CHAPTER 7

Commercial Code—Warehouse Receipts, Bills of Lading and Other Documents of Title

OFFICIAL COMMENTS

PREFATORY NOTE

ARTICLE 7 is the last of the articles of the Uniform Commercial Code to be revised. The genesis of this project is twofold: to provide a framework for the further development of electronic documents of title and to update the article for modern times in light of state, federal and international developments. Each section has been reviewed to determine its suitability given modern practice, the need for medium and gender neutrality, and modern statutory drafting.

To provide for electronic documents of title, several definitions in Article 1 were revised including “bearer,” “bill of lading,” “delivery,” “document of title,” “holder,” and “warehouse receipt.” The concept of an electronic document of title allows for commercial practice to determine whether records issued by bailees are “in the regular course of business or financing” and are “treated as adequately evidencing that the person in possession or control of the record is entitled to receive, control, hold, and dispose of the record and the goods the record covers.” Rev. Section 1‑201(b)(16). Such records in electronic form are electronic documents of title and in tangible form are tangible documents of title. Conforming amendments to other Articles of the UCC are also necessary to fully integrate electronic documents of title into the UCC. Conforming amendments to other Articles of the UCC are contained in Appendix I.

Key to the integration of the electronic document of title scheme is the concept of “control” defined in Section 7‑106. This definition is adapted from the Uniform Electronic Transactions Act Section 16 on Transferrable Records and from Uniform Commercial Code Section 9‑105 concerning control of electronic chattel paper. Control of an electronic document of title is the conceptual equivalent to possession and indorsement of a tangible document of title. Of equal importance is the acknowledgment that parties may desire to substitute an electronic document of title for an already‑issued paper document and vice versa. Section 7‑105 sets forth the minimum requirements that need to be fulfilled in order to give effect to the substitute document issued in the alternate medium. To the extent possible, the rules for electronic documents of title are the same or as similar as possible to the rules for tangible documents of title. If a rule is meant to be limited to one medium or the other, that is clearly stated. Rules that reference documents of title, warehouse receipts, or bills of lading without a designation to “electronic” or “tangible” apply to documents of title in either medium. As with tangible negotiable documents of title, electronic negotiable documents of title may be negotiated and duly negotiated. Section 7‑501.

Other changes that have been made are:

1. New definitions of “carrier,” “good faith,” “record”, “sign” and “shipper” in Section 7‑102.

2. Deletion of references to tariffs or filed classifications given the deregulation of the affected industries. See e.g. section 7‑103 and 7‑309,

3. Clarifying the rules regarding when a document is nonnegotiable. Section 7‑104.

4. Making clear when rules apply just to warehouse receipts or bills of lading, thus eliminating the need for former section 7‑105.

5. Clarifying that particular terms need not be included in order to have a valid warehouse receipt. Section 7‑202.

6. Broadening the ability of the warehouse to make an effective limitation of liability in its warehouse receipt or storage agreement in accord with commercial practice. Section 7‑204.

7. Allowing a warehouse to have a lien on goods covered by a storage agreement and clarifying the priority rules regarding the claim of a warehouse lien as against other interests. Section 7‑209.

8. Conforming language usage to modern shipping practice. Sections 7‑301 and 7‑302.

9. Clarifying the extent of the carrier’s lien. Section 7‑307.

10. Adding references to Article 2A when appropriate. See e.g. Sections 7‑503, 7‑504, 7‑509.

11. Clarifying that the warranty made by negotiation or delivery of a document of title should apply only in the case of a voluntary transfer of possession or control of the document. Section 7‑507.

12. Providing greater flexibility to a court regarding adequate protection against loss when ordering delivery of the goods or issuance of a substitute document. Section 7‑601.

13. Providing conforming amendments to the other Articles of the Uniform Commercial Code to accommodate electronic documents of title.

Legislative Note: All cross‑references in this draft to Article 1 are to Revised Article 1 (2001). In the event a state has not enacted Revised Article 1, the cross‑references should be changed to refer to the relevant sections in former Article 1.

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Introduction

ARTICLE 7 concerns itself with that phase of a commercial transaction relating to the shipment and storage of goods and governs the use of the “document of title” issued as a receipt for the goods. Such documents consist principally of the bill of lading issued by a carrier and the warehouse receipt issued by a warehouseman. It is common practice to transfer the goods in the hands of such bailee by the transfer of the document. Money is frequently loaned on the pledge of these documents to government agencies and banks and other private lenders. It is within this factual context that this article operates.

At the present time in South Carolina, documents of title are governed by two uniform state acts: the Uniform Warehouse Receipts Act (UWRA) and the Uniform Bills of Lading Act (UBLA). These acts were promulgated by the National Conference of Commissioners on Uniform State Laws over fifty years ago. The Uniform Bills of Lading Act was enacted in thirty‑one of the states, including South Carolina in 1930. This statute has been superseded by the almost identical Federal Bills of Lading Act of 1916 with respect to interstate shipments.

The Uniform Warehouse Receipts Act was adopted in all of the states, but a 1922 amendment was adopted in only some of these. South Carolina enacted the amended version of this statute in 1945.

ARTICLE 7 would replace the two existing statutes and consolidate their coverage into this single article entitled “Documents of Title”. This is made possible by the fact that there are a number of problems common to all types of documents, such as negotiation of instrument and obligations of the issuer. Common solutions to these problems are provided in parts 1, 4, 5 and 6. In this way, inconsistencies and duplication of coverage are avoided. Special problems which relate only to warehouse receipts are set out in part 2 and those applicable to bills of lading are set out in part 3.

Changes in rules and practice brought about by Article 7 would be modest. Several points of uncertainty and conflict are clarified and resolved. There are a few minor changes in policy and some new coverage made necessary by changed business methods and technological developments since the drafting of the original act at the turn of the century.

2014 Act No. 213, Section 48, provides in part as follows:

“The Official Comments, prepared by the Uniform Law Commission with the intent of aiding the user in understanding the provisions to the Uniform Commercial Code, are not considered part of this act and do not indicate legislative intent.”

2014 Act No. 213, Section 50, provides as follows:

“SECTION 50. The provisions of this act apply prospectively. To the extent that issues arise based upon rights or obligations that arise prior to the effective date of this act, prior law applies to resolve those issues. Transactions, documents of title, or bailment validly entered into before the effective date of this act and the rights, duties, and interests arising from them remain valid thereafter and may be terminated, completed, consummated, or enforced as required or permitted by any statute or other law amended or repealed by this act, as though the repeal or amendment had not occurred.”

Part 1

General

**SECTION 36‑7‑101.** Short title.

This chapter must be known and may be cited as Uniform Commercial Code‑Documents of Title.

HISTORY: 1962 Code Section 10.7‑101; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑101.

Changes: Revised for style only.

This Article is a revision of the 1962 Official Text with Comments as amended since 1962. The 1962 Official Text was a consolidation and revision of the Uniform Warehouse Receipts Act and the Uniform Bills of Lading Act, and embraced the provisions of the Uniform Sales Act relating to negotiation of documents of title.

This Article does not contain the substantive criminal provisions found in the Uniform Warehouse Receipts and Bills of Lading Acts. These criminal provisions are inappropriate to a Commercial Code, and for the most part duplicate portions of the ordinary criminal law relating to frauds. This revision deletes the former Section 7‑105 that provided that courts could apply a rule from Parts 2 and 3 by analogy to a situation not explicitly covered in the provisions on warehouse receipts or bills of lading when it was appropriate. This is, of course, an unexceptional proposition and need not be stated explicitly in the statute. Thus former Section 7‑105 has been deleted. Whether applying a rule by analogy to a situation is appropriate depends upon the facts of each case.

The Article does not attempt to define the tort liability of bailees, except to hold certain classes of bailees to a minimum standard of reasonable care. For important classes of bailees, liabilities in case of loss, damages or destruction, as well as other legal questions associated with particular documents of title, are governed by federal statutes, international treaties, and in some cases regulatory state laws, which supersede the provisions of this Article in case of inconsistency. See Section 7‑103.

SOUTH CAROLINA REPORTER’S COMMENTS

The title of this article “Documents of Title”, is descriptive of the broad scope of coverage. The principal types of such documents presently in use are the bill of lading and the warehouse receipt. This term is more broadly defined in Commercial Code Section 1‑201(15) as to also include “any other document which in the regular course of business or financing is treated as adequately evidencing that the person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers”.

Enactment of Article 7 would require repeal of the Uniform Warehouse Receipts Act, SC Code Sections 69‑151 et seq., and The Uniform Bills of Lading Act, SC Code Sections 58‑1701 et seq. The coverage of these two separate acts is consolidated into this article.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Miscellaneous liens for services, damages, storage or materials, see Sections 29‑15‑10 et seq.

Records of personal property in transit, see Section 12‑37‑1120.

Records of tobacco warehousemen, see Section 39‑19‑230.

State Warehouse System, and regulation of warehouses, see Sections 39‑22‑10 et seq.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Carriers Section 45, Bills of Lading, Shipping Receipts, and Special Contracts.

Forms

Am. Jur. Pl. & Pr. Forms Uniform Commercial Code Section 7:1 , Introductory Comments.

**SECTION 36‑7‑102.** Definitions and index of definitions.

(a) In this chapter, unless the context otherwise requires:

(1) “Bailee” means the person who by a warehouse receipt, bill of lading or other document of title acknowledges possession of goods and contracts to deliver them.

(2) “Carrier” means a person who issues a bill of lading.

(3) “Consignee” means the person named in a bill of lading to whom or to whose order the bill promises delivery.

(4) “Consignor” means the person named in a bill of lading as the person from whom the goods have been received for shipment.

(5) “Delivery order” means a record that contains an order to deliver goods directed to a warehouse, carrier or other person that in the ordinary course of business issues warehouse receipts or bills of lading.

(6) “Document” means document of title as defined in the general definitions in Chapter 1 of this title.

(7) “Reserved.”

(8) “Goods” means all things that are treated as movable for the purposes of a contract for storage or transportation.

(9) “Issuer” means a bailee who issues a document of title or, in the case of an unaccepted delivery order, the person who orders the possessor of goods to deliver. The term includes a person for whom an agent or employee purports to act in issuing a document if the agent or employee has real or apparent authority to issue documents, even if the issuer did not receive any goods, the goods were misdescribed, or in any other respect the agent or employee violated the issuer’s instructions.

(10) “Person entitled under the document” means the holder, in the case of a negotiable document of title, or the person to whom delivery of the goods is to be made by the terms of, or pursuant to, instructions in a record under, a negotiable document of title.

(11) “Reserved.”

(12) “Sign” means, with present intent to authenticate or adopt a record, to:

(A) execute or adopt a tangible symbol; or

(B) attach to or logically associate with the record an electronic sound, symbol, or process.

(13) “Shipper” means a person that enters into a contract of transportation with a carrier.

(14) “Warehouseman” or “Warehouse” means a person engaged in the business of storing goods for hire.

(b) Definitions in other chapters applying to this chapter and the sections in which they appear are:

(1) “Contract for sale” Section 36‑2‑106;

(2) “Lessee in the ordinary course of business” Section 36‑2A‑103; and

(3) “Receipt of goods” Section 36‑2‑103.

(c) In addition, Chapter 1 of this title contains general definitions and principles of construction and interpretation applicable throughout this chapter.

HISTORY: 1962 Code Section 10.7‑102; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑102.

Changes: New definitions of “carrier,” “good faith,” “record,” “sign,” and “shipper.” Other definitions revised to accommodate electronic mediums.

Purposes:

1. “Bailee” is used in this Article as a blanket term to designate carriers, warehousemen and others who normally issue documents of title on the basis of goods which they have received. The definition does not, however, require actual possession of the goods. If a bailee acknowledges possession when it does not have possession, the bailee is bound by sections of this Article which declare the “bailee’s” obligations. (See definition of “Issuer” in this section and Sections 7‑203 and 7‑301 on liability in case of non‑receipt.) A “carrier” is one type of bailee and is defined as a person that issues a bill of lading. A “shipper” is a person who enters into the contract of transportation with the carrier. The definitions of “bailee,” “consignee,” “consignor,” “goods”, and “issuer”, are unchanged in substance from prior law. “Document of title” is defined in Article 1, and may be in either tangible or electronic form.

2. The definition of warehouse receipt contained in the general definitions section of this Act (Section 1‑201) does not require that the issuing warehouse be “lawfully engaged” in business or for profit. The warehouse’s compliance with applicable state regulations such as the filing of a bond has no bearing on the substantive issues dealt with in this Article. Certainly the issuer’s violations of law should not diminish its responsibility on documents the issuer has put in commercial circulation. But it is still essential that the business be storing goods “for hire” (Section 1‑201 and this section). A person does not become a warehouse by storing its own goods.

3. When a delivery order has been accepted by the bailee it is for practical purposes indistinguishable from a warehouse receipt. Prior to such acceptance there is no basis for imposing obligations on the bailee other than the ordinary obligation of contract which the bailee may have assumed to the depositor of the goods. Delivery orders may be either electronic or tangible documents of title. See definition of “document of title” in Section 1‑201.

4. The obligation of good faith imposed by this Article and by Article 1, Section 1‑304 includes the observance of reasonable commercial standards of fair dealing.

5. The definitions of “record” and “sign” are included to facilitate electronic mediums. See comment 9 to Section 9‑102 discussing “record” and the comment to amended Section 2‑103 discussing “sign.”

6. “Person entitled under the document” is moved from former Section 7‑403.

7. These definitions apply in this Article unless the context otherwise requires. The “context” is intended to refer to the context in which the defined term is used in the Uniform Commercial Code. The definition applies whenever the defined term is used unless the context in which the defined term is used in the statute indicates that the term was not used in its defined sense. See comment to Section 1‑201.

Cross References:

Point 1: Sections 1‑201, 7‑203 and 7‑301.

Point 2: Sections 1‑201 and 7‑203.

Point 3: Section 1‑201.

Point 4: Section 1‑304.

Point 5: Section 9‑102 and 2‑103.

See general comment to document of title in Section 1‑201.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Contract”. Section 1‑201.

“Contract for sale”. Section 2‑106.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Person”. Section 1‑201.

“Purchase”. Section 1‑201.

“Receipt of goods”. Section 2‑103.

“Right”. Section 1‑201.

“Warehouse receipt”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑102 defines a number of terms employed throughout this article which will be referred to in the Reporter’s Comments in the context in which they appear. The definition of several of these terms is an exact copy from the language of the present Uniform Laws. E.g., “Consignee”, SC Code Section 58‑1701(3); “consignor”, SC Code Section 58‑1701(4). In order to come within the definition of “warehouseman” in SC Code Section 69‑151(12), the person must be “lawfully” engaged “for profit”. These two requirements are eliminated by subsection (h) which extends coverage to any person who stores goods “for hire” (for further discussion of the significance of this change, see South Carolina Reporter’s Comments to Commercial Code section 7‑201(1)).

SOUTH CAROLINA REPORTER’S COMMENT (2014 REVISION)

The 2014 amendments include a set of new definitions that were drafted to provide a framework for the development of electronic documents of title and to facilitate the electronic mediums for the storage and communications. Some of these new definitions are codified in revised Article 1 and others appear as amendments to the provisions of Article 7. Four of the new definitions in the 2014 amendments that provide the basic foundation and essential framework for the further development of electronic documents of title are codified in revised Article 1. The definition of document of title in revised Section 36‑1‑201(b)(16) includes a definition of an electronic document of title as “a document of title evidenced by a record consisting of information stored in an electronic medium.” Moreover, new definitions of the terms “bearer”, “delivered”, and “holder,” codified in revised Section 36‑1‑201(b)(5), (15) and (21)(c), provide a framework for the process of negotiating electronic documents provided for in the 2014 amendments and codified in revised Section 36‑7‑501(b). The 2014 amendments also include new definitions of terms in Article 7 that were drafted to facilitate electronic mediums. The definition of “Record” in revised Section 36‑1‑201(b)(37) and the new definition of “Signed” in Section 36‑7‑102(a)(12) serve this function. Moreover, the amendment substituting the term “record” for the term “written order” in the definition of “Delivery order” in Section 36‑7‑102(a)(5) facilitates the use of electronic mediums for the storage and communication of information. The 2014 amendments include new definitions of the terms “carrier” and “shipper.” Section 36‑7‑102(a)(2) defines carrier as a person who issues a bill of lading and Section 36‑7‑102(a) defines shipper as a person who enters into a contract of transportation with a carrier. The 2014 amendments remove the definition the definition of the “person entitled under the document” from Section 36‑7‑403 and includes it in Section 36‑7‑102 as subsection (a)(10).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Liability for nonreceipt or misdescription, see Sections 36‑7‑203, 36‑7‑301.

