem is that NNPC has a culture of frequent reshuffle of staff. For instance, personnel that have worked in department which is unrelated to marketing division may find themselves in the COMD at the decision making level. How do we expect effective decision making relevant to letter of credit?"

6.6.3.3. Documentation

Processing of shipping documents is also critical to the export organisations. For, example, the manner in which documents are produced, either manually or electronically, may have impact on discrepancy rate. Findings from the interviews suggest that the NNPC's letter of credit operation is affected in this aspect.

Regarding the processing of documents, a respondent from a commercial department, coded as interviewee N13 declared that

> "We have high proportion of documents in our letter of credit operations. In one transaction for instance, over twenty separate documents and each has its own requirements. The transfer of data to populate fields across a number of large number of documents offers error risk".

Interviewee N4 also asserted in a similar manner that

"As far as the documentation is concerned, the manual process increases the possibility of inconsistencies in our system. The introduction of the ASP software greatly reduces the human error in the process".

Another interviewee N12 emphasised his position that

"To my experience, the inconsistency is explained by the failure of the customers to clearly state terms and and conditions in the letter of credit issued. This usually happened when dealing with new customers".

6.6.3.4. Non-compliance of procedure

It is noted in the literature that the doctrine of strict compliance is well established in the letter of credit transaction. The requirement of data on the documents to strictly comply with the terms and conditions of the letter of credit is believed to be the primary cause for inconsistencies in accordance with Article 13 of the UCP. The positions drawn from the interviewees are stated below.

Interviewee N1 reported that

"It is very difficult to check and exactly reflect the data against the letter of credit requirements, because not all data given on the documents can be verified when referring to letter of credit"

Another interviewee N6 is sceptical about submitting completely complying documents:

"We can't say we are 100 percent competent when treating documents against each other. The bank also used to compare all documents for consistency and reject the documents based on any variation".

When responding, another interviewee N9 stated that

> "There are certain banks that are too severe and rigid, they usually not accept any mistakes on shipping documents. Sometimes they do it in favour of the lifting company, especially in the when oil price falls in the market".

In concurrence, interviewee N4 stated that

> "This problem is usually happened when we are dealing with new entry banks, because as soon as they understand our value, that they are dealing with huge amount of money belonging to our government, and they want continue business with us, they will help in solving the discrepancy".

6.6.3.5. Ignorance of procedure

Ignoring necessary internal policies and procedures contribute to the inconsistency risk in the letter of credit process. Some of the discrepancy risks are caused by failing to follow simple procedures. This is because a number of operations are controlled by the exporter, and therefore the degree of inconsistencies is present in the documentary process. Interviewee N2 says

> "We are dealing with a number of different parties in executing the letter of credit documentary operations. Majority of shipping documents are produced in the terminal by Terminal Operator, DPR and MPR, the major problem here is failure of these third parties to properly performed as we instructed them".

Yet another explanation related to this is given by interviewee N9 who stated that

> "Even within the COMD, there are different units and departments that all put hands in the process and there are things I can't proceed when other departments or units did not finish their parts".

The perceptions of the interviewees were graphically demonstrated in Fishbone diagram in Figure 6.8, where it was generally perceived that inconsistencies discrepancy is mainly, caused by human error, lack of experience, documentation process and ignorance of procedure.

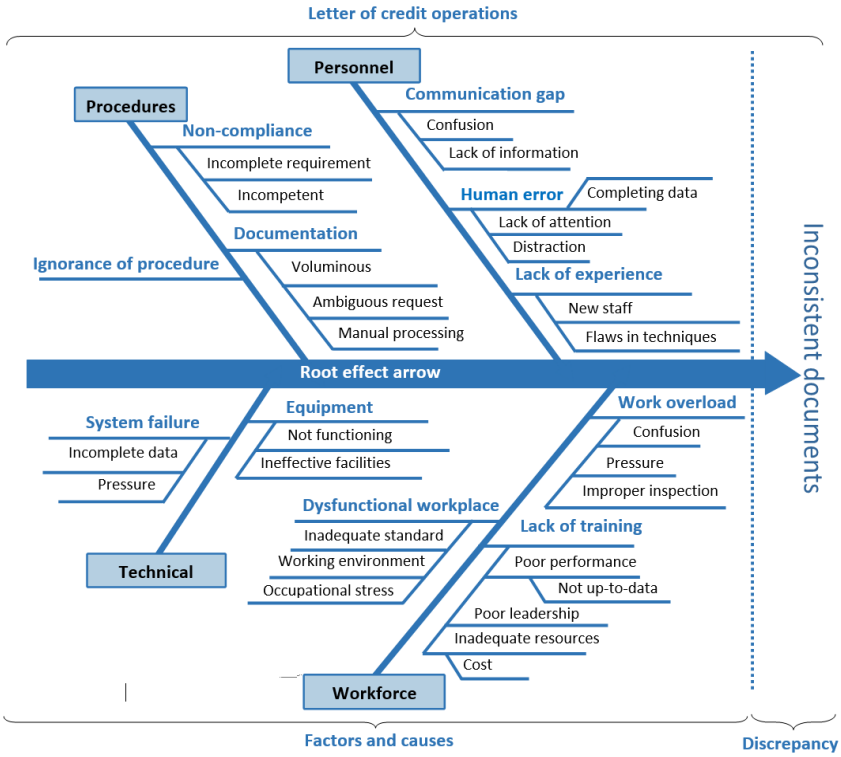


Figure 6.8: Summarised Interview Findings of Inconsistent Documents in Fishbone Diagram Form
Source: Author

6.6.4. Perception Related to Defective documents

As stated in section 6.4, defective document discrepancy is another component of the Letter of Credit Discrepancy Risk Model which affects letter of credit operations. According to Mann (2000), defective documents are the most common type of discrepancy in letter of credit operations. In this light, the documentary analysis focused on the nature and frequency of the defect discrepancy. The findings show that defective documents discrepancy in the NNPC is only 14% of the total discrepancies. However, the interviews were conducted in order to find out the causes of this discrepancy in three categories.

6.6.4.1. Operational difficulties

Because of the complexity of the crude oil export operations, it may be difficult to exactly satisfy them.

Interviewee N4 stated that

> "In some occasions, before we submit the documents to banks we found defect in the documents. What we do is that, we call the customers to notify them about the discrepancy so as to contact issuing bank for possible waiver".

6.6.4.2. Wrong Decision making:

Regarding the role of the NNPC's decision-making in defective documents discrepancies, the views drawn from the interviewees are stated below.

Interviewee N7 reported that:

> "By arrangement of the NNPC, the COMD is headed by the Group General Manager, and each department is headed General Manager. COMD is the most important division in the whole NNPC. Ironically, any wrong decisions taken with regard to letter of credit would have consequences on our operations. For instance, order from above may require us to load a particular crude type to a customer as against the initial arrangement and letter of credit requirements".

In relation to this, another interviewee (N14) stated that,

> "We usually act based on instructions and sometimes we can't protest order from above, we only follow. However, customers usually waive some discrepancy whenever our actions clash with letter of credit requirements, because they extremely need this product".

6.6.4.3. Forgetfulness

In organisational operations, it is quite normal to forget things from time to time. Staff are usually affected by this element during the letter of credit processing, as mentioned by interviewee N13

> "We are human beings, it is normal that we may forget to act on some clauses,".

Correspondingly, interviewee N12 responded in support by saying:

> "Banks used to raise issue on defect on documents that there is missing signature, stamp or seal on one or more documents. While some of these defects can be waived, however, any defect found on bill of lading is rejected".

Finally, interviewee N1 concurred by saying that:

> "It is quite rare that we find this type of discrepancy on bill of lading, but it would be the most serious one if discovered, because it must be addressed. Sometimes we noted the discrepancy when we received the documents from the terminal before we submitted them to the bank. If the discrepancy is missing Master's signature, we have to look for the customer's agent, because the Master might has already gone".

From the interview results, there are several sub-causes that trigger defective discrepancy through major causes, factors and root effect arrow. This is illustrated in Figure 6.9.

