

In addition, payment under a letter of credit is already often done by electronic transfer.

Others, however, note that distributed ledgers offer potential new benefits, including increased cybersecurity, greater transparency, real-time transactions, automatic payments through smart contracts, easy auditability of transactions due to the transparent and immutable nature of the technology, and easy inclusion of additional participants. Blockchain enthusiasts believe that the technology offers the strongest potential solution to digitalize trade finance, even leading some to claim that the BPO will be transformed into a “Blockchain Payment Obligation”, in the words of Wassilios Lytras, co-founder of Gatechain, a Swiss startup that develops blockchain-based solutions for trade finance.

However, digitalization of trade finance through Blockchain, if it happens, will not occur overnight. First, the technology is still being tested and important investments are still needed to make it operational on a wider scale. A positive development is that the various stakeholders involved in trade finance transactions are joining forces. Banks, fintech and other players are forming partnerships to jointly investigate the potential of the technology and develop applications best suited to the needs of their clients. For example, as mentioned in Chapter 2, R3 (R3CEV LL) is a technology company that leads a consortium of more than 200 financial institutions and regulators in research and development of Blockchain in the financial system, with its own platform, Corda.<sup>10</sup> In August 2017, a group of banks in the R3 consortium announced the trial of a platform dedicated to letter of credit transactions (Persio, 2016). The platform, called Voltron, entered its second pilot phase in September 2018 and should be made available in 2019. However, R3 senior management acknowledges that widespread adoption will not be achieved for another five to six years (Palfreeman, 2017).

In September 2018, a consortium of 10 R3 banks released another platform, Marco Polo, to deal with open trade finance (Wass, 2018c).

Second, having the technology in place is not enough. Legal frameworks that clarify, for example, the legal status of electronic documents, which rules and resolution process apply when a smart contract is used, and who is liable at each point of the process, will need to be developed. Just as letters of credit are governed by a specific set of rules agreed by the International Chamber of Commerce (the Uniform Customs & Practice for Documentary Credits – UCP 600), blockchain-enabled smart contracts used for letter-of-credit transactions will also need a set of internationally agreed rules, as banks may not be willing to commit before these legal issues are addressed. The current letter of credit system may be hugely costly, but it is efficient in terms of legal protection. Work is underway in fora such as the