LIBRARY REFERENCES

Carriers 49.

Shipping 106(1).

Warehousemen 3, 11.1.

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 390, 402.

C.J.S. Shipping Sections 256 to 257.

C.J.S. Warehousemen and Safe Depositaries Sections 1 to 2, 16.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Carriers Section 47, Transportation or Delivery by Carrier.

**SECTION 36‑7‑103.** Relation of chapter to treaty, statute, tariff, classification or regulation.

(a) This chapter is subject to any treaty or statute of the United States or regulatory statute of this State, or lawfully published tariff, to the extent the treaty, statute, regulatory statute or tariff is applicable.

(b) This chapter does not modify or repeal any law prescribing the form or content of a document of title or the services or facilities to be afforded by a bailee, or otherwise regulating a bailee’s business in any respect not specifically treated in this chapter. However, violation of such a law does not affect the status of a document of title that otherwise is within the definition of a document of title.

(c) This chapter modifies, limits, and supersedes the federal Electronic Signatures in Global and National Commerce Act (15 U.S.C. Section 7001, et. seq.) but does not modify, limit, or supersede Section 101(c) of that act (15 U.S.C. Section 7001(c)) or authorize electronic delivery of any of the notices described in Section 103(b) of that act (15 U.S.C. Section 7003(b)).

(d) To the extent there is a conflict between the Uniform Electronics Act and this chapter, this chapter governs.

HISTORY: 1962 Code Section 10.7‑103; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Sections 7‑103 and 10‑104.

Changes: Deletion of references to tariffs and classifications; incorporation of former Section 10‑104 into subsection (b), provide for intersection with federal and state law governing electronic transactions.

Purposes:

1. To make clear what would of course be true without the Section, that applicable Federal law is paramount.

2. To make clear also that regulatory state statutes (such as those fixing or authorizing a commission to fix rates and prescribe services, authorizing different charges for goods of different values, and limiting liability for loss to the declared value on which the charge was based) are not affected by the Article and are controlling on the matters which they cover unless preempted by federal law. The reference in former Section 7‑103 to tariffs, classifications, and regulations filed or issued pursuant to regulatory state statutes has been deleted as inappropriate in the modern era of diminished regulation of carriers and warehouses. If a regulatory scheme requires a carrier or warehouse to issue a tariff or classification, that tariff or classification would be given effect via the state regulatory scheme that this Article recognizes as controlling. Permissive tariffs or classifications would not displace the provisions of this act, pursuant to this section, but may be given effect through the ability of parties to incorporate those terms by reference into their agreement.

3. The document of title provisions of this act supplement the federal law and regulatory state law governing bailees. This Article focuses on the commercial importance and usage of documents of title. State ex. rel Public Service Commission v. Gunkelman & Sons, Inc., 219 N.W.2d 853 (N.D. 1974).

4. Subsection (c) is included to make clear the interrelationship between the federal Electronic Signatures in Global and National Commerce Act and this article and the conforming amendments to other articles of the Uniform Commercial Code promulgated as part of the revision of this article. Section 102 of the federal act allows a State statute to modify, limit, or supersede the provisions of Section 101 of the federal act. See the comments to Revised Article 1, Section 1‑108.

5. Subsection (d) makes clear that once this article is in effect, its provisions regarding electronic commerce and regarding electronic documents of title control in the event there is a conflict with the provisions of the Uniform Electronic Transactions Act or other applicable state law governing electronic transactions.

Cross References:

Sections 1‑108, 7‑201, 7‑202, 7‑204, 7‑206, 7‑309, 7‑401, 7‑403.

Definitional Cross Reference:

“Bill of lading”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Under the doctrine of federal pre‑emption, the Commercial Code as a matter of state law could not affect the provisions of federal laws enacted by Congress within the bounds of its constitutional powers. Thus the Code provisions would be subject to federal legislation governing interstate commerce (e.g., Federal Bills of Lading Act, 49 USCA Sections 81 et seq.), and federal laws relating to the storage of goods (e.g., United States Warehouse Act, 7 USCA Sections 241 et seq.). This obvious rule is stated by Commercial Code Section 7‑103 which also expressly subjects the provisions of this Article to state as well as federal regulatory statutes and such administrative regulations issued under such laws.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Duty of care, contractual limitation of liability, see Sections 36‑7‑204, 36‑7‑309.

Form and terms of warehouse receipts, see Section 36‑7‑202.

Irregularities in issue of receipt or bill or conduct of issuer, see Section 36‑7‑401.

Obligation to deliver; excuse, see Section 36‑7‑403.

Storage under government bond, see Section 36‑7‑201.

Termination of storage, see Section 36‑7‑206.

Federal Aspects

Electronic Signatures in Global and National Commerce Act; Pub.L. 106‑229, June 30, 2000, 114 Stat. 464; see 15 U.S.C.A. Section 7001 et seq.

LIBRARY REFERENCES

Carriers 2.

Shipping 103.

States 18.19, 18.21.

Treaties 11.

Warehousemen 2.

WESTLAW Topic Nos. 70, 354, 360, 385, 403.

C.J.S. Aeronautics and Aerospace Section 189.

C.J.S. Agriculture Section 66.

C.J.S. Banks and Banking Sections 485, 551 to 552.

C.J.S. Carriers Section 351.

C.J.S. Shipping Sections 232 to 242.

C.J.S. States Section 24.

C.J.S. Treaties Sections 13 to 15.

C.J.S. Warehousemen and Safe Depositaries Sections 3 to 5.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Carriers Section 45, Bills of Lading, Shipping Receipts, and Special Contracts.

S.C. Jur. Carriers Section 52, Connecting Carriers.

**SECTION 36‑7‑104.** Negotiable and nonnegotiable warehouse receipt, bill of lading or other document of title.

(a) Except as provided in subsection (c), a warehouse receipt, bill of lading, or other document of title is negotiable if by its terms the goods are to be delivered to bearer or to the order of a named person.

(b) A document of title other than one described in subsection (a) is nonnegotiable. A bill of lading stating that the goods are consigned to a named person is not made negotiable by a provision that the goods are to be delivered only against an order in a record signed by the same or another named person.

(c) A document of title is nonnegotiable if, at the time it is issued, the document has a conspicuous legend, however expressed, that it is nonnegotiable.

HISTORY: 1962 Code Section 10.7‑104; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑104.

Changes: Subsection (a) is revised to reflect modern style and trade practice. Subsection (b) is revised for style and medium neutrality. Subsection (c) is new.

Purposes:

1. This Article deals with a class of commercial paper representing commodities in storage or transportation. This “commodity paper” is to be distinguished from what might be called “money paper” dealt with in the Article of this Act on Commercial Paper (Article 3) and “investment paper” dealt with in the Article of this Act on Investment Securities (Article 8). The class of “commodity paper” is designated “document of title” following the terminology of the Uniform Sales Act Section 76. Section 1‑201. The distinctions between negotiable and nonnegotiable documents in this section makes the most important subclassification employed in the Article, in that the holder of negotiable documents may acquire more rights than its transferor had (See Section 7‑502). The former Section 7‑104, which provided that a document of title was negotiable if it runs to a named person or assigns if such designation was recognized in overseas trade, has been deleted as not necessary in light of current commercial practice.

A document of title is negotiable only if it satisfies this section. “Deliverable on proper indorsement and surrender of this receipt” will not render a document negotiable. Bailees often include such provisions as a means of insuring return of nonnegotiable receipts for record purposes. Such language may be regarded as insistence by the bailee upon a particular kind of receipt in connection with delivery of the goods. Subsection (a) makes it clear that a document is not negotiable which provides for delivery to order or bearer only if written instructions to that effect are given by a named person. Either tangible or electronic documents of title may be negotiable if the document meets the requirement of this section.

2. Subsection (c) is derived from Section 3‑104(d). Prior to issuance of the document of title, an issuer may stamp or otherwise provide by a notation on the document that it is nonnegotiable even if the document would otherwise comply with the requirement of subsection (a). Once issued as a negotiable document of title, the document cannot be changed from a negotiable document to a nonnegotiable document. A document of title that is nonnegotiable cannot be made negotiable by stamping or providing a notation that the document is negotiable. The only way to make a document of title negotiable is to comply with subsection (a). A negotiable document of title may fail to be duly negotiated if the negotiation does not comply with the requirements for “due negotiation” stated in Section 7‑501.

Cross Reference: Sections 7‑501 and 7‑502.

Definitional Cross References:

“Bearer”. Section 1‑201.

“Bill of lading”. Section 1‑201.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Person”. Section 1‑201.

“Sign”. Section 7‑102

“Warehouse receipt”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

The distinction between negotiable and non‑negotiable documents of title dealt with in Commercial Code Section 7‑104 is an important one since negotiable documents represent the goods and the bailee is under a duty not to deliver the goods without surrender of the document (Commercial Code Section 7‑403(3)). A non‑negotiable document, on the other hand, is usually only evidence of the contract between the bailor and the bailee with authority to deliver the goods on detached written authority without return of the document.

Section 7‑104(1) (a) is generally in accord with SC Code Section 69‑165 in defining a negotiable warehouse receipt by the formal test of a document which provides that the goods shall be delivered to bearer or to the order of a named person. Bills of lading are not usually issued in bearer form and the definition of negotiable bills in SC Code Section 58‑1703 covers only those in order form. The provision of subsection (1)(a) for a negotiable “bearer” bill of lading is therefore new.

Section 7‑104(1)(b) would expand the definition of a negotiable document used in overseas trade beyond the formal test to the use of trade usage to establish negotiability where “it runs to a named person or assigns”. While this is probably contrary to the pre‑commercial Code law (e.g., Gubelman v Panama R.R., 192 App Div 165, 182 NYS 403 (1920)), the rule would have little practical application since bills of lading for export shipments are governed by the paramount Federal Bill of Lading Act and the negotiability of import bills are usually governed by the law of the foreign country where the bill was executed and issued (see, Restatement, Conflicts of Laws, Section 337).

Section 7‑104(2) omits the requirement of SC Code Section 58‑1717 and Section 69‑166 that a non‑negotiable document be so marked on its face. The provision that the goods are to be delivered only against a written order signed by the person to whom they are consigned is non‑negotiable is consistent with existing law. SC Code Sections 69‑164 and 58‑1702.

SOUTH CAROLINA REPORTER’S COMMENT (2014 REVISION)

The 2014 amendments added subsection (c), which provides that, notwithstanding subsection (a), a document of title is nonnegotiable if at the time it was issued it had a conspicuous legend stating that it is nonnegotiable.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Rights acquired by due negotiation, see Section 36‑7‑502.

LIBRARY REFERENCES

Carriers 54.1 to 59.

Shipping 106(1, 5).

Warehousemen 15.

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 392, 398 to 402.

C.J.S. Shipping Sections 256 to 257, 259.

C.J.S. Warehousemen and Safe Depositaries Section 25.

**SECTION 36‑7‑105.** Reissuance in alternative medium.

(a) Upon request of a person entitled under an electronic document of title, the issuer of the electronic document may issue a tangible document of title as a substitute for the electronic document if:

(1) the person entitled under the electronic document surrenders control of the document to the issuer; and

(2) the tangible document when issued contains a statement that it is issued in substitution for the electronic document.

(b) Upon issuance of a tangible document of title in substitution for an electronic document of title in accordance with subsection (a):

(1) the electronic document ceases to have any effect or validity; and

(2) the person that procured issuance of the tangible document warrants to all subsequent persons entitled under the tangible document that the warrantor was a person entitled under the electronic document when the warrantor surrendered control of the electronic document to the issuer.

(c) Upon request of a person entitled under a tangible document of title, the issuer of the tangible document may issue an electronic document of title as a substitute for the tangible document if:

(1) the person entitled under the tangible document surrenders possession of the document to the issuer; and

(2) the electronic document when issued contains a statement that it is issued in substitution for the tangible document.

(d) Upon issuance of an electronic document of title in substitution for a tangible document of title in accordance with subsection (c):

(1) the tangible document ceases to have any effect or validity; and

(2) the person that procured issuance of the electronic document warrants to all subsequent persons entitled under the electronic document that the warrantor was a person entitled under the tangible document when the warrantor surrendered possession of the tangible document to the issuer.

HISTORY: 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provisions: None.

Other relevant law: UNCITRAL Draft Instrument on the Carriage of Goods by Sea—Transport Law.

Purpose:

1. This section allows for documents of title issued in one medium to be reissued in another medium. This section applies to both negotiable and nonnegotiable documents. This section sets forth minimum requirements for giving the reissued document effect and validity. The issuer is not required to issue a document in an alternative medium and if the issuer chooses to do so, it may impose additional requirements. Because a document of title imposes obligations on the issuer of the document, it is imperative for the issuer to be the one who issues the substitute document in order for the substitute document to be effective and valid.

2. The request must be made to the issuer by the person entitled to enforce the document of title (Section 7‑102(a)(9)) and that person must surrender possession or control of the original document to the issuer. The reissued document must have a notation that it has been issued as a substitute for the original document. These minimum requirements must be met in order to give the substitute document effect and validity. If these minimum requirements are not met for issuance of a substitute document of title, the original document of title continues to be effective and valid. Section 7‑402. However, if the minimum requirements imposed by this section are met, in addition to any other requirements that the issuer may impose, the substitute document will be the document that is effective and valid.

3. To protect parties who subsequently take the substitute document of title, the person who procured issuance of the substitute document warrants that it was a person entitled under the original document at the time it surrendered possession or control of the original document to the issuer. This warranty is modeled after the warranty found in Section 4‑209.

Cross Reference: Sections 7‑106, 7‑402 and 7‑601.

Definitional Cross Reference: “Person entitled to enforce,” Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑105 is designed to make it clear that when a right is stated by a provision in one part of this Article, and a corresponding right is not stated in the other part, the omission is not to be construed as impairing any corresponding law which otherwise would be available. This is a special application of the general reference to principles of law and equity in matters where the Commercial Code is silent (cf. SC Code Sections 69‑154 and 58‑1705). This special treatment of rejecting a construction against negative implication is presumably based on the fact that part 2 deals with special problems of the warehousemen, while part 3 is devoted to the special problems of the carrier.

SOUTH CAROLINA REPORTER’S COMMENT (2014 REVISION)

This section provides a process under which a person entitled under a document of title issued in one medium may request the issuer to issue a document of title in a different medium. For example, if the person in control of an electronic negotiable document of title and therefore the person entitled under that document, requests that the issuer of the electronic document issue a tangible document as a substitute for the electronic, revised Section 36‑7‑105(a) allows the issuer to issue a tangible document as a substitute for the electronic document, provided the holder surrenders control of the electronic document to the issuer and the tangible record, when issued, states that it was issued in substitution for an electronic document. A person entitled under a tangible negotiable record can invoke the same process to obtain an electronic document in substitution for the tangible record. Note that the issuer is not obligated to issue a substitute document in the other medium in response to the request of the person entitled. Nevertheless, providing a process to convert a document of title issued in one medium for a document in the other medium provides flexibility that may result in greater use and acceptance of electronic documents.

Editor’s Note

Prior Laws: Former Section 36‑7‑105 was titled Construction against negative implication, and had the following history: 1962 Code Section 10.7‑105; 1966 (54) 2716; omitted by 2014 Act No. 213, Section 2.

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Destination bills, see Section 36‑7‑305.

Duplicate document of title, overissue, see Section 36‑7‑402.

Special provisions respecting bills of lading, see Section 36‑7‑301 et seq.

Special provisions respecting warehouse receipts, see Section 36‑7‑201 et seq.

LIBRARY REFERENCES

Statutes 228.

WESTLAW Topic No. 361.

C.J.S. Statutes Sections 306, 370 to 372.

**SECTION 36‑7‑106.** Control of electronic document of title.

(a) A person has control of an electronic document of title if a system employed for evidencing the transfer of interests in the electronic document reliably establishes that person as the person to which the electronic document was issued or transferred.

(b) A system satisfies subsection (a), and a person is deemed to have control of an electronic document of title, if the document is created, stored, and assigned in such a manner that:

(1) a single authoritative copy of the document exists which is unique, identifiable, and, except as otherwise provided in items (4), (5), and (6), unalterable;

(2) the authoritative copy identifies the person asserting control as:

(A) the person to which the document was issued; or

(B) if the authoritative copy indicates that the document has been transferred, the person to which the document was most recently transferred;

(3) the authoritative copy is communicated to and maintained by the person asserting control or its designated custodian;

(4) copies or amendments that add or change an identified assignee of the authoritative copy can be made only with the consent of the person asserting control;

(5) each copy of the authoritative copy and any copy of a copy is readily identifiable as a copy that is not the authoritative copy; and

(6) any amendment of the authoritative copy is readily identifiable as authorized or unauthorized.