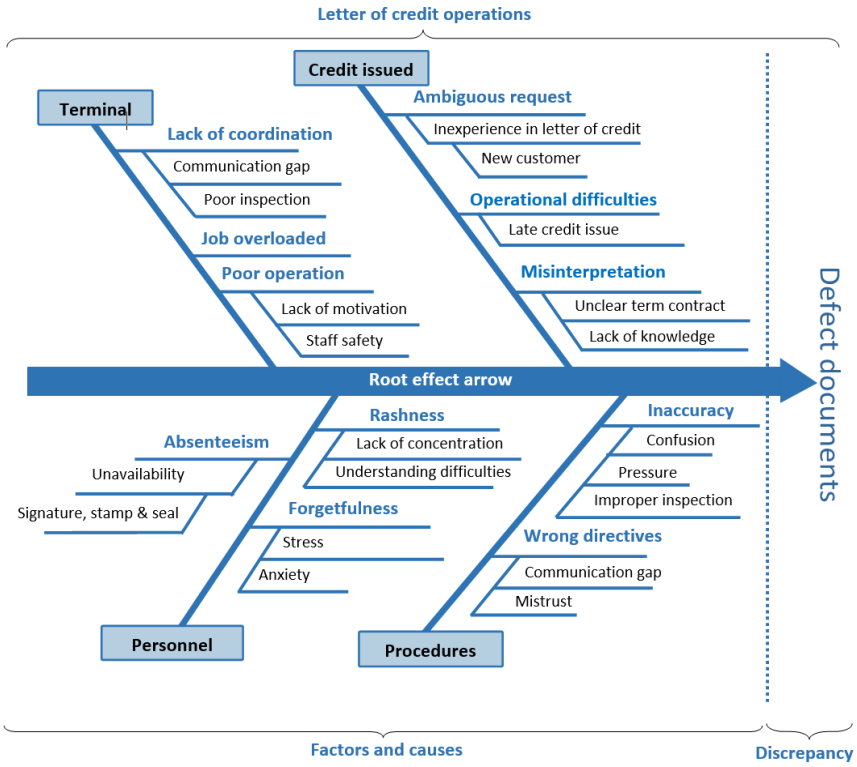


Figure 6.9: Summarised Interview Findings of Defective Documents in Fishbone Diagram Form

Source: Author

6.6.5. Perception related to Missing Documents

Missing documents is the most serious discrepancy in the letter of credit transaction, especially when the absent document is extremely important. Missing documents, in this respect, denotes omitting one or more documents from the set of shipping documents, invoice or price valuation that results in the rejection of the entire documentation. For instance, the UCP 600 demands the presentation of all original documents and a certain number of copies. In more specific terms, if the letter of credit states that the bill of lading is to be issued in more than one identical copy, the bank would raise the point as a discrepancy if the exporter presents only one original bill of lading. This concept is applicable to all other documents. The general findings of the documentary analysis showed that this type of discrepancy rarely occurs. However, in order to further examine and seek validation

of the findings, interviews were conducted in order to examine the perception of interviewees on the causes of the missing documents discrepancy.

6.6.5.1. Negligence

As stated in Section 3.4.2.4, all shipping documents are produced in the terminal of loading by the terminal operator, whereas COMD staff monitor the process of documentation. Where personnel did not take their work seriously, the tendency for documents to be missing would be high.

With respect to missing documents discrepancy element in the NNPC, interviewee N14 related that

> "It's obvious to see staff in NNPC not putting extra effort, simply because it is the government company".

6.6.5.2. Inaccuracy and improper checking

Inaccuracy in the letter of credit operations contributes to the loss of documents within the process. However, the findings in the documentary analysis shows this discrepancy rarely occurred, presenting only 3% of the total discrepancy. Responses from the interview confirmed this result.

To emphasise this point, interviewee N10 remarked that

> "Possibly knowing the value of the documents to NNPC as well as to Nigeria, the process of documentation is dominated by the NNPC. One contract can be around $40 million (USD). This is huge amount of money".

In confirming this view, interviewee N12 stated that

> "We rarely had issue with the bank regarding missing shipping documents. These documents the most important document in the whole NNPC. I guessed anybody who is responsible for missing those documents will go to jail direct".

6.6.5.3. Forgetfulness

This appeared to be the cause of other discrepancies such as inconsistency and defects. Interviewee N4 noted that

> "There was a time when a bank rejected the documents on the ground of missing of one original bill of lading. I have clear my desk paper by paper before I can identify it. This is quite a serious case, but it is unusual".

6.6.5.4. Circulation of documents

There are several documents produced by relevant parties such as the DPR and the terminal operator. These documents are later transmitted to the COMD before finally being presented to the bank for payment. During this process, there is a likely risk for documents to go missing in circulation. The response with regard to this cause of discrepancy is given by interviewee N10

> "We fully understand the documentary requirement listed in the letter of credit issued by off-taker. So the first thing we do when we receive documents from the terminals is to cross check them against these requirements, especially the number of original shipping documents to see if any one is missing. But due volume of papers, we may send documents to the bank without one or two documents. Its likely that this risk may occurred".

When the documents arrive at the COMD in the NNPC from the terminal, they go to the S&T department for necessary documentation. Other departments such as commercial and revenue also have a lot to do like price valuation and invoicing, before finally posting them to the bank. By arguing that, it is also possible that the movement of documents from one department to the other within the COMD may cause documents to go missing.

The above responses imply that the NNPC may face the risk of missing documents while dealing with a number of different documents at the same time and processing a letter of

credit between different units. The lifting company is much more likely to refuse the document in this situation. Although this discrepancy can be corrected if the missing documents are identified and resubmitted to the bank, a letter of indemnity can be used to remedy the missing document discrepancy. Figure 6.10 provides a summary of the causes and factors that are responsible for the missing documents discrepancy.

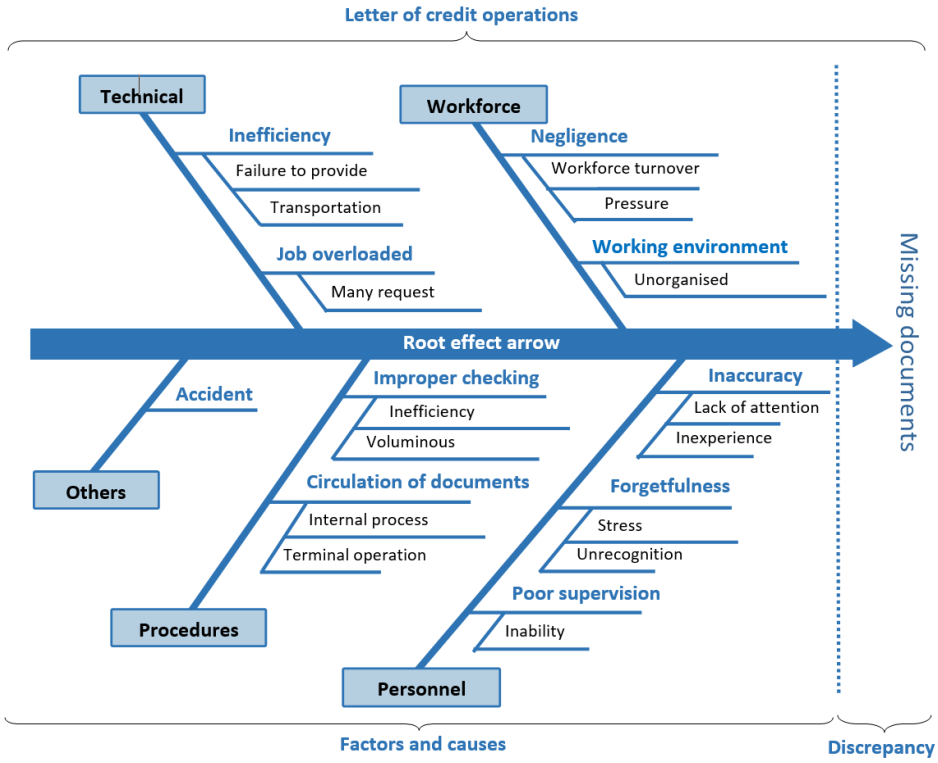


Figure 6.10: Summarised Interview Findings of Missing Documents in Fishbone Diagram Form
Source: Author

6.6.6. Perception related to Credit Expiry

In the quest to produce the full required documents and submit them for payment, exporters must operate within the time frame as per the guidelines mentioned in the letter

of credit. Consequently, the letter of credit is void if crude oil is shipped before the latest shipment date, but the documents are not submitted to the bank within the valid period of the letter of credit. The credit expiry, in this respect, is largely affected by four factors, presentation, terminal, procedures and discrepancies. These allow the discrepancy risks to arise in letter of credit operations. The main elements that cause credit expiry include late presentation, bureaucracy, rejection of documents and disputes. Waiver, documentary, operational and process delays may also be factors.