HISTORY: 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Uniform Electronic Transactions Act Section 16.

Purpose:

1. The section defines “control” for electronic documents of title and derives its rules from the Uniform Electronic Transactions Act Section 16 on transferrable records. Unlike UETA Section 16, however, a document of title may be reissued in an alternative medium pursuant to Section 7‑105. At any point in time in which a document of title is in electronic form, the control concept of this section is relevant. As under UETA Section 16, the control concept embodied in this section provides the legal framework for developing systems for electronic documents of title.

2. Control of an electronic document of title substitutes for the concept of indorsement and possession in the tangible document of title context. See Section 7‑501. A person with a tangible document of title delivers the document by voluntarily transferring possession and a person with an electronic document of title delivers the document by voluntarily transferring control. (Delivery is defined in Section 1‑201).

3. Subsection (a) sets forth the general rule that the “system employed for evidencing the transfer of interests in the electronic document reliably establishes that person as the person to which the electronic document was issued or transferred.” The key to having a system that satisfies this test is that identity of the person to which the document was issued or transferred must be reliably established. Of great importance to the functioning of the control concept is to be able to demonstrate, at any point in time, the person entitled under the electronic document. For example, a carrier may issue an electronic bill of lading by having the required information in a database that is encrypted and accessible by virtue of a password. If the computer system in which the required information is maintained identifies the person as the person to which the electronic bill of lading was issued or transferred, that person has control of the electronic document of title. That identification may be by virtue of passwords or other encryption methods. Registry systems may satisfy this test. For example, see the electronic warehouse receipt system established pursuant to 7 C.F.R. Part 735. This Article leaves to the market place the development of sufficient technologies and business practices that will meet the test.

An electronic document of title is evidenced by a record consisting of information stored in an electronic medium. Section 1‑201. For example, a record in a computer database could be an electronic document of title assuming that it otherwise meets the definition of document of title. To the extent that third parties wish to deal in paper mediums, Section 7‑105 provides a mechanism for exiting the electronic environment by having the issuer reissue the document of title in a tangible medium. Thus if a person entitled to enforce an electronic document of title causes the information in the record to be printed onto paper without the issuer’s involvement in issuing the document of title pursuant to Section 7‑105, that paper is not a document of title.

4. Subsection (a) sets forth the general test for control. Subsection (b) sets forth a safe harbor test that if satisfied, results in control under the general test in subsection (a). The test in subsection (b) is also used in Section 9‑105 although Section 9‑105 does not include the general test of subsection (a). Under subsection (b), at any point in time, a party should be able to identify the single authoritative copy which is unique and identifiable as the authoritative copy. This does not mean that once created that the authoritative copy need be static and never moved or copied from its original location. To the extent that backup systems exist which result in multiple copies, the key to this idea is that at any point in time, the one authoritative copy needs to be unique and identifiable.

Parties may not by contract provide that control exists. The test for control is a factual test that depends upon whether the general test in subsection (a) or the safe harbor in subsection (b) is satisfied.

5. Article 7 has historically provided for rights under documents of title and rights of transferees of documents of title as those rights relate to the goods covered by the document. Third parties may possess or have control of documents of title. While misfeasance or negligence in failure to transfer or misdelivery of the document by those third parties may create serious issues, this Article has never dealt with those issues as it relates to tangible documents of title, preferring to leave those issues to the law of contracts, agency and tort law. In the electronic document of title regime, third party registry systems are just beginning to develop. It is very difficult to write rules regulating those third parties without some definitive sense of how the third party registry systems will be structured. Systems that are evolving to date tend to be “closed” systems in which all participants must sign on to the master agreement which provides for rights as against the registry system as well as rights among the members. In those closed systems, the document of title never leaves the system so the parties rely upon the master agreement as to rights against the registry for its failures in dealing with the document. This article contemplates that those “closed” systems will continue to evolve and that the control mechanism in this statute provides a method for the participants in the closed system to achieve the benefits of obtaining control allowed by this article.

This article also contemplates that parties will evolve open systems where parties need not be subject to a master agreement. In an open system a party that is expecting to obtain rights through an electronic document may not be a party to the master agreement. To the extent that open systems evolve by use of the control concept contained in this section, the law of contracts, agency, and torts as it applies to the registry’s misfeasance or negligence concerning the transfer of control of the electronic document will allocate the risks and liabilities of the parties as that other law now does so for third parties who hold tangible documents and fail to deliver the documents.

Cross Reference: Sections 7‑105 and 7‑501.

Definitional Cross‑References:

“Delivery”, 1‑201.

“Document of title”, 1‑201.

SOUTH CAROLINA REPORTER’S COMMENT (2014 REVISION)

Control of an electronic document of title is the legal equivalent of indorsement and possession of a tangible document of title. For transactions utilizing electronic documents of title to function efficiently, all parties to the transaction must be able to readily and reliably identify the person who has control of an electronic document. Revised Section 36‑7‑106 provides the standard that a system evidencing transfers of electronic documents must meet to establish control.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

Part 2

Warehouse Receipts: Special Provisions

**SECTION 36‑7‑201.** Who may issue a warehouse receipt; storage under government bond.

(a) A warehouse receipt may be issued by any warehouse.

(b) If goods, including distilled spirits and agricultural commodities, are stored under a statute requiring a bond against withdrawal or a license for the issuance of receipts in the nature of warehouse receipts, a receipt issued for the goods is deemed to be a warehouse receipt even though issued by a person that is the owner of the goods and is not a warehouse.

HISTORY: 1962 Code Section 10.7‑201; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑201.

Changes: Update for style only.

Purposes:

It is not intended by re‑enactment of subsection (a) to repeal any provisions of special licensing or other statutes regulating who may become a warehouse. Limitations on the transfer of the receipts and criminal sanctions for violation of such limitations are not impaired. Section 7‑103. Compare Section 7‑401(4) on the liability of the issuer in such cases. Subsection (b) covers receipts issued by the owner for whiskey or other goods stored in bonded warehouses under such statutes as 26 U.S.C. Chapter 51.

Cross References: Sections 7‑103, 7‑401.

Definitional Cross References:

“Warehouse receipt”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑201(1) is identical with South Carolina Code Section 69‑161. The application of the statute in Boland v Southern Ice Co., 80 F Supp 924 (1948) to a controversy arising from the storage of flowers with an ice company, would be continued under this section.

As was pointed out in SC Reporter’s Comments to Commercial Code Section 7‑102 “warehouseman” is defined in SC Code Section 69‑151(12) as a person “lawfully” storing goods for “profit”. These requirements are not found in the definition of warehouseman in Commercial Code Section 7‑102(h). This change of definition would result in an important expansion of coverage of the statute to include receipts issued by state and cooperative warehouses not storing goods for profit. Because the Uniform Warehouse Receipts Act required the “profit” motive before the issuer would come under the act, it was necessary in South Carolina to enact special legislation to cover the state warehouse system under the State Department of Agriculture for the storage of agricultural products as an aid to compliance with federal price support laws (SC Code Sections 69‑101 to 69‑136). This less restrictive definition would also make it clear that violations of law by a warehouseman do not remove his receipts from the scope of this article.

From the definitions of warehousemen under existing law and generally under the Commercial Code, the inference is clear that a person may not warehouse his own goods. It has been so held under the Act, for example, in Moore v Thomas Moore Distilling Co., 247 Pa 312, 93 Atl 347 (1915) with the effect that receipts issued by a distiller for whiskey stored in his own warehouse are not warehouse receipts covered by the Act. Subsection (2) would modify this rule by the express coverage under this article where a receipt is issued by the owner of goods which are stored under a statutory bond or license. Typical application would be the storage of distilled spirits and agricultural commodities. See SC Code Sections 4‑140, 4‑325, 4‑326 with respect to a bond to insure proper handling of liquors stored in the state.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Application of obligations imposed by this chapter, see Section 36‑7‑401.

Definitions, see Section 36‑9‑102.

Investigation of security consisting of warehouse receipts by the bank examiner, see Section 34‑13‑100.

Miscellaneous liens for services, damages, storage or materials, see Sections 29‑15‑10 et seq.

Relation of Chapter 7 to treaties, statutes, tariffs, classifications, and regulations, see Section 36‑7‑103.

State warehouse system, see Sections 39‑22‑10 et seq.

LIBRARY REFERENCES

Warehousemen 13.

WESTLAW Topic No. 403.

C.J.S. Warehousemen and Safe Depositaries Section 17.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Uniform Commercial Code Section 7:30 , Introductory Comments.

**SECTION 36‑7‑202.** Form of warehouse receipt; essential terms; optional terms.

(a) A warehouse receipt need not be in any particular form.

(b) Unless a warehouse receipt provides for each of the following, the warehouse is liable for damages caused to a person injured by its omission:

(1) a statement of the location of the warehouse facility where the goods are stored;

(2) the date of issue of the receipt;

(3) the unique identification code of the receipt;

(4) a statement whether the goods received will be delivered to the bearer, to a named person, or the person’s order;

(5) the rate of storage and handling charges, unless goods are stored under a field warehousing arrangement, in which case a statement of that fact is sufficient on a nonnegotiable receipt;

(6) a description of the goods or of the packages containing them;

(7) the signature of the warehouse, or its agent;

(8) if the receipt is issued for goods that the warehouse owns, either solely, jointly, or in common with others, a statement of the fact of that ownership; and

(9) a statement of the amount of advances made and of liabilities incurred for which the warehouse claims a lien or security interest pursuant to Section 36‑7‑209. If the precise amount of advances made or liabilities incurred is, at the time of the issue of the receipt, unknown to the warehouse or to its agent that issued the receipt, a statement of the fact that advances have been made or liabilities incurred and the purpose of the advances or liabilities is sufficient.

(c) A warehouse may insert in its receipt any terms that are not contrary to the provisions of this title and do not impair its obligation of delivery pursuant to Section 36‑7‑403 or its duty of care pursuant to Section 36‑7‑204. Any contrary provision is ineffective.

HISTORY: 1962 Code Section 10.7‑202; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑202.

Changes: Language is updated to accommodate electronic commerce and to reflect modern style.

Purposes:

1. This section does not displace any particular legislation that requires other terms in a warehouse receipt or that may require a particular form of a warehouse receipt. This section does not require that a warehouse receipt be issued. A warehouse receipt that is issued need not contain any of the terms listed in subsection (b) in order to qualify as a warehouse receipt as long as the receipt falls within the definition of “warehouse receipt” in Article 1. Thus the title has been changed to eliminate the phrase “essential terms” as provided in prior law. The only consequence of a warehouse receipt not containing any term listed in subsection (b) is that a person injured by a term’s omission has a right as against the warehouse for harm caused by the omission. Cases, such as In re Celotex Corp., 134 B. R. 993 (Bankr. M.D. Fla. 1991), that held that in order to have a valid warehouse receipt all of the terms listed in this section must be contained in the receipt, are disapproved.

2. The unique identification code referred to in subsection (b)(3) can include any combination of letters, number, signs, and/or symbols that provide a unique identification. Whether an electronic or tangible warehouse receipt contains a signature will be resolved with the definition of sign in Section 7‑102.

Cross References: Sections 7‑103 and 7‑401.

Definitional Cross References:

“Bearer”. Section 1‑201.

“Delivery”. Section 1‑201.

“Goods”. Section 7‑102.

“Person”. Section 1‑201.

“Security interest”. Section 1‑201.

“Sign”. Section 7‑102.

“Term”. Section 1‑201.

“Warehouse receipt”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑202 is in accord with SC Code Sections 69‑162 and 69‑163 in prescribing certain essentials and other optional terms for warehouse receipts except for two minor variations. Subsection (2) (a) substitutes “rate of storage and handling charges” for the present language of “rate of storage charges” in SC Code Section 69‑162(5) and subsection (2) (i) substitutes “lien or security interest” for the word “lien” in SC Code Section 69‑162(9).

The substance of subsection (3) regarding optional additional terms is the same as SC Code Section 69‑163.

Under existing law, a failure to include an essential term probably means that the document is not a warehouse receipt and thus not subject to the act. Under Commercial Code Section 7‑401, the obligations of the issuer are preserved even though the document does not comply with the requirements of form. Furthermore, subsection (2) provides that the warehouseman is liable for any loss caused by the omission of a necessary term from any warehouse receipt. The corresponding provision of SC Code Section 69‑162 limits the liability to the issue of negotiable receipts.

Editor’s Note

“This act,” referred to in this section, means Act No. 1065 of the 1966 Acts and Joint Resolutions, originally codified as Titles 10.1 to 10.10 of the Code of Laws of South Carolina 1962, and now codified as Title 36 of the Code of Laws of South Carolina 1976.

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Relation of Chapter 7 to treaties, statutes, tariffs, classifications, and regulations, see Section 36‑7‑103.

LIBRARY REFERENCES

Warehousemen 12.

WESTLAW Topic No. 403.

C.J.S. Warehousemen and Safe Depositaries Section 16.

**SECTION 36‑7‑203.** Liability for nonreceipt or misdescription.

A party to or purchaser for value in good faith of a document of title other than a bill of lading that relies upon the description of the goods in the document may recover from the issuer damages caused by the nonreceipt or misdescription of the goods, except to the extent that:

(1) the document conspicuously indicates that the issuer does not know whether all or part of the goods in fact were received or conform to the description, such as the case in which the description is in terms of marks or labels or kind, quantity or condition, or the receipt or description is qualified by “contents, condition and quality unknown,” “said to contain” or words of similar import, if the indication is true; or

(2) the party or purchaser otherwise has notice of the nonreceipt or misdescription.

HISTORY: 1962 Code Section 10.7‑203; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑203.

Changes: Changes to this section are for style only.

Purpose:

This section is a simplified restatement of existing law as to the method by which a bailee may avoid responsibility for the accuracy of descriptions which are made by or in reliance upon information furnished by the depositor. The issuer is liable on documents issued by an agent, contrary to instructions of its principal, without receiving goods. No disclaimer of the latter liability is permitted.

Cross Reference: Section 7‑301.

Definitional Cross References:

“Conspicuous”. Section 1‑201.

“Document of title”. Section 1‑201.

“Goods”. Section 7‑102.

“Good Faith”. Section 1‑201 [7‑102].

“Issuer”. Section 7‑102.

“Notice”. Section 1‑202.

“Party”. Section 1‑201.

“Purchaser”. Section 1‑201.

“Receipt of goods”. Section 2‑103.

“Value”. Section 1‑204.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑203 is generally in accord with SC Code Section 69‑193 in prescribing the liability of a warehouseman to holders of receipts for damages caused by the nonexistence or misdescription of the goods. Both statutes prescribe similar methods of express disclaimer of such liability as by the customary term “said to be or contain”. Note the additional requirement under this section that the disclaiming language be “conspicuous” (see Commercial Code Section 1‑201 (10)).

At common law it was held that a warehouseman was not bound by a document of title issued by an agent who had received no goods. While the original Uniform Act did not expressly cover this point, in 1922 the Commissioners on Uniform State Laws recommended the additional language—”or on his behalf by an agent or employee the scope of whose actual or apparent authority includes the issuing of warehouse receipts—”. This change was adopted in about one‑half of the states, including South Carolina. SC Code Section 69‑193. The same result would be reached by the definition of “issuer” as used in this section in Commercial Code Section 7‑102(g) as including “any person for whom an agent or employee purports to act in issuing a document if the agent or employee has real or apparent authority to issue documents . . .”

The protection under SC Code Section 69‑193 runs to the “holder” of a receipt while under this section it runs to a “party to or purchaser for value in good faith . . .”

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Issuer’s liability for damages caused by overissue or failure to identify duplicate documents as such, see Section 36‑7‑402.

Liability of issuer of bill of lading for nonreceipt or misdescription, see Section 36‑7‑301.

Obligation of bailee to deliver goods to person entitled thereto under document, see Section 36‑7‑403.

LIBRARY REFERENCES

Bailment 11.

Warehousemen 16, 17, 24(.5).

WESTLAW Topic Nos. 50, 403.

C.J.S. Bailments Sections 46 to 55.

C.J.S. Warehousemen and Safe Depositaries Sections 27, 29.

**SECTION 36‑7‑204.** Duty of care; contractual limitation of warehouse’s liability.

(a) A warehouse is liable for damages for loss of or injury to the goods caused by its failure to exercise care with regard to the goods that a reasonably careful person would exercise under similar circumstances. Unless otherwise agreed, the warehouse is not liable for damages that could not have been avoided by the exercise of that care.