The general findings of the documentary analysis showed that the NNPC has not been much affected by this type of discrepancy. In order to further examine and seek validation of findings, interviews were conducted.

6.6.6.1. Late presentation

As stated in Article 14 of UCP 600, documents specified in the letter of credit must be submitted 21 days after the bill of lading date, and therefore failure to present them may increase the number of days outside the letter of credit time frame. With regard to the NNPC, interviewee N5 noted that

> "Although we hardly experience credit expiry because we have 90 available days, however the causes are connected with the long processing time documents take in the COMD. We have up to three different departments that put their hands on the process".

To further emphasise this point, interviewee N8, who is responsible for posting documents to the bank, remarked that

> "The time some documents take before they become ready for posting is irritating. Sometime this leads to expiry of credit".

The interviews show that the credit expiry in letters of credit upon which the NNPC operates is insignificant. However, late presentation of documents may likely affect the letter of credit and causes credit expiry discrepancy.

6.6.6.2. Documentary process bureaucracy and delays

Processing documents in the letter of credit is the most important aspect in the letter of credit operation. In this respect, delays in processing these documents affect the time frame that is permitted in the letter of credit. The interviews conducted revealed the following assertion:

Interviewee N12 noted that

> "A long procedure in securing export permit from the Ministry of Trade and Investment as well as unnecessary delay are appeared to hold our process".

A similar response from interviewee N1 mentioned that

> "Waiting for documents to be processed at the Terminal causes the letter of credit to expire, but hardly occurred because we have up to three months before this become a problem".

The responses drawn from the interviews are consistent with the findings and observations on the documents examined. The conventional analysis of the organisational studies shows that credit expiry is caused as a result of a delay in processing documents by one or more parties and, when it occurs, creates problems for the export company.

6.6.6.3. Disputes

The letter of credit is subject to dispute between the importer and exporter regarding some important clauses in the contract. Prolonging an unresolved problem is likely to make the credit void. In this regard, responses from interviewee N5 stated that

> "We sometimes have dispute regarding to price valuation with our customers. When the problem is not resolve between us, it leads to litigation and that may affect credit period".

Another perspective, is given by interviewee N13 who noted that

> "Regarding the issue of disputes, we try as much as possible to solve all problems with our customers, because the more dispute continues, the longer it takes to receive our payments".

These responses show that the NNPC is not only required to solve disputes with its customers within the letter of credit time frame in order to avoid credit expiry, but also to try to settle their pending issues and submit documents as early as possible for immediate payment.

6.6.6.4. Rejection of documents and waiver delay

As noted from the documentary analysis, there are discrepant documents related to defects and inconsistencies in the NNPC. In this respect, the bank that raised the point of discrepancy would notify the exporter on the development. With regard to discrepant documents, the bank may require either the discrepancy to be corrected after the rejection or the exporter to request a waiver from the customer before it can effect the payment. This process may be delayed for a number of reasons, such as delay in processing rejected documents and submitting back to the bank or when customer delays in issuing waiver.

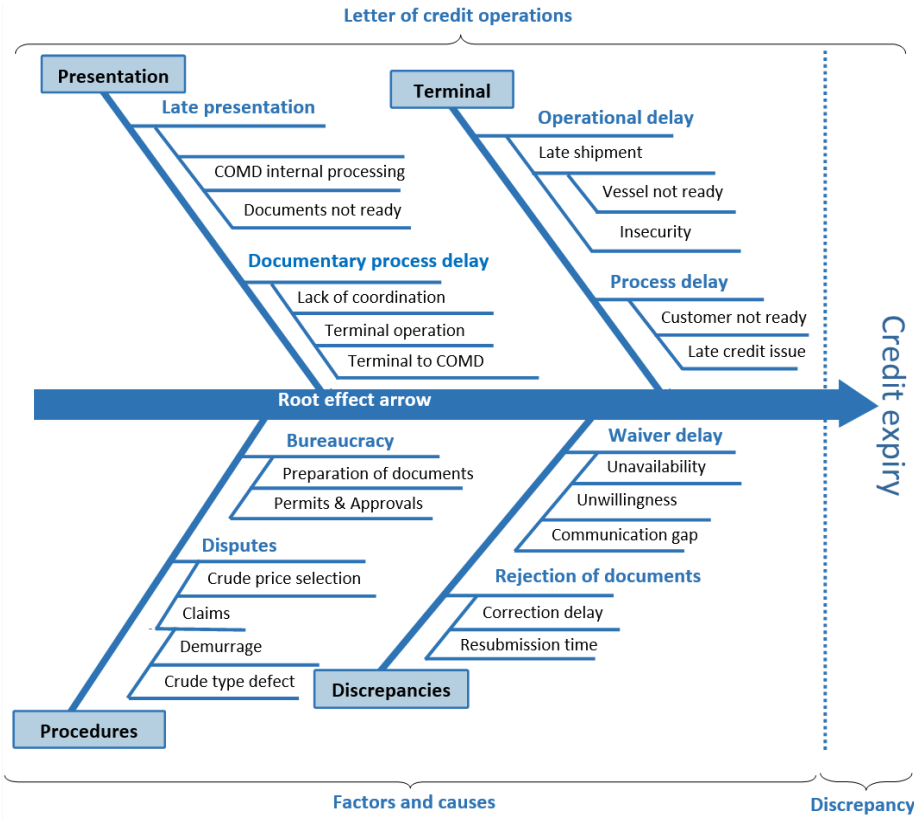
The assertion of interviewee N3 reiterates the point that customers take advantage of a discrepancy to delay payment by saying

> "I will say customers are very smarts in delaying waiver which in turn benefited them in deferring the payment".

Emphasising the documentary rejection as one of the causes of credit expiry in the NNPC and describing the way it affects the NNPC's letter of credit payment, interviewee N1 asserted that

"Another problem is that when bank identified discrepancy, it ultimately rejects the documents. However, before the discrepancy is corrected and sent them back to the bank may take much time, especially if the error is on transportation document that may require us to take the documents back to the terminal".

To sum up, Figure 6.11 provides the summary of the major possible causes and sub-causes of the credit expiry discrepancy extracted from the interview results.



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Source: Author

6.7. Documentary Discrepancy Risks Treatment

Treating discrepancy risks involves a process of selecting and implementing appropriate control measures in dealing with the risk. Risk treatment is an activity of selecting and

implementing suitable action to modify the risk. Discrepancy risk treatment for NNPC covers not only risk control or mitigating strategies, but also an extension to the risk avoidance and risk transfer. A successful risk treatment should incorporate effective internal control system. For instance, an effective internal control system is degree to which discrepancy risk such as delays and errors will either be reduced or eliminated. The result of the discrepancy risk analysis in Section 6.4. provides a risk profile rating of frequency and significance of each of the six discrepancy risks. For example, the risk elements such as delay and error in the letter of credit process are unlikely to occur unless the NNPC fails to be proactive early in the process. This implies that being proactive and effective in the letter of credit process can eliminate or reduce the discrepancy risk tendency. In order to make a right decision as to which method to adopt in discrepancy risk events, the NNPC must be aware of consequences of the discrepancy risk, and also more importantly about all aspects of letter of credit operations and environment under which it operates (Irukwu, 1991).

6.7.1. Risk Avoidance

One of the recognised tools of effective risk treatment is risk avoidance. In the Nigerian crude oil export letter of credit, this stage is linked to the NNPC's strategy to adjust the letter of credit operation so that conditions that may trigger risks are eliminated. Another thing that may help NNPC to avoid risk is by substituting crude oil lifting companies with experienced ones that have track record of crude oil export business to avoid operational problems or choosing well established banks who are capable of handling the oil letter of credit.

The NNPC normally makes crude oil available for shipping at specific terminal. To avoid discrepancy risk, all required documents must be processed and prepared as exactly stipulated in the letter of credit terms and conditions, as payment is only made based on the documentary requirements stated in the term-contract and letter of credit. To summarise, all the documents submitted to the bank must meet all the requirements, otherwise they

will be rejected. This may cause a delay in the payment or lead to non-payment in some cases. The NNPC may avoid an activity associated with risk exposure. This can be done by simply refusing to assume risk (Irukwu, 1999). These depend on a speedy documentary process and punctual presentation. The implication here is that the NNPC will have to enhance its operational processes, improve technical and human resources and devise a more effective communication and feedback process. This would result not only in reduced costs but also provide an enabling environment for avoiding discrepancies.

Evidence from the data shows that the late presentation discovered in the NNPC's letter of credit process can be seen as a major discrepancy, by failing to comply with the 21-day rule. Although the concept of late presentation by the NNPC does not cause rejection, careful thought can be given to the consequences should this occur due to the important nature of the discrepancies. For instance, it may be of little or no overall importance for the NNPC to miss a day or two, but it may clearly be a different matter if the date is missed by several weeks or more. This may have a significant impact on payment. One of the key benefits of letters of credit to the NNPC is that payment would be made to its designated accounts 30 days after the bill of lading date, as outlined in the contract. However, if the NNPC continually fails to comply with the 21-day deadline, it may have serious consequences on payment.

The idea of 21-day presentation is to give the bank sufficient time to examine the documents. Certainly it takes five banking days according to Article 14(b). It allows more time for correction in the event of discrepancies. This may be time-consuming, especially when the documents are to be returned to the exporter. It could be argued that the overriding discrepancy of late presentation may encompass the additional letter of credit expiry, justifying additional discrepancy. The letter of credit is expected to comply with Article 42(a) of UCP 600, which states the date that the letter of credit would cease to exist. In other words, presenting shipping documents around the letter of credit expiry parameter would probably be out of time. Therefore, failure by the NNPC to send documents on time

delays the receipt of letters of credit drawn 30 days after bill of lading dates. In many instances, the acceptable presentation agreed upon by most applicants and beneficiaries is 15 calendar days. This may probably allow the exporter extra time to put necessary documents in order. If the letter of credit does not specifically stipulate the latest date to present the documents, then the shipping documents must arrive at the negotiating bank no more than 21 days after the bill of lading date.

The success of documentary operations further acknowledges the conclusion of the letter of credit contract. However, despite discrepancy risk measures taken by the NNPC, there is always the possibility that documents would be rejected by the bank on the first presentation due to one or more discrepancy elements. As mentioned by Baker (2000), about 50% of the discrepancies found in documents can be corrected or rectified, while others may be difficult to control. On this note, it is suggested that the preferred course of action would be to avoid discrepancy risk. However, correcting a discrepancy can be done through two other elements. They are communicating and consulting with the customer as well as monitoring and reviewing. While the former uses some avenues to manage discrepancy risks through waiver and corrections, the latter seeks to review the entire letter of credit process in all units responsible for export in order to avoid them. It was perceived that the NNPC has the capability to manage and minimise a number of discrepancies.

6.7.2. Risk Transfer

Risk transfer can be regarded as an effective method of dealing with the letter of credit discrepancy risk. Risk transfer strategy can be adopted by the export organisation to reduce the company's exposure to risk by entering into an arrangement or a contract under which a burden of the risks would be transferred to another party. In the simplest form, a freight forwarder is an entity that acts an agent for both the beneficiary and the carrier to execute the shipping on behalf of both parties simultaneously (Bergami, 2011).

Because various types of risks exist in international trade, most governments in the industrialised countries designed programmes to protect firms from the risk in foreign trade. An important part of this programme is export credit insurance usually covered by Export-Import banks (EXIM) (Wang, 2013). The credit policy can reduce a bank risk on confirmations and irrevocable letter of credit issued by the foreign financial institutions. The exporter therefore transfers the risk of non-payment in the event of wars, foreign exchange inconvertibility, revolution, and commercial losses as a result of foreign bank insolvency or failure of a bank to reimburse for some reason.

6.7.3. Risk Reduction

It is suggested that it is useful for the NNPC to adopt strategies that could reduce the likelihood of the occurrence of the discrepancy risk in the letter of credit operations. The most challenging issue in the process is the precision in the letter of credit arrangements with regards to goods details, total value, expiry date, mode of transportation, method of notification and also the types and number of documents required by the letter of credit. The NNPC can reduce discrepancy risks through organisational arrangement, management control, and designed procedures to reduce the discrepancy frequency or the opportunity for error and delay to occur.

Checklist is the most essential at every stage in the letter of credit process. Other necessary documentary procedures, such as inspection, export permission, licence and tariffs are similarly checked and put into consideration prior to the letter of credit operations. Thus, the NNPC needs to establish and stand by the specified preliminary requirements and qualification. It is noted that the NNPC has developed personal contacts with lifting firms with regards to the names, addresses, contact phone numbers, and how problems can be solved simply and quickly should a discrepancy arise. Some of these companies have engaged in crude oil trading with the NNPC for many years, and resolving issues may not,

therefore, be a big problem. On consideration of the approach in managing letter of credit discrepancy risks, the checklist method proposed by Baker (2000) may be considered. For documentary discrepancy risks to be managed successfully, it is important to consider a variety of ideal circumstances that can have an effect within the operations. In other words, the consequences can be reduced by guaranteeing or ensuring that all of the controls are in their proper place in order to minimise any adverse consequences.

Kula et al. (2015) suggested that the ability to delegate competent staff to operate a letter of credit transaction would significantly reduce discrepancies. Companies with expert personnel would have a high probability of preparing error-free documents. Baker (2000) argued that compiling this documentation and presenting it to a bank for payment is perceived as an inconvenience to most exporters. The occurrence of the large portion of documentary discrepancies is found to be frequent (Bergami, 2006). Baker (2000) believed that some discrepancy risks can be avoided if the exporter carefully checks the document to be submitted and meets the shipment deadline.

6.7.4. Compliance of Procedure

The risk mitigating strategy offered in the ISO 31000 risk framework emphasises that compliance with laws and regulations is not an option, but a necessity. Essentially, the COMD, which is the unit in the NNPC responsible for letter of credit operations, must understand that the letter of credit governing rules such as UCP 600 and Incoterms must be incorporated in their process in order to achieve compliance. According to Baker (2000), it is significant for staff in the export department to know more about letter of credit process and understand the exporting firm's usual practice in this respect.

According to Mann (2000), upon arrival of the letter of credit from the advising bank, the exporter must check the workability of the letter of credit and establish whether it reflects the original agreement signed with the customer. The NNPC is expected to act based upon

the letter of credit terms and conditions applied, as well as the provisions of the UCP 600. One of the most important areas to emphasise is making sure customer details are correct, for instance, information with regard to names and addresses, value, volume, etc. This affects the NNPC's letter of credit operations. It is important for the exporter to identify whether the date of latest shipment specified in the credit provides sufficient time to manufacture or secure, arrange and ship the goods.

The exporter has to check whether the expiry date given would be enough to produce, prepare and submit the required documents to the bank. It is reported that the NNPC usually allows a 90-day period for the letter of credit to expire. This allows more time for letter of credit processing and issuance, as well as submitting documents. However, the exporter must examine the list of the required documents attached as conditions of payment in the letter of credit and determine whether the amount of the credit is sufficient to cover the original quotation and if there is any variation with regard to value and currency. It is acknowledged from the literature that there is a high tendency for the exporter to raise a number of issues at this stage.