(b) Damages may be limited by a term in the warehouse receipt, storage agreement, or tariff limiting the amount of liability in case of loss or damage beyond which the warehouse is not liable. This limitation is not effective with respect to the liability of the warehouse for conversion to its own use. On request of the bailor in a record at the time of signing the storage agreement or within a reasonable time after receipt of the warehouse receipt, the liability of the warehouse may be increased on part or on all of the goods covered by the storage agreement or the warehouse receipt. In this event, increased rates may be changed based on an increased valuation of the goods.

(c) Reasonable provisions as to the time and manner or presenting claims and commencing actions based on the bailment may be included in the warehouse receipt, storage agreement, or tariff.

HISTORY: 1962 Code Section 10.7‑204; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑204.

Changes: Updated to reflect modern, standard commercial practices.

Purposes of Changes:

1. Subsection (a) continues the rule without change from former Section 7‑204 on the warehouse’s obligation to exercise reasonable care.

2. Former Section 7‑204(2) required that the term limiting damages do so by setting forth a specific liability per article or item or of a value per unit of weight. This requirement has been deleted as out of step with modern industry practice. Under subsection (b) a warehouse may limit its liability for damages for loss of or damage to the goods by a term in the warehouse receipt or storage agreement without the term constituting an impermissible disclaimer of the obligation of reasonable care. The parties cannot disclaim by contract the warehouse’s obligation of care. Section 1‑302. For example, limitations based upon per unit of weight, per package, per occurrence, or per receipt as well as limitations based upon a multiple of the storage rate may be commercially appropriate. As subsection (d) makes clear, the states or the federal government may supplement this section with more rigid standards of responsibility for some or all bailees.

3. Former Section 7‑204(2) also provided that an increased rate can not be charged if contrary to a tariff. That language has been deleted. If a tariff is required under state or federal law, pursuant to Section 7‑103(a), the tariff would control over the rule of this section allowing an increased rate. The provisions of a non‑mandatory tariff may be incorporated by reference in the parties’ agreement. See Comment 2 to Section 7‑103. Subsection (c) deletes the reference to tariffs for the same reason that the reference has been omitted in subsection (b).

4. As under former Section 7‑204(2), subsection (b) provides that a limitation of damages is ineffective if the warehouse has converted the goods to its own use. A mere failure to redeliver the goods is not conversion to the warehouse’s own use. See Adams v. Ryan & Christie Storage, Inc., 563 F. Supp. 409 (E.D. Pa. 1983) aff’d 725 F.2d 666 (3rd Cir. 1983). Cases such as I.C.C. Metals Inc. v. Municipal Warehouse Co., 409 N.E. 2d 849 (N.Y. Ct. App. 1980) holding that mere failure to redeliver results in a presumption of conversion to the warehouse’s own use are disapproved. “Conversion to its own use” is narrower than the idea of conversion generally. Cases such as Lipman v. Peterson, 575 P.2d 19 (Kan. 1978) holding to the contrary are disapproved.

5. Storage agreements commonly establish the contractual relationship between warehouses and depositors who have an on‑going relationship. The storage agreement may allow for the movement of goods into and out of a warehouse without the necessity of issuing or amending a warehouse receipt upon each entry or exit of goods from the warehouse.

Cross References: Sections 1‑302, 7‑103, 7‑309 and 7‑403.

Definitional Cross References:

“Goods”. Section 7‑102.

“Reasonable time”. Section 1‑204.

“Sign”. Section 7‑102.

“Term”. Section 1‑201.

“Value”. Section 1‑204.

“Warehouse receipt”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑204(1) restates the rule of South Carolina Code Section 69‑194 with respect to a warehouseman’s duty to exercise reasonable care of the goods. In accord, Arkwright Mills v Clearwater Mfg. Co., 217 SC 530, 61 SE2d 169 (1950). See, Carolina Rice Co. v West Point Mill Co., 98 SC 476, 82 SE 679 (1914).

The obligations of reasonable care of goods in the hands of the warehouseman may not be disclaimed by agreement. SC Code Section 69‑163; Commercial Code Section 1‑102(3). Subsection (2) does permit the warehouseman, however, to limit his liability by a term in the receipt to a “specific liability per article or item, or value per unit of weight”. While the present Uniform Statute is silent on this point, there are a number of case decisions in other jurisdictions upholding limited liability of warehousemen based on a declared value of the goods (e.g., Samelson v Harper’s Furs, Inc., 144 Conn 368, 131 A2d 827 (1957); Hischemaeller v National Ice & Cold Storage Co. of California, 46 Cal 2d 318, 294 P2d 433 (1956).

Reasonable provisions with respect to time and manner of filing claims are generally enforceable since such provisions are interpreted as a limitation on the remedy rather than substantive rights of recovery, see Williston, Contracts Section 1112 (rev ed 1936). Subsection (3) continues this rule.

SOUTH CAROLINA REPORTER’S COMMENT (2014 REVISION)

Section 36‑7‑204(a) revises the requirements for an effective agreement to limit a warehouse’s liability in order to conform to modern business practices.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Form of warehouse receipt, essential terms, optional terms, see Section 36‑7‑202.

Relation of Chapter 7 to treaties, statutes, tariffs, classifications, and regulations, see Section 36‑7‑103.

LIBRARY REFERENCES

Bailment 11.

Warehousemen 24(.5) to 24(7).

WESTLAW Topic Nos. 50, 403.

C.J.S. Agriculture Section 71.

C.J.S. Bailments Sections 46 to 55.

C.J.S. Warehousemen and Safe Depositaries Sections 29 to 31, 36 to 40, 45.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Warehouses Section 1 , Introductory Comments.

**SECTION 36‑7‑205.** Title under warehouse receipt defeated in certain cases.

A buyer in the ordinary course of business of fungible goods sold and delivered by a warehouse that also is in the business of buying and selling such goods takes the goods free of any claim under a warehouse receipt even if the receipt is negotiable and has been duly negotiated.

HISTORY: 1962 Code Section 10.7‑205; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑205.

Changes: Changes for style only.

Purposes:

1. The typical case covered by this section is that of the warehouse‑dealer in grain, and the substantive question at issue is whether in case the warehouse becomes insolvent the receipt holders shall be able to trace and recover grain shipped to farmers and other purchasers from the elevator. This was possible under the old acts, although courts were eager to find estoppels to prevent it. The practical difficulty of tracing fungible grain means that the preservation of this theoretical right adds little to the commercial acceptability of negotiable grain receipts, which really circulate on the credit of the warehouse. Moreover, on default of the warehouse, the receipt holders at least share in what grain remains, whereas retaking the grain from a good faith cash purchaser reduces the purchaser completely to the status of general creditor in a situation where there was very little the purchaser could do to guard against the loss. Compare 15 U.S.C. Section 714p enacted in 1955.

2. This provision applies to both negotiable and nonnegotiable warehouse receipts. The concept of due negotiation is provided for in 7‑501. The definition of “buyer in ordinary course” is in Article 1 and provides, among other things, that a buyer must either have possession or a right to obtain the goods under Article 2 in order to be a buyer in ordinary course. This section requires actual delivery of the fungible goods to the buyer in ordinary course. Delivery requires voluntary transfer of possession of the fungible goods to the buyer. See amended Section 2‑103. This section is not satisfied by the delivery of the document of title to the buyer in ordinary course.

Cross References: Sections 2‑403 and 9‑320.

Definitional Cross References:

“Buyer in ordinary course of business”. Section 1‑201.

“Delivery”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Fungible” goods. Section 1‑201.

“Goods”. Section 7‑102.

“Value”. Section 1‑204.

“Warehouse receipt”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

The depositor or purchaser of fungible goods in storage under a warehouse receipt may generally look to the warehouseman’s liability if the goods are not delivered. If the goods are sold without authority of the holder of the receipt, such holder has a right of redress from the warehouseman. In such a situation, however, the warehouseman is frequently insolvent and the real contest is between the purchaser and the holder of the warehouse receipt who seeks to trace and recover goods sold to such buyers. The rule frequently applied by the courts has been that the holder of the receipt prevailed (e.g., Kimball Milling Co. v Green, 141 Tex 84, 170 SW2d 191 (1943); Kendall Produce Co. v Terminal Warehouse and T. Co., 295 Pa 450, 145 Atl 511 (1927); Bennett & Co. v Brooks, 146 Ala 490, 41 So 149 (1906)). Although the courts have been quick to estop the holder of the receipt who leaves fungibles in the hands of a dealer (e.g., Preston v Witherspoon, 109 Ind 457, 9 NE 585 (1886)).

Section 7‑205 favors the buyer in the ordinary course of business of fungible goods over the holder of a warehouse receipt issued by a warehouseman who is in the business of buying and selling such goods. This is based on a policy similar to that expressed in Commercial Code Section 2‑403 where goods are entrusted to a merchant who deals in goods of that kind.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Good faith purchase of goods, see Section 36‑2‑403.

Protection of buyer of goods from security interest created by seller, see Section 36‑9‑320.

LIBRARY REFERENCES

Warehousemen 15(.5, 2), 16, 17.

WESTLAW Topic No. 403.

C.J.S. Warehousemen and Safe Depositaries Sections 25 to 27.

**SECTION 36‑7‑206.** Termination of storage at warehouse’s option.

(a) A warehouse, by giving notice to the person on whose account the goods are held and any other person known to claim an interest in the goods, may require payment of any charges and removal of the goods from the warehouse at the termination of the period of storage fixed by the document of title, or, if a period is not fixed, within a stated period not less than thirty days after the warehouse gives notice. If the goods are not removed before the date specified in the notice, the warehouse may sell them pursuant to Section 36‑7‑210.

(b) If a warehouse in good faith believes that the goods are about to deteriorate or decline in value to less than the amount of its lien within the time provided in subsection (a) and Section 36‑7‑210, the warehouse may specify in the notice given under subsection (a) any reasonable shorter time for removal of the goods and, if the goods are not removed, may sell them at public sale held not less than one week after a single advertisement or posting.

(c) If, as a result of a quality or condition of the goods of which the warehouse did not have notice at the time of deposit, the goods are a hazard to other property or to the warehouse or to persons, the warehouse may sell the goods at public or private sale without advertisement or posting on reasonable notification to all persons known to claim an interest in the goods. If the warehouse, after a reasonable effort, is unable to sell the goods it may dispose of them in any lawful manner and does not incur liability by reason of that disposition.

(d) The warehouse must deliver the goods to any person entitled to the goods under this chapter upon due demand made at any time before sale or other disposition under this section.

(e) The warehouse may satisfy its lien from the proceeds of any sale or disposition under this section but must hold the balance for delivery on the demand of any person to which the warehouse would have been bound to deliver the goods.

HISTORY: 1962 Code Section 10.7‑206; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑206.

Changes: Changes for style.

Purposes:

1. This section provides for three situations in which the warehouse may terminate storage for reasons other then enforcement of its lien as permitted by Section 7‑210. Most warehousing is for an indefinite term, the bailor being entitled to delivery on reasonable demand. It is necessary to define the warehouse’s power to terminate the bailment, since it would be commercially intolerable to allow warehouses to order removal of the goods on short notice. The thirty day period provided where the document does not carry its own period of termination corresponds to commercial practice of computing rates on a monthly basis. The right to terminate under subsection (a) includes a right to require payment of “any charges”, but does not depend on the existence of unpaid charges.

2. In permitting expeditious disposition of perishable and hazardous goods the pre‑Code Uniform Warehouse Receipts Act, Section 34, made no distinction between cases where the warehouse knowingly undertook to store such goods and cases where the goods were discovered to be of that character subsequent to storage. The former situation presents no such emergency as justifies the summary power of removal and sale. Subsections (b) and (c) distinguish between the two situations. The reason of this section should apply if the goods become hazardous during the course of storage. The process for selling the goods described in Section 7‑210 governs the sale of goods under this section except as provided in subsections (b) and (c) for the situations described in those subsections respectively.

3. Protection of its lien is the only interest which the warehouse has to justify summary sale of perishable goods which are not hazardous. This same interest must be recognized when the stored goods, although not perishable, decline in market value to a point which threatens the warehouse’s security.

4. The right to order removal of stored goods is subject to provisions of the public warehousing laws of some states forbidding warehouses from discriminating among customers. Nor does the section relieve the warehouse of any obligation under the state laws to secure the approval of a public official before disposing of deteriorating goods. Such regulatory statutes and the regulations under them remain in force and operative. Section 7‑103.

Cross References: Sections 7‑103 and 7‑403.

Definitional Cross References:

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑102.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Notice”. Section 1‑202.

“Notification”. Section 1‑202.

“Person”. Section 1‑201.

“Reasonable time”. Section 1‑205.

“Value”. Section 1‑204.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑206(1) prescribes the warehouseman’s power to terminate the bailment. Where the time is fixed, he may require removal of the goods at the termination of the storage period. In the more usual case of warehousing for an indefinite term, the termination may take effect within a stated period not less than thirty days after notification. If the goods are not removed, the warehouseman may sell them under the provisions for enforcement of liens. (Commercial Code Section 7‑210.) Under existing law it is probable that the warehouseman could force the bailor to remove his goods at the expiration of a fixed storage period simply because the contract is terminated. The provision for termination at will of an indefinite term agreement is new and probably would modify existing law.

Section 7‑206(2) adopts the rule of SC Code Section 69‑207 which provides for termination of storage of perishable and hazardous goods and extends it to also include goods which are about to decline in value. With respect to such goods, the warehouseman is allowed to sell the goods in order to protect his lien interest in a shorter time than that provided for termination at will.

Section 7‑206(3) limits the application of the rule of SC Code Section 69‑207, which allows the warehouseman to terminate when the goods are hazardous, by the condition that the warehouseman must have had no notice of such hazard at the time of deposit. Under existing law the warehouseman could terminate even if he knew of the hazardous condition at the time of deposit. Under subsection (3) this right of the warehouseman is not limited to the hazards of “odor, leakage, inflammability or explosive nature . . .” as listed in the present South Carolina statute. Thus the application of this section would seem to apply to such other hazards as bacteria or insects.

Section 7‑206(4) states the substance of SC Code Section 69‑207 to the effect that prior to sale by the warehouseman under the authority stated above, he must deliver the goods to any person entitled to them. After such sale he may apply the proceeds to the satisfaction of his lien, accounting to the person entitled to the goods for the balance.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Duty of bailee to deliver goods, see Section 36‑7‑403.

Relation of Chapter 7 to treaties, statutes, tariffs, classifications, and regulations, see Section 36‑7‑103.

LIBRARY REFERENCES

Warehousemen 10, 25(.5) to 25(8).

WESTLAW Topic No. 403.

C.J.S. Warehousemen and Safe Depositaries Sections 12 to 13, 47 to 48, 51 to 53, 55 to 60, 84.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Warehouses Section 1 , Introductory Comments.

**SECTION 36‑7‑207.** Goods must be kept separate; fungible goods.

(a) Unless the warehouse receipt otherwise provides, a warehouse shall keep separate the goods covered by each receipt so as to permit at all times identification and delivery of those goods. However, different lots of fungible goods may be commingled.

(b) If different lots of fungible goods are commingled, the goods are owned in common by the persons entitled to them and the warehouse is severally liable to each owner for the share of that owner. If, because of overissue, a mass of fungible goods is insufficient to meet all the receipts which the warehouse has issued against it, the persons entitled include all holders to which overissued receipts have been duly negotiated.

HISTORY: 1962 Code Section 10.7‑207; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑207.

Changes: Changes for style only.

Purposes:

No change of substance is made from former Section 7‑207. Holders to whom overissued receipts have been duly negotiated shall share in a mass of fungible goods. Where individual ownership interests are merged into claims on a common fund, as is necessarily the case with fungible goods, there is no policy reason for discriminating between successive purchasers of similar claims.

Definitional Cross References:

“Delivery”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Fungible goods”. Section 1‑201.

“Goods”. Section 7‑102.

“Holder”. Section 1‑201.

“Person”. Section 1‑201.

“Warehouse receipt”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑207(1) restates the rule of SC Code Section 69‑195 which requires the warehouseman to keep goods of one depositor separated from goods of other depositors. The last phrase of this subsection permitting commingling of fungible goods is in accord with SC Code Section 69‑196 except that the South Carolina statute authorizes such commingling only “if authorized by agreement or by custom”. This is probably not a change in application of this rule, however, since commingling of fungible goods is customary.