6.7.5. Risk Response

Whilst there is no easy way to solve the discrepancy in the letter of credit, risk can appear in any aspect in practice. This causes crude oil loading schedule delay, demurrage cost overrun and payment delay. The risk response tries to implement actions in order to lower the impact of those risks or reduces the likelihood of occurrences of the risk events. Once the bank's notification of yet another discrepancy risk has been analysed, an appropriate response measure must be put in place. In practice, if the discrepancy is minor, such as a spelling error, the bank is likely to ignore and forward the document to the issuing bank. If the discrepancy is major, the bank may reject the documents and require NNPC to correct or seek for waiver. In the vast majority of cases, NNPC seeks for a waiver against discrepant documents

submitted which customers accept. Waiving discrepancies by the NNPC's customers appears to be a common occurrence.

Some customers do not habitually waive the discrepancy without understanding the nature and effects of the discrepancy. It is important to admit that, although it is quite unusual, the customer is within their rights to reject the documents owing to the discrepancies. If the waiver is not guaranteed, another pathway can be used to find a common ground to correct the discrepant documents. This process usually attracts cost. It is believed that waiving discrepancies by the NNPC's customers may not be unconnected with the need for the customer to hold the documents as early as possible to take immediate ownership and delivery of the crude oil. The reason for this is probably to resell it to the second buyer for a margin, as the full set of shipping documents is always required before the crude oil is released in the port of destination. Moreover, any delay in obtaining these documents may cause additional demurrage costs to the importer.

Time and cost are significant elements for judging the operation. When discrepancy occurs, the payment and other operations may be delayed. In this case, NNPC may need to take measures to achieve objective of the letter of credit by submitting the required documents to the bank for payment. Although discrepancies rarely cause real problems in the NNPC's oil exports, simply because there is a clear relationship between the NNPC and its customers, but to some extent it sounds irritating that the NNPC seems unable to present documents that comply with the terms and conditions originally laid down in the letter of credit.

6.7.6. Monitoring and Review of Risk Performance

ISO 31000 has recognised the significance of monitoring and review mechanisms. The essence of this element is to make sure that discrepancy risks and management strategies are clearly communicated, as well as finding required actions and solutions as a result of output (Berg, 2010). The monitoring and review strategy can be adopted in order to ensure

the performance of the risk is closely monitored and also in order to learn from experience. Effective discrepancy risk management for the NNPC under this element requires structure and reporting. This is to ensure that elements in risk factors identified in the export letter of credit discrepancy risk model are effectively identified, analysed and evaluated, and also that appropriate control measures are adopted when they occur.

Exporters generally review letters of credit according to the rules of UCP 600. In some ways they are similar to this review. Consequently, banks differ in their interpretation of these rules, response time and accessibility and service. It is important to understand that these banks are checking documents word by word against the provision of the letter of credit in an appropriate manner and reject only those that are more serious. The letter of credit, being a promise of payment, would ensure the NNPC gets paid immediately as long as the exporter presents all required the documents to the bank without a discrepancy. Therefore, the major consideration relating to the monitoring and review of risk given by the IRM (2002) is that regular audit of policy and standard compliance should be carried out and standard performance reviewed to identify opportunities for improvement. Moreover, the process of this element provides the NNPC with the assurance that there are appropriate discrepancy control measures in place for the letter of credit operations and that the governing rules, procedures and letter of credit provisions in the contract are understood and followed.

6.8. Summary

In this chapter, the analyses of the data collected for the study was presented. This was done with the aim of ascertaining, in the documentary examination and opinion of the participants, the nature and impact of documentary discrepancy risks in the Nigerian crude oil export industry. The result of the analysis suggests the insignificance of environmental risks to the NNPC's letter of credit, while the letter of credit operation is affected by the discrepancies. Specifically, the documentary submission to the bank was characterised as late presentation. The shipment is also delayed by inconsistencies of documents within the operations. In general, the Export Letter of Credit Operations Discrepancy Risk Model was

used in determining the significance of the major discrepancy risk factors and causes from the interview results, as well as the risk treatment strategies for managing discrepancy risks.

CHAPTER SEVEN

DISCUSSION SUMMARY AND CONCLUSION

CHAPTER 7: DISCUSSION, SUMMARY AND CONCLUSION

7.1. Introduction

This chapter summarises the thesis. The aim and objectives of this study were also reconsidered. It brings about recommendations and highlights the contribution and limitations of the study. It is divided into four sections. In Section 7.2 a summary of the whole study is presented, including the summary of the findings of the study. Section 7.3 discusses the contribution of the study, while Section 7.4 presents the limitations inherent to the study. In section 7.5 recommendations are provided for further research.

7.2. Discussion

The letter of credit has been adopted by NNPC as the payment method for its crude oil transactions for nearly two decades. Similarly, many National Oil Companies of OPEC countries employ letters of credit as their mode of payment instrument in order to strengthen their crude export proceeds security and market control. As noted by many scholars such as Baker (2000), Mann (2000) in the literature, the letter of credit does not provide payment guarantee to the exporter due to the number of environmental risks as well as operational difficulties that cause documentary discrepancy.

Under the environmental risk in NNPC's letter of credit operations, it is important for the NNPC to investigate the ability of its customers to fulfil their obligations. It can be argued from the available data that some of the criteria set by NNPC present limitations in bidding for lifting customers. It is difficult for NNPC to determine the relevance of the intending lifting companies with the lifting requirements. Relevant reports such as Ribadu (2012) and Sayne (2015) revealed that some of the NNPC's term contract holders, especially Nigerian traders, do not meet the financial requirements or lack track records and experience in the crude oil business. This suggests that the customer risk is perceived to exist in some cases.

Observation shows that many of the Nigerian traders are awarded crude oil lifting contracts without any track record of crude oil trading and they mostly lack financial standing when they signed their first contract (Ribadu, 2012). These companies, sometimes called 'briefcase companies', solely depend on the crude allocation to resell it to other traders for a margin between $0.20 (USD) and $0.50 (USD) per barrel. It is argued that NNPC takes into account the Nigerian Content Act which tends to give local companies priority and more space to participate in Nigerian oil and gas operations. This can be true considering the policy review which reduced financial requirements of turnover and net profit after tax from $500 million (USD)and $100 million (USD) to $100 million (USD) and $40 million (USD) respectively (NNPC, 2013).

Consequently, the Nigerian trader category who usually stands as intermediaries are more likely to default on payment compared with other international traders, refineries or IOCs. This may be due to their lack of crude oil trade experience and fragile financial standing as mentioned by Sayne et al. (2015). Hence, it is essential for the NNPC to perform an independent enquiry, seek information and opinion from informed sources, on both the ability and moral character of the buyer during the preparatory work. In banking practice, it is permitted for the exporter to request bank reports about foreign customers directly from their banks, without the customer's consent (Briggs, 1994; Hao and Xiao 2013).

With regard to the country risk, the exporter is exposed to the danger of exporting to a market which is potentially or actually financially unsound. The contributing factors to the countries with high risk exposure are largely due to low level economic activities or poor governance. Another component of country risk is political risk which is likely to arise from internal or external factors such as an unstable government, foreign exchange control or internal or regional conflicts. With regard to NNPC's crude oil export, the Nigerian government attempts to balance its crude oil exports to countries between continentals such as North and South America, Western Europe, Africa, Asia and Australia (NNPC, 2013).

The crude oil exports from Nigeria established in Table 6.1 presents the overall crude oil exports from the country.

Because almost all Nigerian crude oil export is controlled by the traders, it may not be easy to establish the accurate final destination of the crude oil sold by NNPC. The Incoterm adopted in the Nigerian crude oil export is based on Free On Board trade term. This means that, the more the NNPC disconnects loading hose from the vessel, the more the customer assumes the risks related to transport. Therefore, the customers can decide to sell their lifted crude oil to any country of their choice (Suleiman, 2010). The possible explanation is that NNPC is not exposed to country risk and it transfers transportation risk to the buyers.

The adoption of irrevocable letter of credit in the NNPC crude oil export is not unexpected, as the NNPC attempts to shift customer risk to the local or foreign banks involved in the transaction, in order to have more payment security. However, not all these banks have the same market strength and financial stability. It should be noted that there are a number of conservative banks that are not specialised in crude oil letter of credit operations. Thus, these banks that issue letters of credit to NNPC are usually domiciled abroad. Such banks usually have experience of how to support both importers and exporters in mitigating extra risks in their oil transactions. The NNPC also has a chance to improve payment security by requesting a confirmed credit. The confirmed letter of credit will allow NNPC to transfer non-payment risk to the confirming bank located in the United States who would then pay into the NNPC's designated accounts in JP Morgan (Ribadu, 2012).

It is important to note that the procedure of confirmed letter of credit attracts additional fees for providing confirmation service. The ability of the lifting company to secure a confirmed letter of credit determines how credit-worthy it is. However, NNPC can still maintain its irrevocable letter of credit due to the fact that 80% of the banks that issue letters of credit to NNPC are strong global banks located in the developed countries with high Fitch credit risk classification by country. One of the major risks exporters may face in the

international trade is foreign exchange risk. In every letter of credit, there must be an indication of the currency agreed upon in the sales contract. This means that one party will face risk by using a different currency due to fluctuations. As expected, NNPC chooses to trade in United States Dollars (USD) only, using Platts oil price as a benchmark. This is because, in general, crude oil is traded per barrel in USD.

Letter of credit requires exporter to fulfil their obligations under the underlying sales contract, to deliver the goods, hand over any documents relating to them and transfer the property in the goods as mentioned in the United Nations Convention on Contracts for International Sales of Goods (CISG) (Mueller, 2013). In particular, the NNPC must load and hand over the crude oil to an agreed carrier at an agreed terminal and, in order to be paid under the letter of credit, NNPC must also present a required documents pursuant to the letter of credit. With regard to trade terms in Nigerian crude oil export, it appears that FOB is the standard delivery term adopted by NNPC which mirrors Article 1 of the Sales and Purchase Contract agreement which states that

"BUYER hereby agrees to buy, lift and pay for, and SELLER hereby agrees to sell and deliver to BUYER on FOB basis only, the agreed quantity of Nigerian Crude Oil upon the terms and conditions set out herein and in the General Conditions of Sale of Nigerian Crude Oil (hereinafter referred to as the "General Conditions") attached hereto as Part II of the Contract for the sale and purchase of Nigerian Crude Oil.)" (NNPC, 2013 p.x)

The choice of FOB suggests that NNPC is able to negotiate the term that would possibly be considered as reasonable for both parties and indeed allow NNPC to shift the overall cost and risk to lifting companies and reduce operational risk. From the importer's perspective, FOB may sound reasonable in three ways. Firstly, when the buyer is allowed to choose its freight carrier, they will ultimately be able to choose the delivery route and transit time, and also have more control over the shipment (Ramberg, 2011). Secondly, using one shipping company will further ensure a long-term relationship with the buyer. Thirdly, the buyer is

concerned with immediate possession of crude oil, probably at the earliest opportunity considering that the payment order has passed to the bank in anticipation of crude oil receipt. Naming the buyer as a consignee on the bill necessitates the right of immediate possession of the crude oil loaded on a vessel.

The findings of this study suggests that FOB is an invaluable and cost-saving instrument for the NNPC that helps in shifting heavy liability to the customers. As long as the nominated vessels are accepted based on safety, capacity, legal and regulatory compliance, NNPC then advises the customer with Laycan programme, writing to commence loading based on schedule. However, the letter of credit operations for crude oil may be affected by late arrival of the vessel, probably due to the terminal location or insecurity problem in the Niger Delta. This factor may increase late shipment discrepancy risk.

In the contextual nature of letter of credit operations, there is a direct relationship between documentary requirement and the intercom agreed. In FOB, it is the responsibility of the NNPC to produce shipping and internal documents such as bill of lading, certificates of quantity and quality, commercial invoice, price valuation and export permit. In essence, NNPC must engage with third parties to inevitably produce all necessary shipping documents as the proof of crude oil delivery. This implies that the more the number of documents required by letter of credit, the higher the possible risk of discrepancy (Baker, 2000).

Data suggest that documentary discrepancy is driven by the above requirements listed by the letter of credit and the main task for NNPC is to overcome their occurrences, as many factors such as procedure and personnel may possibly affect the entire letter of credit operations in meeting the requirements. In consequence, the difficulty in generating these external documents is quite enormous. In reality, processing these documents with many different people involved would add risk to the entire letter of credit operations. For instance, the written instructions given by S&T in the COMD in Abuja to the DPR office in Lagos, is transmitted to the DPR's representative at the terminal. Observation from the data

shows this communication method is used because the terminals are located in remote areas, usually in the Niger Delta costal offshore.

It is argued that there is a possibility of inconsistencies or error in the communication process which can be attributed to human behaviour. In some instances, adopting an electronic process software may reduce documentary discrepancy risks. However, some documentary processes only require manual processing which is likely to increase non-compliance risk. This reflects the view of Kazmiercryk (2006) who states that the possible risk connected with documentation in a given commercial transaction cannot be avoided. There are some elements of discrepancy that may arise in the context of letter of credit documentary operations. This reflects the six discrepancies identified in the export letter of credit operation discrepancy model, shipment delay, inconsistencies, defect documents, late presentation, missing documents and credit expiry.

According to Baker (2000) the most common discrepancies faced by banks examining documents under letters of credit transactions are errors and lack of understanding on how to prepare documents. These are the result of lack of effective process management attributed to some factors such as terminal operations, personnel, vessels, procedures and workforce. However, this may not be a surprise, as documentary discrepancy in letter of credit operations is viewed as a global phenomenon, probably because the process is exclusively based on 100% complying documents. Therefore, the exporter bears the risk that the documents do not conform to the underlying requirements. In other words, less than 100% compliance translates to loss of payment, or delay, as the case may be.

The late shipments discrepancy may be explained by loading against the Laycan programme caused by documentation procedures, delay in terminal operations, staff absenteeism and late export permit and insecurity in the terminal location. Like other discrepancies, the major risk factors of inconsistency discrepancy could be personnel, procedures, workforce and technical, while the causes are related to lack of training, system failure, human error and

communication gap. The procedure within the letter of credit operations involves a series of processes adopted by the NNPC from the time the letter of credit is issued to the time of presentation of documents. In each process, the decisions must be prepared and implemented supported by departments, units and sub-units. The procedure can be identified as one of the major discrepancies risk factors. However, there are a number of elements that seem to be the causative agents of the procedural risk factors such as documentations, letter of credit amendments, bureaucracy and work overload in the system.

Because personnel are the key resource in the company's operations, the anticipation of related risk threats may be directed toward a company's employees. In the context of NNPC's letter of credit operations, the personnel risk factor is present in almost all root effect arrows that contribute to the discrepancy risks. However, the primary causes under this category are human error, staff absenteeism and improper inspection. For example, the absence of one employee in Shipping and Terminal department may cause a delay in the documentary presentation, or may create threats to the letter of credit operations.

The presentation of documents is one of the major factors connected to the root effect arrow that triggers late presentation and credit expiry discrepancy as demonstrated in the export letter of credit operations discrepancy model. According to UCP 600, the exporter is required to submit documents 21 days after the bill of lading date, and failure to do so, therefore, would result in the discrepancy. However, the delay in dispatching these documents resulting from other sub-causes are the main causes of the late presentation problem. In addition to this, it takes three days further between the time documents are dispatched and the time of lodgement.

The risk treatment available for the NNPC to deal with documentary discrepancy is adopting internal control system in order to reduce or eliminate the risk threat. This requires NNPC to be proactive in the initial letter of credit stage and acknowledge the consequences of the six

identified discrepancy risks in the model. One of the most important tools for discrepancy risk treatment is risk avoidance. This requires NNPC to adjust their letter of credit process so as to eliminate any condition that may trigger risk. To avoid inconsistencies and defect risks, export organisation needs to prepare and process all required documents aske in the letter of credit and make sure documents are free from error or defect before submitting to the bank. To achieve this in Nigerian crude oil export, NNPC should improve their technical capabilities and human resources as well as communication and feedback process.