Where a warehouseman overissues receipts representing a mass of fungible goods, he is liable for resulting damages. SC Code Section 69‑193; Uniform Commercial Code Section 7‑402. In this situation, however, the warehouseman is usually insolvent and therefore the practical redress is to reach the goods in storage. Subsection (2) would continue the rule of SC Code Section 69‑196 that each depositor becomes entitled to a pro rata share of the mass. The present rule would be extended under subsection (2) by permitting all holders to whom overissue receipts have been duly negotiated to also share in the mass of fungible goods. Case law decisions have held that if it can be shown that a particular receipt never represented any goods, the holder has no rights in the goods as against competing claimants who have made actual deposits. Curacao Trading Co. v Federal Insurance Co., 137 F2d 911 (2d Cir 1943), cert denied, 321 US 765, 64 Sup Ct 521, 88 L Ed 1061 (1944). Subsection (2) would overturn this rule by putting a holder of a negotiable document covering fungible goods on an equal footing to share pro rata as tenant in common with all other claimants, including those who made actual deposits.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

LIBRARY REFERENCES

Warehousemen 19, 20.

WESTLAW Topic No. 403.

C.J.S. Warehousemen and Safe Depositaries Sections 11, 14, 32, 35.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Warehouses Section 1 , Introductory Comments.

**SECTION 36‑7‑208.** Altered warehouse receipts.

If a blank in a negotiable tangible warehouse receipt has been filled in without authority, a good‑faith purchaser for value and without notice of the lack of authority may treat the insertion as authorized. Any other unauthorized alteration leaves any tangible or electronic warehouse receipt enforceable against the issuer according to its original tenor.

HISTORY: 1962 Code Section 10.7‑208; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑208.

Changes: To accommodate electronic documents of title.

Purpose:

1. The execution of tangible warehouse receipts in blank is a dangerous practice. As between the issuer and an innocent purchaser the risks should clearly fall on the former. The purchaser must have purchased the tangible negotiable warehouse receipt in good faith and for value to be protected under the rule of the first sentence which is a limited exception to the general rule in the second sentence. Electronic document of title systems should have protection against unauthorized access and unauthorized changes. See 7‑106. Thus the protection for good faith purchasers found in the first sentence is not necessary in the context of electronic documents.

2. Under the second sentence of this section, an unauthorized alteration whether made with or without fraudulent intent does not relieve the issuer of its liability on the warehouse receipt as originally executed. The unauthorized alteration itself is of course ineffective against the warehouse. The rule stated in the second sentence applies to both tangible and electronic warehouse receipts.

Definitional Cross References:

“Good faith”. Section 1‑201 [7‑102].

“Issuer”. Section 7‑102.

“Notice”. Section 1‑202.

“Purchaser”. Section 1‑201.

“Value”. Section 1‑204.

“Warehouse receipt”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

The second sentence of this section restates the rule of SC Code Section 69‑186 that if a warehouse receipt is altered without authority, the warehouseman is liable according to the terms of the receipt prior to its alteration.

Where a negotiable warehouse receipt is issued in blank and filled in without authority, this will presumably by considered as an alteration under the existing statute. The assumed result would be that the warehouseman would not be liable to a bona fide purchaser of such a receipt. The first sentence of Commercial Code Section 7‑208 would change this rule by permitting the bona fide purchaser to enforce a negotiable warehouse receipt according to its terms even though completed without authority. The policy preference for the purchaser is similar to that of Commercial Code Sections 3‑407(3) and 3‑115 which protects a holder in due course of commercial paper under similar circumstances.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

LIBRARY REFERENCES

Alteration of Instruments 7.

Warehousemen 13, 16, 17.

WESTLAW Topic Nos. 25, 403.

C.J.S. Alteration of Instruments Sections 73 to 80.

C.J.S. Warehousemen and Safe Depositaries Sections 17, 27.

**SECTION 36‑7‑209.** Lien of warehouse.

(a) A warehouse has a lien against the bailor on the goods covered by a warehouse receipt or storage agreement or on the proceeds thereof in its possession for charges for storage or transportation, including demurrage and terminal charges, insurance, labor, or other charges, present or future in relation to the goods, and for expenses necessary for preservation of the goods or reasonably incurred in their sale pursuant to law. If the person on whose account the goods are held is liable for similar charges or expenses in relation to other goods whenever deposited and it is stated in the warehouse receipt or storage agreement that a lien is claimed for charges and expenses in relation to other goods, the warehouse also has a lien against the goods covered by the warehouse receipt or storage agreement or on the proceeds of them in its possession for those charges and expenses, whether or not the other goods have been delivered by the warehouse. However, as against a person to whom a negotiable warehouse receipt is duly negotiated, a warehouse’s lien is limited to charges in an amount or at a rate specified on the receipt or, if no charges are so specified, then to a reasonable charge for storage of the specific goods covered by the receipt subsequent to the date of the receipt.

(b) A warehouse also may reserve a security interest against the bailor for a maximum amount specified on the receipt for charges other than those specified in subsection (a), such as for money advanced and interest. The security interest is governed by the chapter on secured transactions (Chapter 9).

(c) A warehouse’s lien for charges and expenses under subsection (a) or a security interest under subsection (b) is also effective against any person who so entrusted the bailor with possession of the goods that a pledge of them by the bailor to a good‑faith purchaser for value would have been valid. However, the lien or security interest is not effective against a person that before issuance of a document of title had a legal interest or a perfected security interest in the goods and that did not:

(1) deliver or entrust the goods or any document of title covering the goods to the bailor or the nominee of the bailor with:

(A) actual or apparent authority to ship, store, or sell;

(B) power to obtain delivery under Section 36‑7‑403; or

(C) power of disposition under Sections 36‑2‑403, 36‑2A‑304(2), 36‑2A‑305(2), 36‑9‑320, or 36‑9‑321(c), or other statute of rule of law; or

(2) acquiesce in the procurement of the bailor or its nominee of any document.

(d) The lien of a warehouse on household goods for charges and expenses in relation to the goods under subsection (a) also is effective against all other persons if the depositor was the legal possessor of the goods at the time of the deposit. In this subsection, the term “household goods” means furniture, furnishings, or personal effects used by the depositor in a dwelling.

(e) A warehouse loses its lien on any goods that it voluntarily delivers or unjustifiably refuses to deliver.

HISTORY: 1962 Code Section 10.7‑209; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Sections 7‑209 and 7‑503.

Changes: Expanded to recognize warehouse lien when a warehouse receipt is not issued but goods are covered by a storage agreement.

Purposes:

1. Subsection (a) defines the warehouse’s statutory lien. Other than allowing a warehouse to claim a lien under this section when there is a storage agreement and not a warehouse receipt, this section remains unchanged in substance from former Section 7‑209(1). Under the first sentence, a specific lien attaches automatically without express notation on the receipt or storage agreement with regard to goods stored under the receipt or the storage agreement. That lien is limited to the usual charges arising out of a storage transaction.

Example 1: Bailor stored goods with a warehouse and the warehouse issued a warehouse receipt. A lien against those goods arose as set forth in subsection (a), the first sentence, for the charges for storage and the other expenses of those goods. The warehouse may enforce its lien under Section 7‑210 as against the bailor. Whether the warehouse receipt is negotiable or nonnegotiable is not important to the warehouse’s rights as against the bailor.

Under the second sentence, by notation on the receipt or storage agreement, the lien can be made a general lien extending to like charges in relation to other goods. Both the specific lien and general lien are as to goods in the possession of the warehouse and extend to proceeds from the goods as long as the proceeds are in the possession of the warehouse. The same rules apply whether the receipt is negotiable or non‑negotiable.

Example 2: Bailor stored goods (lot A) with a warehouse and the warehouse issued a warehouse receipt for those goods. In the warehouse receipt it is stated that the warehouse will also have a lien on goods covered by the warehouse receipt for storage charges and the other expenses for any other goods that are stored with the warehouse by the bailor. The statement about the lien on other goods does not specify an amount or a rate. Bailor then stored other goods (lot B) with the warehouse. Under subsection (a), first sentence, the warehouse has a lien on the specific goods (lot A) covered by the warehouse receipt. Under subsection (a), second sentence, the warehouse has a lien on the goods in lot A for the storage charges and the other expenses arising from the goods in lot B. That lien is enforceable as against the bailor regardless of whether the receipt is negotiable or nonnegotiable.

Under the third sentence, if the warehouse receipt is negotiable, the lien as against a holder of that receipt by due negotiation is limited to the amount or rate specified on the receipt for the specific lien or the general lien, or, if none is specified, to a reasonable charge for storage of the specific goods covered by the receipt for storage after the date of the receipt.

Example 3: Same facts as Example 1 except that the warehouse receipt is negotiable and has been duly negotiated (Section 7‑501) to a person other than the bailor. Under the last sentence of subsection (a), the warehouse may enforce its lien against the bailor’s goods stored in the warehouse as against the person to whom the negotiable warehouse receipt has been duly negotiated. Section 7‑502. That lien is limited to the charges or rates specified in the receipt or a reasonable charge for storage as stated in the last sentence of subsection (a).

Example 4: Same facts as Example 2 except that the warehouse receipt is negotiable and has been duly negotiated (Section 7‑501) to a person other than the bailor. Under the last sentence of subsection (a), the lien on lot A goods for the storage charges and the other expenses arising from storage of lot B goods is not enforceable as against the person to whom the receipt has been duly negotiated. Without a statement of a specified amount or rate for the general lien, the warehouse’s general lien is not enforceable as against the person to whom the negotiable document has been duly negotiated. However, the warehouse lien for charges and expenses related to storage of lot A goods is still enforceable as against the person to whom the receipt was duly negotiated.

Example 5. Same facts as Examples 2 and 4 except the warehouse had stated on the negotiable warehouse receipt a specified amount or rate for the general lien on other goods (lot B). Under the last sentence of subsection (a), the general lien on lot A goods for the storage charges and the other expenses arising from storage of lot B goods is enforceable as against the person to whom the receipt has been duly negotiated.

2. Subsection (b) provides for a security interest based upon agreement. Such a security interest arises out of relations between the parties other than bailment for storage or transportation, as where the bailee assumes the role of financier or performs a manufacturing operation, extending credit in reliance upon the goods covered by the receipt. Such a security interest is not a statutory lien. Compare Sections 9‑109 and 9‑333. It is governed in all respects by Article 9, except that subsection (b) requires that the receipt specify a maximum amount and limits the security interest to the amount specified. A warehouse could also take a security interest to secure its charges for storage and the other expenses listed in subsection (a) to protect these claims upon the loss of the statutory possessory warehouse lien if the warehouse loses possession of the goods as provided in subsection (e).

Example 6: Bailor stores goods with a warehouse and the warehouse issues a warehouse receipt that states that the warehouse is taking a security interest in the bailed goods for charges of storage, expenses, for money advanced, for manufacturing services rendered, and all other obligations that the bailor may owe the warehouse. That is a security interest covered in all respects by Article 9. Subsection (b). As allowed by this section, a warehouse may rely upon its statutory possessory lien to protect its charges for storage and the other expenses related to storage. For those storage charges covered by the statutory possessory lien, the warehouse is not required to use a security interest under subsection (b).

3. Subsections (a) and (b) validate the lien and security interest “against the bailor.” Under basic principles of derivative rights as provided in Section 7‑504, the warehouse lien is also valid as against parties who obtain their rights from the bailor except as otherwise provided in subsection (a), third sentence, or subsection (c).

Example 7: Bailor stores goods with a warehouse and the warehouse issues a nonnegotiable warehouse receipt that also claims a general lien in other goods stored with the warehouse. A lien on the bailed goods for the charges for storage and the other expenses arises under subsection (a). Bailor notifies the warehouse that the goods have been sold to Buyer and the bailee acknowledges that fact to the Buyer. Section 2‑503. The warehouse lien for storage of those goods is effective against Buyer for both the specific lien and the general lien. Section 7‑504.

Example 8: Bailor stores goods with a warehouse and the warehouse issues a nonnegotiable warehouse receipt. A lien on the bailed goods for the charges for storage and the other expenses arises under subsection (a). Bailor grants a security interest in the goods while the goods are in the warehouse’s possession to Secured Party (SP) who properly perfects a security interest in the goods. See Revised 9‑312(d). The warehouse lien is superior in priority over SP’s security interest. See Revised 9‑203(b)(2) (debtor can grant a security interest to the extent of debtor’s rights in the collateral).

Example 9: Bailor stores goods with a warehouse and the warehouse issues a negotiable warehouse receipt. A lien on the bailed goods for the charges for storage and the other expenses arises under subsection (a). Bailor grants a security interest in the negotiable document to SP. SP properly perfects its interest in the negotiable document by taking possession through a “due negotiation.” Revised 9‑312(c). SP’s security interest is subordinate to the warehouse lien. Section 7‑209(a), third sentence. Given that bailor’s rights are subject to the warehouse lien, the bailor cannot grant to the SP greater rights than the bailor has under Section 9‑203(b)(2), perfection of the security interest in the negotiable document and the goods covered by the document through SP’s filing of a financing statement should not give a different result.

As against third parties who have interests in the goods prior to the storage with the warehouse, subsection (c) continues the rule under the prior uniform statutory provision that to validate the lien or security interest of the warehouse, the owner must have entrusted the goods to the depositor, and that the circumstances must be such that a pledge by the depositor to a good faith purchaser for value would have been valid. Thus the owner’s interest will not be subjected to a lien or security interest arising out of a deposit of its goods by a thief. The warehouse may be protected because of the actual, implied or apparent authority of the depositor, because of a Factor’s Act, or because of other circumstances which would protect a bona fide pledgee, unless those circumstances are denied effect under the second sentence of subsection (c). The language of Section 7‑503 is brought into subsection (c) for purposes of clarity. The comments to Section 7‑503 are helpful in interpreting delivery, entrustment or acquiescence.

Where the third party is the holder of a security interest, obtained prior to the issuance of a negotiable warehouse receipt, the rights of the warehouse depend on the priority given to a hypothetical bona fide pledgee by Article 9, particularly Section 9‑322. Thus the special priority granted to statutory liens by Section 9‑333 does not apply to liens under subsection (a) of this section, since subsection (c), second sentence, “expressly provides otherwise” within the meaning of Section 9‑333.

As to household goods, however, subsection (d) makes the warehouse’s lien “for charges and expenses in relation to the goods” effective against all persons if the depositor was the legal possessor. The purpose of the exception is to permit the warehouse to accept household goods for storage in sole reliance on the value of the goods themselves, especially in situations of family emergency.

Example 10: Bailor grants a perfected security interest in the goods to SP prior to storage of the goods with the warehouse. Bailor then stores goods with the warehouse and the warehouse issues a warehouse receipt for the goods. A warehouse lien on the bailed goods for the charges for storage or other expenses arises under subsection (a). The warehouse lien is not effective as against SP unless SP entrusted the goods to the bailor with actual or apparent authority to ship store, or sell the goods or with power of disposition under subsection (c)(1) or acquiesced in the bailor’s procurement of a document of title under subsection (c)(2). This result obtains whether the receipt is negotiable or nonnegotiable.

Example 11: Sheriff who had lawfully repossessed household goods in an eviction action stored the goods with a warehouse. A lien on the bailed goods arises under subsection (a). The lien is effective as against the owner of the goods. Subsection (d).

4. As under previous law, this section creates a statutory possessory lien in favor of the warehouse on the goods stored with the warehouse or on the proceeds of the goods. The warehouse loses its lien if it loses possession of the goods or the proceeds. Subsection (e).

5. Where goods have been stored under a non‑negotiable warehouse receipt and are sold by the person to whom the receipt has been issued, frequently the goods are not withdrawn by the new owner. The obligations of the seller of the goods in this situation are set forth in Section 2‑503(4) on tender of delivery and include procurement of an acknowledgment by the bailee of the buyer’s right to possession of the goods. If a new receipt is requested, such an acknowledgment can be withheld until storage charges have been paid or provided for. The statutory lien for charges on the goods sold, granted by the first sentence of subsection (a), continues valid unless the bailee gives it up. See Section 7‑403. But once a new receipt is issued to the buyer, the buyer becomes “the person on whose account the goods are held” under the second sentence of subsection (a); unless the buyer undertakes liability for charges in relation to other goods stored by the seller, there is no general lien against the buyer for such charges. Of course, the bailee may preserve the general lien in such a case either by an arrangement by which the buyer “is liable for” such charges, or by reserving a security interest under subsection (b).

6. A possessory warehouse lien arises as provided under subsection (a) if the parties to the bailment have a storage agreement or a warehouse receipt is issued. In the modern warehouse, the bailor and the bailee may enter into a master contract governing the bailment with the bailee and bailor keeping track of the goods stored pursuant to the master contract by notation on their respective books and records and the parties send notification via electronic communication as to what goods are covered by the master contract. Warehouse receipts are not issued. See Comment 4 to Section 7‑204. There is no particular form for a warehouse receipt and failure to contain any of the terms listed in Section 7‑202 does not deprive the warehouse of its lien that arises under subsection (a). See the comment to Section 7‑202.

Cross References:

Point 1: Sections 7‑501 and 7‑502.