In letter of credit operations, some techniques can be adopted to transfer risk by reducing the company's exposure. NNPC can make the arrangement with freight forwarder for documentary operation to reduce the risk burden and focus on other important areas. On many occasions, risk cannot be cured, the only best option for NNPC in this situation is to adopt strategies that could reduce the likelihood of the risk in the letter of credit operations. The most effective tool in this regard is the checklist of activities as suggested by Baker (2000). This can be done through crosschecking documents at various points with regard to shipping documents, export permit and internal documentation. Additionally, the staff at COMD must understand the rules that govern the letter of credit such as Incoterms and UCP 600 in order to achieve compliance.

7.3. Summary of the Research Findings

This thesis has explored letter of credit documentary discrepancies in export organisations in relation to their operations for their performance in adding value. Specifically, the thesis empirically and critically investigated the nature, factors, causes and effects of discrepancy risks in NNPC's letter of credit operations. The research also aimed to determine the current status of internal operational strategies applicable in managing the causes and effects of the discrepancy risks. Five research objectives were addressed in the study:

i. To investigate the environmental risk with regard to customer, country and bank risks in Nigerian letter of credit transactions.

ii. To investigate the nature and level of documentary discrepancy risks rate in Nigerian crude export oil letters of credit.

iii. To examine the factors which contribute to documentary discrepancies in Nigerian crude export oil letters of credit.

iv. To investigate the causes and effects of the identified discrepancy risk factors.

v. To determine the current status of internal operational strategies and measures to manage the causes and effects of discrepancy risks.

Guided by the chosen paradigm, a documentary analysis was conducted to investigate and examine the data. The semi-structured interviews were also employed. The main logic behind this was to analyse the relevant documents related to letter of credit transactions between the NNPC and its customers. In this regard, 928 letters of credit, contracts, reports and other available internal documents were analysed in order to understand the nature and frequency of the six discrepancy categories explained in the export letter of credit operations discrepancy model. The interview method was adopted as the second technique. Data gathered related to causes and effects of the discrepancy risks in the NNPC's letter of credit operations and the current strategies adopted in managing the problem. Specifically, the interview analysis examined of interviewees' opinions on six discrepancy areas relating to Nigerian crude oil exports. They are late presentation of documents, late shipment, inconsistencies, defective documents, missing documents and credit expiry.

7.3.1. Summary of the Findings of NNPC's Environmental Risk

This study examined the environmental risk of the NNPC's letter of credit with the aim of assessing and analysing the customer risk, bank risk and country risk. On a general note, the findings showed the NNPC faces some elements of external risk that are summarised below.

Firstly, although the NNPC has set a criterion for selecting a customer for the lifting of its crude oil, the analysis shows that the customer risk is perceived to exist. Arguably, this analysis is based on one or more of the following. The customer's financial capability to carry out a large amount of crude oil trade, lack of trade experience which causes delays to the NNPC and non-payment risk (see Section 6.2.1). This suggests the need for further customer scrutiny before NNPC could establish sales contract for Nigerian crude oil export.

Secondly, the case study analysis revealed that the NNPC does not face bank risk in its letter of credit transactions. Thus, it is evident that the accredited AAA rated banks approved by the NNPC for the issuing of letters of credit on behalf of the applicant eliminate the chances of bank default risk. The majority of these banks are located in developed countries. Arguably, this does not require the NNPC to impose a confirmed letter of credit as the payment is considered guaranteed, provided that the documents submitted are free from discrepancy.

Finally, the risk attributed to country is not pronounced in the NNPC letter of credit transaction (see Section 6.2.2). As shown in Table 6.1, the countries that import more crude oil from Nigeria are within the low risk category. Therefore, Nigerian crude oil sales using letters of credit are unlikely to be affected by political or economic risks.

The finding in this respect suggests that the consideration of excellent financial standing and long-term experience in crude oil trade and exports could enable NNPC to establish effectively and execute the term contract with customers for the purchase of the Nigerian crude oil.

7.3.2. Summary of the Findings on the Nature and Level of Discrepancy Risks in NNPC Letter of Credit Operations

The documentary analysis on the nature and frequency of documentary discrepancy risks in the NNPC's letter of credit operations revealed the nature and level of the six discrepancy risk effects, namely: late presentation of documents, late shipment, inconsistencies,

defective documents, missing documents and credit expiry.

Firstly, the documents relating to 928 letters of credit show that late presentation of documents is the most common discrepancy in the NNPC's letter of credit with a rate of 34%. This finding suggests that the NNPC usually submits shipping documents to the bank late as against UCP 600 principle. As required by the letter of credit, buyers are expected to submit complete set of documents within 21-days after the bill of lading date to the bank. However, the respondents perceived that this discrepancy does not cause a real problem for rejection by the bank. Nevertheless, this has great implications for a delay in payments of crude oil proceeds 30 days after bill of lading date; this is because it will take additional days for the bank to process the documents.

Secondly, the documentary examination showed that the NNPC experiences a late shipments discrepancy. The findings underscore the NNPC's crude oil terminal operations and shipping documentations. The findings suggest that the NNPC will have to enhance its terminal operation and communication with relevant parties, as deficiency in this area hinders effective Laycan operation as well as the letter of credit process. Consequently, late shipment makes the NNPC liable to pay demurrage costs.

Thirdly, the NNPC is exposed to the inconsistent risk within the letter of credit operations. Generally, the bank rejects documents based on inconsistent data in documents which appear to be misleading. The interviewees' perception of this discrepancy was that minor inconsistencies in documents are usually waived by the customer based on understanding and anticipation of future trade relationships. However, major discrepancies are required to be corrected and sent back to the bank. Inconsistencies provide an avenue for the customers or bank to hold payments until the very last moment, or, at worse, refuse payment on the grounds of non-compliance with the letter of credit terms and conditions (see Article 31 UCP 600). This process is found to be irritating rather than time-consuming.

Fourthly, the main objective of letters of credit is to provide payment security to the NNPC for the crude oil purchased by the customer. This security may be affected by the defects

found in documents. The findings confirmed the position of the literature related to defect discrepancy as well as other discrepancy elements. The main point highlighted dwelled on the NNPC's inability to coordinate of documentary operations during the letter of credit processing.

Fifthly, the NNPC is prone to having a missing documents discrepancy in its letter of credit operations, by omitting one or more documents from the set of documentary requirements for letters of credit. Although the findings suggested that this discrepancy rarely occurred, amounting to only 4% of the total discrepancies, the absence of any of the original documents presents a serious danger that may cause non-payment to the NNPC of the crude oil proceeds. Successful preparation and lodgement of a full set of documents requires careful consideration by staff.

Finally, the discrepancy in the NNPC's letter of credit operation in the area of credit expiry suggests that this discrepancy is quite insignificant. However, the implication of this discrepancy is that, if expiry discrepancy occurred, the bank would not be able to act on the documents that are presented outside the timeframe of letter of credit as mentioned in Article 6 of UCP 600, and in effect, the NNPC would not get its crude oil proceeds.

7.3.3. Summary of the Findings of Factors Responsible for the Discrepancy Risk in NNPC

This study has identified the key factors that have contributed to documentary discrepancy risks in letter of credit operations incorporated in the integrated export letter of credit operations discrepancy model (see Section 4.4). This has shown that research objective three has been achieved. The model identified these factors.

The analysis revealed the presence of nine factors that are responsible for the six documentary discrepancy risks. The findings suggest that terminal operation factors affect

the letter of credit operation, contributing to four discrepancy risks such as defective documents, late shipment, late presentation and credit expiry. The personnel and procedure risk factors are also found to be positive factors in the letter of credit operations. For instance, the staff who usually process the entire operation are subject to human error which may create a discrepancy in documents or delay the process. Long and unnecessary procedures, especially in production of documents are revealed to be part of the causes of discrepancies.

The findings also suggest that the vessel which carries the crude oil from the terminal is another factor that is responsible for late shipment. Evidence shows that vessels arrive at terminals late which affects the Laycan programme by changing the latest shipment date against the date stated in the letter of credit. With regard to the discrepancy factor, a credit expiry discrepancy may be likely to occur where the lifting company fails to issue a waiver or the NNPC delays correcting the documents rejected by the bank on the grounds of discrepancy. Having noted that the presentation factor affects the letter of credit operation, its impact is only limited to late presentation and credit expiry. This factor relates to the delay in preparing the required documents and presenting them to the bank in an appropriate time and before the credit expires. Subsequently, the findings revealed that the factor, credit issued, is a source of defective documents discrepancy.

7.3.4. Summary of the Findings of Causes of Discrepancy Risk in NNPC

In this section, findings on the perceptions of the interviewees are presented in respect of the major and sub causes across six discrepancy effects in the NNPC's letter of credit operations for the exports of Nigerian crude oil.

The interviewees perceived that the late presentation of documents to the issuing bank by the NNPC relatively affects the timely receipt of crude oil proceeds. This suggests that payment expectation of 30 days after the bill of lading date is somewhat delayed by a few days. This is because the specific documentary requirements were not presented to the bank 21 days after the bill of lading date as prescribed in Article 14 of the UCP. The interviewees

believed that there are several elements which cause this discrepancy, which is recorded as the highest discrepancy in the NNPC letter of credit operations. For instance, the loading and anchor of the ship is introduced by NNPC in order to delay the vessel until the letter of credit issued is amendment to correct deviations of some clauses in the contract. Consequently, this tussle elongates the internal documentary process and also adds to the risk of late submission. Other major causes are bureaucracy in preparing shipping documents, weekly gathering of documents for all terminals, the lengthy checking procedure in the COMD as well as internal documentation, and delays in dispatching the documents from the COMD office to the bank.

In terms of a late shipment discrepancy, which results from shipping crude oil against the latest shipment date, the interviewees generally perceived that there is no potential adverse effect of this discrepancy as it did not constitute a threat. The findings of the interviews revealed that the causes of the late shipment include failure of the shipping company to act in time, difficulty in locating of oil terminal, the late arrival of the ship, delays in issuing export permit and the procedure for producing shipping documents at the terminal. Evidence shows that the terminal operation for the NNPC's crude oil export also fuels the risk of discrepancy due to lack of coordination between different parties in the process.

Having noted that the NNPC has inconsistencies in documents on the first presentation, with a rate of 21%, the interviewees have identified the major causes of this discrepancy. Evidence from the interviews suggests that human error in the process, lack of experience, a complex web of documentation, non-compliance with letter of credit requirements, as well as ignorance of these procedures are the major causes of this discrepancy. In general, this effect does not create a negative impact on payments, as the customers are highly likely to waive the discrepancy. The interviewees perceive that discrepancies in defective documentation is also believed to have been caused by ambiguous requests of credit issuers, operational difficulties, wrong decision making and forgetfulness along the process. For instance, it is difficult for interviewees to understand some clauses in the credit issued, thus they interpreted the request differently. The sub-causes regarding forgetfulness are

reported as a failure to place a signature, date, stamp or seal on one or more of the documents.

The interviews provide insignificant evidence of missing document in the NNPC's letter of credit operations. As the result shows, missing document discrepancy rarely exists but it could potentially have an impact. Interviewees opined that improper and inaccurate checking, negligence, forgetfulness and circulation of documents between COMD departments and units are the major causes of missing documents.

7.3.5. Summary of the Findings of Current Internal Operational Strategies and Measures Taken in Managing the Causes and Effects of Discrepancy Risks

The operational strategy of the NNPC's letter of credit discrepancy was explored throughout the documentary process, during the sales contract negotiations, when the NNPC received documents and within the documentary operations. On a general note, the findings showed that the NNPC has been significantly adopting internal measures in managing the causes and effects of the documentary discrepancy risks in its letter of credit operations. The findings are summarised below.

Firstly, although the NNPC undertakes various measures before the sales contract negotiations to minimise the risk. Observation shows that it is essential for the NNPC to have a checklist of the details regarding crude oil type, total value, expiry date and documents required in the letter of credit. It is evident that the COMD takes necessary measures in order to reduce the complexity of some clauses that may be likely to lead to discrepancy.

Secondly, the strategic management of discrepancy in the NNPC's letter of credit operations can be attributed to measures taken when the letter of credit is received from the bank. Basically, the NNPC scrutinises the letter of credit and ascertains the credit details for possible amendment. Lack of attention to details may allow a discrepancy to exist and create a significant problem for the NNPC's crude oil payments.

Thirdly, the NNPC's mission objective is to present the full set of documents to the bank in accordance with letters of credit which are free from any discrepancy. The management strategies within the operation involve speedy documentation processing and documentary presentation to the bank on a timely basis in order to avoid any discrepancy.

7.4. Contribution of the Study

This thesis investigated the documentary discrepancy risk in the NNPC's letter of credit operations in the crude oil export. The thesis has made a number of contributions.

Firstly, this thesis is unique in that it is the first of its kind to develop and utilise the conceptual Export Letter of Credit Operations Discrepancy Risk Model, to explore the documentary discrepancy risks in the Nigerian crude oil export industry using documentary analysis. This research is the only one known to have investigated the factors, causes and effects of identified discrepancy risks in the letter of credit operations, on the basis of industry perceptions.

Secondly, this thesis employed the case study research method to carry out its investigation, putting into cognizance both transactions and operations. This makes it different from the few known empirical studies on letter of credit discrepancies that utilised both primary data and a qualitative approach to assess the main causes of discrepancy risks within the letter of credit operations. This is because the research also adopted documentary analysis and followed it up with interviews, in order to assess the practical causes and factors in the Nigerian oil letter of credit operations

Thirdly, with the importance of crude oil exports to the Nigerian economy, this research contributes by attracting the attention of policy and decision makers. This forms a basis for understanding the consequences of the letter of credit discrepancy risks in the Nigerian crude oil export, not only with regard to operational difficulties, but also payment delays.

Finally, this thesis contributes to the existing body of knowledge on the letter of credit. It

helps to build up the understanding of the relationship between letter of credit operations, discrepancy phenomena and the major causes and effects of discrepancy risks. Therefore, the study may be useful to those with an interest in undertaking research on documentary letter of credit discrepancy risks.

7.5. Limitation of the Study

While the key findings of this research are believed to have adequately addressed the objectives set by the study, there are some limitations which should be acknowledged.

This thesis adopted the interview research method. It is usual when using this method to acknowledge inherent limitations such as the possibility of the interviewer's bias or sincerity, which can affect the result of the analysis. However, necessary steps were taken in conducting interviews to minimise these limitations.

There is a limitation when applying the findings of the study relating to crude oil export to other commodity exports. However, based on a case study which interviewed only 12 people, the results are not generalizable. The findings may however, be applied to other National Oil Companies who manage crude oil exports in oil rich countries, for instance OPEC countries. The findings could also apply to similar companies that operate in a similar context to the NNPC.

7.6. Recommendation

While the extensive literature has widely discussed the documentary discrepancy risks in letter of credit operations, there are no known studies that have investigated the discrepancy risks in crude oil sales. So far, no study has specifically focussed on the Nigerian crude oil export letter of credit operations discrepancy risks. Considering that the findings of this study have adequately addressed the research objectives, other areas relating to documentary letter of credit discrepancy risks in the crude oil industry can be further investigated. In particular, this thesis highlighted major areas that could demand special focus in the near future.

Firstly, this study proposes an Export Letter of Credit Operations Discrepancy Model, which is supported by the case study approach, documentary analysis and interviews. The model was developed by integrating different variables applicable to letters of credit. This is the first model of its kind to investigate factors and causes of discrepancy risks in letters of credit by replicating the Fishbone diagram pattern. The proposed model can be used to investigate letter of credit discrepancy risks in other export letter of credit operations, especially ones that engage in crude oil exports.

Secondly, the concept of the Export letter of credit Operations Discrepancy Model can be further developed and standardised as a lens for investigating and analysing the factors, causes and effects of the letter of credit discrepancy risks of many export companies. The application of the model is subject to a variety of practicalities which are not identified in this study. It will be of paramount importance if unique research could be conducted to look into the financial issues based on financial information, unlike the processes used in this study. This may give stakeholders room to highlight other areas of concerns that might not be covered in this study.

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