Point 2: Sections 9‑109 and 9‑333.

Point 3: Sections 2‑503, 7‑503, 7‑504, 9‑203, 9‑312, and 9‑322.

Point 4: Sections 2‑503, 7‑501, 7‑502, 7‑504, 9‑312, 9‑331, 9‑333, 9‑401.

Point 5: Sections 2‑503 and 7‑403.

Point 6: Sections 7‑202 and 7‑204.

Definitional Cross References:

“Delivery”. Section 1‑201.

“Document of Title”. Section 1‑201.

“Goods”. Section 7‑102.

“Money”. Section 1‑201.

“Person”. Section 1‑201.

“Purchaser”. Section 1‑201.

“Right”. Section 1‑201.

“Security interest”. Section 1‑201.

“Value”. Section 1‑204.

“Warehouse receipt”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑209 continues to recognize the warehouseman’s lien on goods deposited for charges arising out of the storage transaction. In accord, SC Code Section 69‑200. Subsection (1) creates a specific lien which attaches automatically for charges in relation to the goods. This section also permits a general lien if it is expressly stated in the receipt “that the bailee claims a lien on the covered goods to secure charges made in relation to different goods”. This notation requirement for the creation of a general lien is new.

Under SC Code Section 69‑203 where a negotiable receipt is issued, the warehouseman’s lien is limited to charges for storage subsequent to the date of the receipt, unless the receipt, expressly enumerated other charges for which a lien is claimed. This is the substance of the last sentence of subsection (1) of this Commercial Code section.

Section 7‑209(2) permits the warehouseman’s lien to secure charges unrelated to storing or handling the goods, such as money advanced or commissions for sales. This may be an extension of the purposes for which the lien would attach under existing law.

Section 7‑209(3) continues the rule of SC Code Section 69‑201 permitting the warehouseman’s lien to prevail against the owner in case of an unauthorized bailment only where the bailor would have had the power to pledge the goods.

Section 7‑209(4) restates the rule of SC Code Section 69‑202 that the warehouseman loses his lien by delivering the goods or by an unjustified refusal to deliver.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Application of statutory provisions respecting secured transaction to security interests created by lien, see Section 36‑9‑109.

Duty of bailee to deliver goods, see Section 36‑7‑403.

Document of title as conferring no rights against person having prior security interest, see Section 36‑7‑503.

Form of warehouse receipt, essential terms, optional terms, see Section 36‑7‑202.

Liens, generally, see Section 29‑1‑10 et seq.

Priority between statutory lien and security interest, see Section 36‑9‑333.

Priority of conflicting security interests, see Section 36‑9‑301 et seq.

Seller’s tender of delivery of goods in possession of bailee, see Section 36‑2‑503.

LIBRARY REFERENCES

Warehousemen 29.1 to 32.5.

WESTLAW Topic No. 403.

C.J.S. Warehousemen and Safe Depositaries Sections 63, 67 to 68.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Warehouses Section 1 , Introductory Comments.

Am. Jur. Pl. & Pr. Forms Warehouses Section 32 , Introductory Comments.

**SECTION 36‑7‑210.** Enforcement of warehouse’s Lien.

(a) Except as provided in subsection (b), a warehouse’s lien may be enforced by public or private sale of the goods, in bulk or in packages, at any time or place and on any terms which are commercially reasonable, after notifying all persons known to claim an interest in the goods. This notification must include a statement of the amount due, the nature of the proposed sale and the time and place of any public sale. The fact that a better price could have been obtained by a sale at a different time or in a method different from that selected by the warehouse is not of itself sufficient to establish that the sale was not made in a commercially reasonable manner. The warehouse sells in a commercially reasonable manner if the warehouse sells the goods in the usual manner in any recognized market for the goods it sells at the price current in that market at the time of the sale, or otherwise sells the goods in conformity with commercially reasonable practices among dealers in the type of goods sold. A sale of more goods than apparently necessary to be offered to ensure satisfaction of the obligation is not commercially reasonable except in cases covered by the preceding sentence.

(b) A warehouse may enforce its lien on goods, other than goods stored by a merchant in the course of its business, only if the following requirements are satisfied:

(1) All persons known to claim an interest in the goods must be notified.

(2) The notification must include an itemized statement of the claim, a description of the goods subject to the lien, a demand for payment within a specified time not less than ten days after receipt of the notification, and a conspicuous statement that unless the claim is paid within that time the goods will be advertised for sale and sold by auction at a specified time and place.

(3) The sale must conform to the terms of the notification.

(4) The sale must be held at the nearest suitable place to where the goods are held or stored.

(5) After the expiration of the time given in the notification, an advertisement of the sale must be published once a week for two weeks consecutively in a newspaper of general circulation where the sale is to be held. The advertisement must include a description of the goods, the name of the person on whose account they are being held, and the time and place of the sale. The sale must take place at least fifteen days after the first publication. If there is no newspaper of general circulation where the sale is to be held, the advertisement must be posted at least ten days before the sale in not less than six conspicuous places in the neighborhood of the proposed sale.

(c) Before any sale pursuant to this section any person claiming a right in the goods may pay the amount necessary to satisfy the lien and the reasonable expenses incurred in complying pursuant to this section. In that event the goods must not be sold, but must be retained by the warehouseman subject to the terms of the receipt and this chapter.

(d) A warehouse may buy at any public sale held pursuant to this section.

(e) A purchaser in good faith of goods sold to enforce a warehouseman’s lien takes the goods free of any rights of persons against whom the lien was valid, despite noncompliance by the warehouseman with the requirements of this section.

(f) A warehouse may satisfy its lien from the proceeds of any sale pursuant to this section but shall hold the balance, if any, for delivery on demand to any person to which the warehouse would have been bound to deliver the goods.

(g) The rights provided by this section are in addition to all other rights allowed by law to a creditor against a debtor.

(h) If a lien is on goods stored by a merchant in the course of his business the lien may be enforced in accordance with either subsection (a) or (b).

(i) A warehouse is liable for damages caused by failure to comply with the requirements for sale under this section and, in case of willful violation, is liable for conversion.

HISTORY: 1962 Code Section 10.7‑210; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑210.

Changes: Update to accommodate electronic commerce and for style.

Purposes:

1. Subsection (a) makes “commercial reasonableness” the standard for foreclosure proceedings in all cases except non‑commercial storage with a warehouse. The latter category embraces principally storage of household goods by private owners; and for such cases the detailed provisions as to notification, publication and public sale are retained in subsection (b) with one change. The requirement in former Section 7‑210(2)(b) that the notification must be sent in person or by registered or certified mail has been deleted. Notification may be sent by any reasonable means as provided in Section 1‑202. The swifter, more flexible procedure of subsection (a) is appropriate to commercial storage. Compare seller’s power of resale on breach by buyer under the provisions of the Article on Sales (Section 2‑706). Commercial reasonableness is a flexible concept that allows for a wide variety of actions to satisfy the rule of this section, including electronic means of posting and sale.

2. The provisions of subsections (d) and (e) permitting the bailee to bid at public sales and confirming the title of purchasers at foreclosure sales are designed to secure more bidding and better prices and remain unchanged from former Section 7‑210.

3. A warehouses may have recourse to an interpleader action in appropriate circumstances. See Section 7‑603.

4. If a warehouse has both a warehouse lien and a security interest, the warehouse may enforce both the lien and the security interest simultaneously by using the procedures of Article 9. Section 7‑210 adopts as its touchstone “commercial reasonableness” for the enforcement of a warehouse lien. Following the procedures of Article 9 satisfies “commercial reasonableness.”

Cross Reference: Sections 2‑706, 7‑403, 7‑603 and Part 6 of Article 9.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Conspicuous”. Section 1‑201.

“Creditor”. Section 1‑201.

“Delivery”. Section 1‑201.

“Document of Title”. Section 1‑201.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Notification”. Section 1‑202.

“Notifies”. Section 1‑202.

“Person”. Section 1‑201.

“Purchaser”. Section 1‑201.

“Rights”. Section 1‑201.

“Term”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑210 recognizes the right and prescribes the means whereby the warehouseman may enforce his lien without judicial proceedings. The present statute also authorizes a foreclosure sale and is substantially in accord with subsection (2) so far as the requirements that there be a public sale on notice after appropriate publication. SC Code Section 69‑206.

Subsection (1), however, would provide a new and more flexible procedure which may alternatively be employed in cases of storage by a merchant in the course of business (see, Commercial Code Section 2‑104(1) for definition of merchant). The principal test is that the sale be “commercially reasonable” and is similar to the seller’s right to resell the goods upon the buyer’s breach under Commercial Code Section 2‑706. The present law does not make this merchant‑non‑merchant distinction and would require the more formal procedure for all sales by warehousemen.

Section 7‑210(3), giving the right of redemption prior to the sale to any person claiming an interest in the goods, is in accord with SC Code Section 69‑206.

Section 7‑210(4), permitting the warehouseman to buy at any public sale, clarifies a point on which there is no existing South Carolina authority.

Since a sale not in strict compliance with the statute is generally considered a conversion, the rights of a bona fide purchaser are probably subordinate to that of the bailor, such sale being caveat emptor (e.g., Hirsch v Hubert Transfer & Storage Co., 136 Pa Super 605, 8 A2d 426 (1939); State ex rel. Kendrick v Amarillo Transfer & Storage Co., 94 SW2d 590 (Tex Civ App 1936)). Thus the preference for the good faith purchaser at an improper warehouseman’s sale under subsection (5) is probably a change in existing law.

Section 7‑210(6), providing that the warehouseman may satisfy his lien from the proceeds of sale but must hold the balance for delivery to the person to whom he would have been bound to deliver the goods if there had been no sale, restates the rule of SC Code Section 69‑206.

Section 7‑210(7), providing that the rights enumerated in this section are in addition to all other rights allowed by law to a creditor against the debtor, paraphrases the rule of SC Code Section 69‑208.

Section 7‑210(8) makes it clear that the warehouseman may elect to employ either the liberal sale procedure under subsection (1) or the traditional procedure under subsection (2) when the lien is on goods stored by a merchant in the course of his business. Since there is no authority under existing law to deviate from the formal procedure set out in the statute, there is no counterpart to this subsection.

Where the foreclosure sale was not conducted according to the statute, some case decisions in other jurisdictions held this to be a conversion (see cases cited under subsection (5) above). Subsection (9) would modify this rule by limiting the conversion liability to willful violations. Otherwise the warehouseman is liable for actual damages resulting from an improper sale. Thus, while the innocent purchaser will prevail under subsection (5) (and thus would presumably be more inclined to bid), the depositor may look to the warehouseman for redress when the sale is not properly conducted.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Disposition of goods in lawful enforcement of lien as excusing bailee’s obligation to deliver, see Section 36‑7‑403.

Enforcement of carrier’s lien, see Section 36‑7‑308.

Liens generally, see Title 29.

Termination of storage at warehouse’s option, see Section 36‑7‑206.

LIBRARY REFERENCES

Warehousemen 33.

WESTLAW Topic No. 403.

C.J.S. Warehousemen and Safe Depositaries Section 69.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Warehouses Section 1 , Introductory Comments.

Am. Jur. Pl. & Pr. Forms Warehouses Section 32 , Introductory Comments.

Part 3

Bills of Lading: Special Provisions

**SECTION 36‑7‑301.** Liability for nonreceipt or misdescription; “said to contain”; “shipper’s weight, load, and count”; improper handling.

(a) A consignee of a nonnegotiable bill of lading which has given value in good faith, or a holder to which a negotiable bill has been duly negotiated, relying in either case upon the description of the goods in the bill or upon the date shown in the bill, may recover from the issuer damages caused by the misdating of the bill or the nonreceipt or misdescription of the goods, except to the extent that the bill of lading indicates that the issuer does not know whether any part or all of the goods in fact were received or conform to the description, such as in a case in which the description is in terms of marks or labels or kind, quantity, or condition or the receipt or description is qualified by “contents or condition of contents of packages unknown,” “said to contain,” “shipper’s weight, load and count” or words of similar import, if that indication is true.

(b) If goods are loaded by the issuer of a bill of lading:

(1) the issuer shall count the packages of goods if shipped in packages and ascertain the kind and quantity if shipped in bulk; and

(2) words such as “shipper’s weight, load and count” or other words of similar import indicating that the description was made by the shipper are ineffective except as to goods concealed by packages.

(c) If bulk goods are loaded by a shipper that makes available to the issuer of a bill of lading adequate facilities for weighing those goods, the issuer shall ascertain the kind and quantity within a reasonable time after receiving the shipper’s request in a record to do so. In that case “shipper’s weight” or words of similar import are ineffective.

(d) The issuer of a bill of lading, by including in the bill the words “shipper’s weight, load and count” or of similar import, may indicate that the goods were loaded by the shipper, and if that statement is true, the issuer is not liable for damages caused by the improper loading. However, omission of those words does not imply liability for damages caused by improper loading.

(e) A shipper guarantees to e an issuer the accuracy at the time of shipment of the description, marks, labels, number, kind, quantity, condition and weight, as furnished by the shipper; and the shipper shall indemnify the issuer against damage caused by inaccuracies in those particulars. This right of indemnity does not limit the issuer’s responsibility or liability under the contract of carriage to any person other than the shipper.

HISTORY: 1962 Code Section 10.7‑301; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑301.

Changes: Changes for clarity, style and to recognize deregulation in the transportation industry.

Purposes:

1. This section continues the rules from former Section 7‑301 with one substantive change. The obligations of the issuer of the bill of lading under former subsections (2) and (3) were limited to issuers who were common carriers. Subsections (b) and (c) apply the same rules to all issuers not just common carriers. This section is compatible with the policies stated in the federal Bills of Lading Act, 49 U.S.C. Section 80113 (2000).

2. The language of the pre‑Code Uniform Bills of Lading Act suggested that a carrier is ordinarily liable for damage caused by improper loading, but may relieve itself of liability by disclosing on the bill that shipper actually loaded. A more accurate statement of the law is that the carrier is not liable for losses caused by act or default of the shipper, which would include improper loading. D. H. Overmyer Co. v. Nelson Brantley Glass Go., 168 S.E.2d 176 (Ga. Ct. App. 1969). There was some question whether under pre‑Code law a carrier was liable even to a good faith purchaser of a negotiable bill for such losses, if the shipper’s faulty loading in fact caused the loss. Subsection (d) permits the carrier to bar, by disclosure of shipper’s loading, liability to a good faith purchaser. There is no implication that decisions such as Modern Tool Corp. v. Pennsylvania R. Co., 100 F.Supp. 595 (D.N.J.1951), are disapproved.

3. This section is a restatement of existing law as to the method by which a bailee may avoid responsibility for the accuracy of descriptions which are made by or in reliance upon information furnished by the depositor or shipper. The wording in this section‑”contents or condition of contents of packages unknown” or “shipper’s weight, load and count”‑to indicate that the shipper loaded the goods or that the carrier does not know the description, condition, or contents of the loaded packages continues to be appropriate as commonly understood in the transportation industry. The reasons for this wording are as important in 2002 as when the prior section initially was approved. The issuer is liable on documents issued by an agent, contrary to instructions of his principal, without receiving goods. No disclaimer of this liability is permitted since it is not a matter either of the care of the goods or their description.

4. The shipper’s erroneous report to the carrier concerning the goods may cause damage to the carrier. Subsection (e) therefore provides appropriate indemnity.

5. The word “freight” in the former Section 7‑301 has been changed to “goods” to conform to international and domestic land transport usage in which “freight” means the price paid for carriage of the goods and not the goods themselves. Hence, changing the word “freight” to the word “goods” is a clarifying change that fits both international and domestic practice.

Cross References: Sections 7‑203, 7‑309 and 7‑501.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Consignee”. Section 7‑102.

“Document of Title”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Holder”. Section 1‑201.

“Issuer”. Section 7‑102.

“Notice”. Section 1‑202.

“Party”. Section 1‑201.

“Purchaser.” Section 1‑201.

“Receipt of Goods”. Section 2‑103.

“Value”. Section 1‑204.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑301(1) is similar to SC Code Section 58‑1741 in imposing liability on a carrier in favor of a consignee of a non‑negotiable bill or the holder of a negotiable bill for damages caused by non‑receipt or misdescription of the goods (See, Gleason v Bamberg E. & W. Ry., 124 SC 88, 117 SE 188 (1922)). Subsection (1) goes beyond the express language of the present statute by covering losses which accrue as a result of misdating. It has been held under the Uniform Act that misdating was not within the statutory provision covering the description of the goods and the holder could not recover the loss resulting from misdating (e.g., Browne v Union Pacific R. R., 113 Kan 726, 216 Pac 299 (1923)). As a result of this case, the Federal Bills of Lading Act was amended to cover the matter of misdating (49 USC Section 102). This change was not made, however, in the state uniform act.

The latter part of subsection (1) which permits an issuer to exonerate itself from liability for nonreceipt or nondescription is a restatement of the rule of SC Code Section 58‑1742.

When the goods are loaded by the issuer, the duty to count package freight and ascertain the kind and quantity of bulk freight under subsection (2) is similar to section 20 of the Federal Bills of Lading Act (49 USC Section 100). Both of these sections also state that terms indicating that the goods were loaded by the shipper shall be ineffective.

Section 7‑301(3) states the substance of the Federal Bills of Lading Act (49 USC Section 101) pertaining to the issuer’s duty to ascertain the kind and quantity of the goods to be shipped where the shipper makes available facilities for weighing such freight.

While there is no state law counterpart to subsection (2) and subsection (3), the similar rule of the Federal Act would govern all interstate shipments which constitute the vast majority of transactions today.

Section 73‑01(4) restates the rule of SC Code Section 58‑1742 permitting the carrier to disclaim liability where the goods are loaded by the shipper.

Section 7‑301(5) imposes absolute liability on the shipper for damages resulting to the carrier from inaccuracies of description, condition of the goods and the like. There is no comparable provision in the existing statute and no cases in this state on the point.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Issuer’s liability for damages caused by overissue or failure to identify duplicate document as such, see Section 36‑7‑402.

Liability of issuer of warehouse receipt for nonreceipt or misdescription of goods, see Section 36‑7‑203.

Obligation of bailee to deliver goods to person entitled thereto under document, see Section 36‑7‑403.

LIBRARY REFERENCES

Carriers 51, 52, 57.

Shipping 106(1) to 196(6).

WESTLAW Topic Nos. 70, 354.

C.J.S. Carriers Sections 390 to 392, 400, 402.

C.J.S. Shipping Sections 236, 247, 256 to 339, 341 to 400, 403 to 466, 468.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Uniform Commercial Code Section 7:88 , Introductory Comments.

**SECTION 36‑7‑302.** Through bills of lading and similar documents.

(a) The issuer of a through bill of lading or other document of title embodying an undertaking to be performed in part by a person acting as its agent or by a performing carrier is liable to anyone entitled to recover on the bill or other document for any breach by the other person or by the performing carrier of its obligation under the bill or other document. However, to the extent that the bill covers an undertaking to be performed overseas or in territory not contiguous to the continental United States or an undertaking including matters other than transportation, this liability for breach by the other party or the performing carrier may be varied by agreement of the parties.

(b) If goods covered by a through bill of lading or other document of title embodying an undertaking to be performed in part by a person other than the issuer are received by that person, the person is subject, with respect to its own performance while the goods are in its possession, to the obligation of the issuer. The person’s obligation is discharged by delivery of the goods to another person pursuant to the bill or other document, and does not include liability for breach by any other persons or by the issuer.

(c) The issuer of a through bill of lading or other document of title described in subsection (a) is entitled to recover from the performing carrier or other person in possession of the goods when the breach of the obligation under the bill or other document occurred:

(1) the amount it may be required to pay to any person entitled to recover on the bill or other document for the breach, as may be evidenced by any receipt, judgment, or transcript of judgment; and

(2) the amount of any expense reasonably incurred by the issuer in defending any action commenced by any person entitled to recover on the bill or other document for the breach.

HISTORY: 1962 Code Section 10.7‑302; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑302.

Changes: To conform to current terminology and for style.

Purposes:

1. This section continues the rules from former Section 7‑302 without substantive change. The term “performing carrier” is substituted for the term “connecting carrier” to conform the terminology of this section with terminology used in recent UNCITRAL and OAS proposals concerning transportation and through bills of lading. This change in terminology is not substantive. This section is compatible with liability on carriers under federal law. See 49 U.S.C. Sections 11706, 14706 and 15906.

The purpose of this section is to subject the initial carrier under a through bill to suit for breach of the contract of carriage by any performing carrier and to make it clear that any such performing carrier holds the goods on terms which are defined by the document of title even though such performing carrier did not issue the document. Since the performing carrier does hold the goods on the terms of the document, it must honor a proper demand for delivery or a diversion order just as the original bailee would have to. Similarly it has the benefits of the excuses for non‑delivery and limitations of liability provided for the original bailee who issued the bill. Unlike the original bailee‑issuer, the performing carrier’s responsibility is limited to the period while the goods are in its possession. The section does not impose any obligation to issue through bills.

2. The reference to documents other than through bills looks to the possibility that multi‑purpose documents may come into use, e.g., combination warehouse receipts and bills of lading. As electronic documents of title come into common usage, storage documents (e.g. warehouse receipts) and transportation documents (e.g. bills of lading) may merge seamlessly into one electronic document that can serve both the storage and transportation segments of the movement of goods.

3. Under subsection (a) the issuer of a through bill of lading may become liable for the fault of another person. Subsection (c) gives the issuer appropriate rights of recourse.

4. Despite the broad language of subsection (a), Section 7‑302 is subject to preemption by federal laws and treaties. Section 7‑103. The precise scope of federal preemption in the transportation sector is a question determined under federal law.

Cross reference: Section 7‑103

Definitional Cross References:

“Agreement”. Section 1‑201.

“Bailee”. Section 7‑102.

“Bill of lading”. Section 1‑201.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Goods”. Section 7‑102.

“Issuer”. Section 7‑102.

“Party”. Section 1‑201.

“Person”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑302 is patterned after the Cormack Amendment to the Interstate Commerce Act (49 USCA, Section 20 (11)) in defining the duties and liabilities of a carrier transporting goods under a through bill of lading. Similar to the Federal Act, subsection (1) makes the initial carrier responsible to the holder for any damage to the property caused by a connecting carrier as well as for damage done by itself. The initial carrier’s liability is extended beyond the federal act to include liability to acts of other “persons acting as its agents”; such other persons might, for example, include warehousemen. See Smith v Southern Ry., 89 SC 415, 71 SE 989 (1911) holding that a connecting carrier could not be deemed an agent of the initial‑issuing carrier by declaration in the bill that such relation exists.

Section 7‑302(2) limits the connecting carrier’s liability to damages while the goods are in his possession. This is consistent with the law in other jurisdictions which have passed on this point. See 4 Williston, Contracts, Section 1105 (3rd ed 1936).

Section 7‑302(3) gives to the issuer a right over against the carrier on whose line the damage is sustained. This is similar to the Federal Act. (49 USC Section 20(12)).

This section will have little practical importance since the factual situation involved where a through bill of lading is issued, is usually an interstate shipment in which case the similar federal law will control. In the few intrastate shipments, this section would bring the rules applicable in line with the federal law.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

LIBRARY REFERENCES

Carriers 54.1, 57, 61, 172.

Shipping 106(1) to 106(6).

WESTLAW Topic Nos. 70, 354.

C.J.S. Aeronautics and Aerospace Section 230.

C.J.S. Carriers Sections 392, 398, 400, 402, 460.

C.J.S. Shipping Sections 256 to 265.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Carriers Section 52, Connecting Carriers.

**SECTION 36‑7‑303.** Diversion; reconsignment; change of instructions.

(a) Unless the bill of lading otherwise provides, a carrier may deliver the goods to a person or destination other than that stated in the bill or may otherwise dispose of the goods, without liability for misdelivery, on instructions from:

(1) the holder of a negotiable bill;

(2) the consignor on a nonnegotiable bill, even if the consignee has given contrary instructions;

(3) the consignee on a nonnegotiable bill in the absence of contrary instructions from the consignor, if the goods have arrived at the billed destination or if the consignee is in possession of the tangible bill or in control of the electronic bill; or

(4) the consignee on a nonnegotiable bill, if the consignee is entitled as against the consignor to dispose of the goods.

(b) Unless instructions described in subsection (a) are included in a negotiable bill of lading, a person to which the bill is duly negotiated may hold the bailee according to the original terms.

HISTORY: 1962 Code Section 10.7‑303; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑303.

Changes: To accommodate electronic documents and for style.

Purposes:

1. Diversion is a very common commercial practice which defeats delivery to the consignee originally named in a bill of lading. This section continues former Section 7‑303’s safe harbor rules for carriers in situations involving diversion and adapts those rules to electronic documents of title. This section works compatibly with Section 2‑705. Carriers may as a business matter be willing to accept instructions from consignees in which case the carrier will be liable for misdelivery if the consignee was not the owner or otherwise empowered to dispose of the goods under subsection (a)(4). The section imposes no duty on carriers to undertake diversion. The carrier is of course subject to the provisions of mandatory filed tariffs as provided in Section 7‑103.

2. It should be noted that the section provides only an immunity for carriers against liability for “misdelivery.” It does not, for example, defeat the title to the goods which the consignee‑buyer may have acquired from the consignor‑seller upon delivery of the goods to the carrier under a non‑negotiable bill of lading. Thus if the carrier, upon instructions from the consignor, returns the goods to the consignor, the consignee may recover the goods from the consignor or the consignor’s insolvent estate. However, under certain circumstances, the consignee’s title may be defeated by diversion of the goods in transit to a different consignee. The rights that arise between the consignor‑seller and the consignee‑buyer out of a contract for the sale of goods are governed by Article 2.

Cross References:

Point 1: Sections 2‑705 and 7‑103.

Point 2: Article 2, Sections 7‑403 and 7‑504(3).

Definitional Cross References:

“Bailee”. Section 7‑102.

“Bill of lading”. Section 1‑201.

“Carrier”. Section 7‑102.

“Consignee”. Section 7‑102.

“Consignor”. Section 7‑102.

“Delivery”. Section 1‑201.

“Goods”. Section 7‑102.

“Holder”. Section 1‑201.

“Notice”. Section 1‑202.

“Person”. Section 1‑201.

“Purchaser”. Section 1‑201.

“Term”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

When goods are in transit under a bill of lading, it is often necessary or desirable for the shipment to be diverted or reconsigned. In order for the carrier to act in diverting the goods to a new destination, it needs to know who is authorized to give such instructions. Under existing law, the carrier is under a duty to deliver to the person entitled under the documents. SC Code Section 58‑1731. See Patterson v American Railway Express Co., 129 SC 226, 123 SE 844 (1924) holding that a carrier is not liable to the consignee of a straight bill of lading for obeying the order of the consignor to divert the shipment to another where the consignor had sold the goods under a title retention contract, such fact constituting a “lawful excuse” for failure to deliver. If conflicting instructions are received, the carrier is protected only if it is to “a person lawfully entitled to the possession of the goods”. SC Code Section 58‑1732. This means that the carrier must either delay action until the conflicting claims are resolved or determine at his peril who is “lawfully entitled”. (The Uniform statute may have changed the common law rule of Monaghan Mills v Gilbreath Manufacturing Co., 96 SC 195, 80 SE 194 (1913) and Faust v. Southern R. R., 74 SC 360, 54 SE 566 (1906) which indicate that the carrier is not bound to know whether the consignor is exercising his right to stop delivery upon proper and legal grounds or not.).

Section 7‑303 is designed to enable the carrier to act more speedily when it receives orders to reconsign or divert by making it clear exactly which parties are entitled to give such orders. Under subsection (1)(a), if the bill of lading is negotiable, only the holder is entitled to order a reconsignment or diversion. This would not seem to change existing law since SC Code Section 58‑1732 provides that a carrier is justified in delivering goods to a holder of a negotiable bill. Note that under subsection (2) the carrier must mark the change of instructions on the bill of lading to protect subsequent purchasers.

As to non‑negotiable bills, under subsection (1)(d) the carrier may still, as under prior law, obey the consignee and take the risk that he may not be entitled to the goods. The important change in existing law is provided by subsection (1)(b) in permitting obedience to the consignor’s instructions even in cases of conflicting instructions from the consignee. And even in the absence of conflicting instructions, subsection (1)(c) fully protects the carrier who obeys the consignee only “if the goods have arrived at the billed destination or if the consignee is in possession of the bill.”

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Duty of bailee to deliver goods to person entitled thereto under document, see Section 36‑7‑403.

Effect of consignor’s diversion or change of shipping instructions, see Section 36‑7‑504.

LIBRARY REFERENCES

Carriers 86, 93.

Shipping 112, 113.

WESTLAW Topic Nos. 70, 354.

C.J.S. Aeronautics and Aerospace Section 230.

C.J.S. Carriers Sections 408, 410.

C.J.S. Shipping Sections 266 to 274.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Carriers Section 46, Custody and Control of Goods.

**SECTION 36‑7‑304.** Tangible bills of lading in a set.

(a) Except as customary in international transportation, a tangible bill of lading shall not be issued in a set of parts. The issuer is liable for damages caused by violation of this subsection.

(b) If a tangible bill of lading is lawfully issued in a set of parts, each of which contains an identification code and is expressed to be valid only if the goods have not been delivered against any other part, the whole of the parts constitutes one bill.

(c) If a tangible bill of lading is lawfully issued in a set of parts and different parts are negotiated to different persons, the title of the holder to which the first due negotiation is made prevails as to both the document of title and the goods even if any later holder may have received the goods from the carrier in good faith and discharged the carrier’s obligation by surrender of its part.

(d) A person that negotiates or transfers a single part of a tangible bill of lading issued in a set is liable to holders of that part as if it were the whole set.

(e) The bailee shall deliver in accordance with Part 4 of this chapter against the first presented part of a tangible bill of lading lawfully issued in a set. Delivery in this manner discharges the bailee’s obligation on the whole bill.

HISTORY: 1962 Code Section 10.7‑304; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑304.

Changes: To limit bills in a set to tangible bills of lading and to use terminology more consistent with modern usage.

Purposes:

1. Tangible bills of lading in a set are still used in some nations in international trade. Consequently, a tangible bill of lading part of a set could be at issue in a lawsuit that might come within Article 7. The statement of the legal effect of a lawfully issued set is in accord with existing commercial law relating to maritime and other international tangible bills of lading. This law has been codified in the Hague and Warsaw Conventions and in the Carriage of Goods by Sea Act, the provisions of which would ordinarily govern in situations where bills in a set are recognized by this Article. Tangible bills of lading in a set are prohibited in domestic trade.

2. Electronic bills of lading in domestic or international trade will not be issued in a set given the requirements of control necessary to deliver the bill to another person. An electronic bill of lading will be a single, authoritative copy. Section 7‑106. Hence, this section differentiates between electronic bills of lading and tangible bills of lading. This section does not prohibit electronic data messages about goods in transit because these electronic data messages are not the issued bill of lading. Electronic data messages contain information for the carrier’s management and handling of the cargo but this information for the carrier’s use is not the issued bill of lading.

Cross Reference: Section 7‑103, 7‑303 and 7‑106.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Bill of lading”. Section 1‑201.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Holder”. Section 1‑201.

“Issuer”. Section 7‑102.

“Person”. Section 1‑201.

“Receipt of goods”. Section 2‑103.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑304(1) follows SC Code Section 58‑1715 in prohibiting the issuance of a bill of lading in parts or sets, i.e., the issuance of a number of originals covering the same goods. This practice is considered mischievous since it is a direct invitation to fraud. Furthermore, it is unnecessary since copies can be sent to the consignee and retained by the carrier for his records, and if the original document is lost or destroyed, the copy will furnish evidence of its terms. This is the usual practice today with the original bill of lading and the copies specifically worded as such. See, 4 Williston, Contracts Section 1086 (Rev ed 1936). This section also follows the existing statute in treating the issuance of bills in sets like any other overissue rendering the carrier liable for failure to deliver the goods described in the bill to anyone who purchases it. See Gleason v Bamberg E. & W. Ry. Co., 124 SC 88, 117 SE 188 (1923) where a carrier was held liable to the holder of a duplicate‑original bill mistakenly issued by the carrier.

Since it is common European practice for carriers to issue bills of lading in a set of parts, subsection (1) makes a concession to such custom in overseas transportation.

In the unusual situation where a bill of lading is lawfully drawn in a set of parts, this section states, as a matter of new statutory coverage, a rule of law which protects the carrier who delivers the goods against the first part presented. As between several persons to whom different parts are negotiated, the one to whom the first due negotiation of a part has been made is deemed to be the real owner of all the parts. Thus, he could reach the goods obtained from the carrier by a holder who took his part of the set subsequently but who first presented it. These rules seem to be in accord with what little decisional law there is. See, 4 Williston, Contracts Section 1086 (Rev ed 1936).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Bailee’s obligation to deliver, see Section 36‑7‑403.

Negotiation of documents of title, see Section 36‑7‑501.

Rights under document of title purporting to cover goods already represented by outstanding document, see Section 36‑7‑402.

LIBRARY REFERENCES

Carriers 49, 51.

Shipping 106(1, 3.1).

WESTLAW Topic Nos. 70, 354.

C.J.S. Carriers Sections 390, 402.

C.J.S. Shipping Sections 256 to 257, 261 to 265.

**SECTION 36‑7‑305.** Destination bills.

(a) Instead of issuing a bill of lading to the consignor at the place of shipment, a carrier, at the request of the consignor, may procure the bill to be issued at destination or at any other place designated in the request.

(b) Upon request of any person entitled as against a carrier to control the goods while in transit and on surrender of possession or control of any outstanding bill of lading or other receipt covering the goods, the issuer, subject to Section 36‑7‑105, may procure a substitute bill to be issued at any place designated in the request.

HISTORY: 1962 Code Section 10.7‑305; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑305.

Changes: To accommodate electronic bills of lading and for style.

Purposes:

1. Subsection (a) continues the rules of former Section 7‑305(1) without substantive change. This proposal is designed to facilitate the use of order bills in connection with fast shipments. Use of order bills on high speed shipments is impeded by the fact that the goods may arrive at destination before the documents, so that no one is ready to take delivery from the carrier. This is especially inconvenient for carriers by truck and air, who do not have terminal facilities where shipments can be held to await the consignee’s appearance. Order bills would be useful to take advantage of bank collection. This may be preferable to C.O.D. shipment in which the carrier, e.g. a truck driver, is the collecting and remitting agent. Financing of shipments under this plan would be handled as follows: seller at San Francisco delivers the goods to an airline with instructions to issue a bill in New York to a named bank. Seller receives a receipt embodying this undertaking to issue a destination bill. Airline wires its New York freight agent to issue the bill as instructed by the seller. Seller wires the New York bank a draft on buyer. New York bank indorses the bill to buyer when the buyer honors the draft. Normally seller would act through its own bank in San Francisco, which would extend credit in reliance on the airline’s contract to deliver a bill to the order of its New York correspondent. This section is entirely permissive; it imposes no duty to issue such bills. Whether a performing carrier will act as issuing agent is left to agreement between carriers.

2. Subsection (b) continues the rule from former Section 7‑305(2) with accommodation for electronic bills of lading. If the substitute bill changes from an electronic to a tangible medium or vice versa, the issuance of the substitute bill must comply with Section 7‑105 to give the substitute bill validity and effect.

Cross Reference: Section 7‑105.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Consignor”. Section 7‑102.

“Goods”. Section 7‑102.

“Issuer”. Section 7‑102.

“Receipt of goods”. Section 2‑103.

SOUTH CAROLINA REPORTER’S COMMENTS

Traditionally, the bill of lading is issued at the point of shipment and only after the goods have been received by the carrier. With modern high speed air and truck transportation, the goods may arrive at the destination before the documents in which case the buyer will not be able to take them since the carrier cannot deliver without production and surrender of the order bill of lading. This can be inconvenient for the carrier who must provide storage facilities and even more serious when the goods are perishable. Furthermore, the seller may not be able to use the practical device of shipping under reservation (the collection device of a sight draft drawn on the buyer for the price with an order bill of lading attached) when the documents do not arrive in advance of the goods.

Section 7‑305(1) invents and authorizes the use of a destination bill to solve this problem. Under this section, the carrier, if it is agreeable to the shipper, may wire his freight agent at the point of destination to issue a bill of lading to the buyer. If the transaction is a typical sale against documents, the carrier’s instructions will be to issue the bill to the buyer’s bank to be surrendered to the buyer upon honor of the draft representing the purchase price. In the meantime, the seller wires the buyer’s bank a draft on the buyer which when honored entitles him to possession of the bill and thus the goods.

Section 7‑305(2) extends the use of the destination bill by authorizing the carrier to issue a destination bill while the goods are in transit after the issuance of a bill of lading upon the request of the person entitled to control the goods and upon surrender of the outstanding bill of lading.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

LIBRARY REFERENCES

Carriers 49, 51.

Shipping 106(1, 3.1).

WESTLAW Topic Nos. 70, 354.

C.J.S. Carriers Sections 390, 402.

C.J.S. Shipping Sections 256 to 257, 261 to 265.

**SECTION 36‑7‑306.** Altered bills of lading.

An unauthorized alteration or filling in of a blank in a bill of lading leaves the bill enforceable according to its original tenor.

HISTORY: 1962 Code Section 10.7‑306; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑306.

Changes: None

Purposes:

An unauthorized alteration or filling in of a blank, whether made with or without fraudulent intent, does not relieve the issuer of its liability on the document as originally executed. This section applies to both tangible and electronic bills of lading, applying the same rule to both types of bills of lading. The control concept of Section 7‑106 requires that any changes to the electronic document of title be readily identifiable as authorized or unauthorized. Section 7‑306 should be compared to Section 7‑208 where a different rule applies to the unauthorized filling in of a blank for tangible warehouse receipts.

Cross Reference: Sections 7‑106 and 7‑208.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Issuer”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑306 restates the rule of SC Code Section 58‑1720 that any alteration or addition after issue of a bill of lading is void but the bill is enforceable according to its original tenor. This rule is also similar to Commercial Code section 7‑208 with respect to unauthorized alteration of a warehouse receipt. Where there is an unauthorized filling in of a document issued in blank, this section would also limit the issuer’s liability on a bill of lading to the authorized terms while under Commercial Code Section 7‑208 the warehouseman is liable to a purchaser for value according to the instrument as completed regardless of authority. The favorable treatment accorded to the issue of a bill of lading may be justified by the fact that carriers must frequently issue the bill in blank to be completed by truck drivers and other agents away from the office. On the other hand, there is usually no compelling reason for the warehouseman to issue receipts in blank and they are invariably issued by one who should be sufficiently sophisticated to know that blank receipts are dangerous. See, Braucher, Documents of Title, 21 (1955).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

LIBRARY REFERENCES

Alteration of Instruments 15, 16.

Carriers 49.

Shipping 106(1).

WESTLAW Topic Nos. 25, 70, 354.

C.J.S. Alteration of Instruments Sections 6 to 7, 15 to 18, 51, 54 to 55.

C.J.S. Carriers Sections 390, 402.

C.J.S. Shipping Sections 256 to 257.

**SECTION 36‑7‑307.** Lien of carrier.

(a) A carrier has a lien on the goods covered by a bill of lading or on the proceeds thereof in its possession for charges after the date of the carrier’s receipt of the goods for storage or transportation, including demurrage and terminal charges, and for expenses necessary for preservation of the goods incident to their transportation or reasonably incurred in their sale pursuant to law. However, against a purchaser for value of a negotiable bill of lading, a carrier’s lien is limited to charges stated in the bill or the applicable tariffs or, if no charges are stated, then to a reasonable charge.

(b) A lien for charges and expenses under subsection (a) on goods that the carrier was required by law to receive for transportation is effective against the consignor or any person entitled to the goods unless the carrier had notice that the consignor lacked authority to subject the goods to those charges and expenses. Any other lien under subsection (a) is effective against the consignor and any person that permitted the bailor to have control or possession of the goods unless the carrier had notice that the bailor lacked authority.

(c) A carrier loses its lien on any goods that it voluntarily delivers or unjustifiably refuses to deliver.

HISTORY: 1962 Code Section 10.7‑307; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑307.

Changes: Expanded to cover proceeds of the goods transported.

Purposes:

1. The section is intended to give carriers a specific statutory lien for charges and expenses similar to that given to warehouses by the first sentence of Section 7‑209(a) and extends that lien to the proceeds of the goods as long as the carrier has possession of the proceeds. But because carriers do not commonly claim a lien for charges in relation to other goods or lend money on the security of goods in their hands, provisions for a general lien or a security interest similar to those in Section 7‑209(a) and (b) are omitted. Carriers may utilize Article 9 to obtain a security interest and become a secured party or a carrier may agree to limit its lien rights in a transportation agreement with the shipper. As the lien given by this section is specific, and the storage or transportation often preserves or increases the value of the goods, subsection (b) validates the lien against anyone who permitted the bailor to have possession of the goods. Where the carrier is required to receive the goods for transportation, the owner’s interest may be subjected to charges and expenses arising out of deposit of his goods by a thief. The crucial mental element is the carrier’s knowledge or reason to know of the bailor’s lack of authority. If the carrier does not know or have reason to know of the bailor’s lack of authority, the carrier has a lien under this section against any person so long as the conditions of subsection (b) are satisfied. In light of the crucial mental element, Sections 7‑307 and 9‑333 combine to give priority to a carrier’s lien over security interests in the goods. In this regard, the judicial decision in In re Sharon Steel Corp., 25 U.C.C. Rep.2d 503, 176 B.R. 384 (W.D. Pa. 1995) is correct and is the controlling precedent.

2. The reference to charges in this section means charges relating to the bailment relationship for transportation. Charges does not mean that the bill of lading must state a specific rate or a specific amount. However, failure to state a specific rate or a specific amount has legal consequences under the second sentence of subsection (a).

3. The carrier’s specific lien under this section is a possessory lien. See subsection (c). Part 3 of Article 7 does not require any particular form for a bill of lading. The carrier’s lien arises when the carrier has issued a bill of lading.

Cross References:

Point 1: Sections 7‑209, 9‑109 and 9‑333.

Point 3. Section 7‑202 and 7‑209.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Carrier”. Section 7‑102.

“Consignor”. Section 7‑102.

“Delivery”. Section 1‑201.

“Goods”. Section 7‑102.

“Person”. Section 1‑201.

“Purchaser”. Section 1‑201.

“Value”. Section 1‑204.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑307(1) creates a statutory lien in favor of a carrier for charges due. This is new as a matter of statutory coverage since the Uniform Bills of Lading Act, unlike the Uniform Warehouse Receipts Act (SC Code Section 69‑200), does not expressly provide for such a lien. Although it seems to be assumed that such a lien exists in SC Code Section 58‑1745. In any event, a common law lien in favor of a common carrier for its freight charges has long been recognized. See, Brown, Personal Property Section 113 (2d ed 1955); Miami Power Co. v Port Royal & Western Carolina Ry., 47 SC 324, 25 SE 153 (1896); Ewart v Kerr, 2 McMull 141 (1842).

In contrast with Commercial Code Section 7‑209, which allows a warehouseman to claim a general lien and also to reserve a security interest for charges for money advanced, as well as the automatic special lien, subsection (1) grants the carrier only a specific possessory lien. The limitation of the carrier’s lien to a specific and not a general one is the common law rule (see, Brown, Personal Property Section 113 (2d ed 1955)) and has been said to be justified on the ground that carriers are commonly bound by published charges are not free to make special arrangements with particular shippers. (See, Braucher, Documents of Title, 42 (1955)).

The inclusion of demurrage (charge allowed to the carrier as compensation for loss due to an unreasonable delay in removing the goods from the cars in which transported) as part of the charges for which a lien may be claimed resolves a conflict of common law in favor of the majority view. Contra, Nicolette Lumber Co. v Peoples Coal Co., 213 Pa 379, 62 Atl 1060 (1906). Also, SC Code Section 58‑1745 recognizes demurrage as a proper charge for which a lien may be claimed.

The last sentence of subsection (1) permitting the purchaser for value of negotiable bill to cut out the carrier’s lien unless the charge is claimed by the carrier or listed in the bill or in applicable tariffs, is consistent with SC Code Section 58‑1745.

The general common law rule is that no person can acquire a lien interest in goods unless the owner or his authorized agent consents to the bailment. Thus a lien for transportation is valid only if the owner authorized and requested the transportation, or is precluded from asserting the lack of authority. See, Brown, Personal Property, Section 111 (2d ed 1955). Subsection (2) would modify this rule by allowing a lien for charges on goods which the carrier was required by law to accept regardless of authorization from the owner so long as the carrier does not have knowledge of lack of authority. In such a case a valid lien attaches even when goods are shipped by a thief. With respect to goods not required to be accepted by the carrier, the lien is good only against persons “who permitted the bailor to have control or possession of the goods”. It would seem under this rule that a wrongdoing mortgagor could subordinate a duly recorded mortgage to the carrier’s lien since the lien is defeated only if the bailee had knowledge of the lack of the consignor’s authority. This would resolve a conflict in the decisions at common law. See, Brown, Personal Property Section 112 (2d ed 1955).

Section 7‑307(3) is identical to Commercial Code Section 7‑209(4) and follows the general rule that a possessory lien is lost upon surrender by the lienor of possession of the goods.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Application of statute governing secured transactions to security interests created by lien, see Section 36‑9‑109.

Carriers generally, see Title 58.

Priority of liens for services or materials with respect to goods subject to security interest, see Section 36‑9‑333.

Warehousemen’s lien, see Section 36‑7‑209.

LIBRARY REFERENCES

Carriers 197(1, 3).

Shipping 154.

WESTLAW Topic Nos. 70, 354.

C.J.S. Aeronautics and Aerospace Sections 230, 232.

C.J.S. Carriers Sections 484, 486.

C.J.S. Shipping Sections 377 to 378.

RESEARCH REFERENCES

ALR Library

45 ALR 5th 227 , Validity, Construction, and Application of State Statute Giving Carrier Lien on Goods for Transportation and Incidental Storage Charges.

Encyclopedias

S.C. Jur. Carriers Section 16, Other Regulation.

NOTES OF DECISIONS

Review 1

1. Review

In an action to recover detention, yard and storage charges on five trailers, a trial judge’s order granting a new trial was not an abuse of discretion amounting to an error of law since there was a question concerning a lien on the trailers under Section 36‑7‑307, and since the judge was of the opinion that the jury’s verdict was contrary to the evidence and the law. Southern Ry. Co. v. Coltex, Inc. (S.C.App. 1984) 282 S.C. 321, 318 S.E.2d 284, certiorari granted 284 S.C. 365, 326 S.E.2d 649, quashed 285 S.C. 213, 329 S.E.2d 736.

**SECTION 36‑7‑308.** Enforcement of carrier’s lien.

(a) A carrier’s lien on goods may be enforced by public or private sale of the goods, in bulk or in packages, at any time or place and on any terms that are commercially reasonable, after notifying all persons known to claim an interest in the goods. The notification must include a statement of the amount due, the nature of the proposed sale, and the time and place of any public sale. The fact that a better price could have been obtained by a sale at a different time or in a method different from that selected by the carrier is not of itself sufficient to establish that the sale was not made in a commercially reasonable manner. The carrier sells goods in a commercially reasonable manner if the carrier sells the goods in the usual manner in any recognized market therefor, sells at the price current in that market at the time of the sale, or otherwise sells in conformity with commercially reasonable practices among dealers in the type of goods sold. A sale of more goods than apparently necessary to be offered to ensure satisfaction of the obligation is not commercially reasonable, except in cases covered by the preceding sentence.

(b) Before any sale pursuant to this section, any person claiming a right in the goods may pay the amount necessary to satisfy the lien and the reasonable expenses incurred in complying with this section. In that event, the goods shall not be sold, but must be retained by the carrier, subject to the terms of the bill and this chapter.

(c) A carrier may buy at any public sale pursuant to this section.

(d) A purchaser in good faith of goods sold to enforce a carrier’s lien takes the goods free of any rights of persons against which the lien was valid, despite the carrier’s noncompliance with this section.

(e) A carrier may satisfy its lien from the proceeds of any sale pursuant to this section but must hold the balance, if any, for delivery on demand to any person to which the carrier would have been bound to deliver the goods.

(f) The rights provided by this section are in addition to all other rights allowed by law to a creditor against a debtor.

(g) A carrier’s lien may be enforced pursuant to either subsection (a) or the procedure set forth in subsection (b) of Section 36‑7‑210.

(h) A carrier is liable for damages caused by failure to comply with the requirements for sale under this section, and in case of wilful violation, is liable for conversion.

HISTORY: 1962 Code Section 10.7‑308; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑308.

Changes: To conform language to modern usage and for style.

Purposes:

This section is intended to give the carrier an enforcement procedure of its lien coextensive with that given the warehouse in cases other than those covering noncommercial storage by the warehouse. See Section 7‑210 and comments.

Cross Reference: Section 7‑210.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Carrier”. Section 7‑102.

“Creditor”. Section 1‑201.

“Delivery”. Section 1‑201.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Notification”. Section 1‑202.

“Notifies”. Section 1‑202.

“Person”. Section 1‑201.

“Purchaser”. Section 1‑201.

“Rights”. Section 1‑201.

“Term”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

The present uniform statute does not contain any provisions regulating the enforcement of a carrier’s lien. This section follows the almost identical provisions of Commercial Code Section 7‑209 which in turn is a revision of SC Code Section 69‑206 regulating the enforcement of the warehouseman’s lien. See South Carolina Reporter’s Comments for a detail discussion of these rules.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Banking generally, see Title 34.

LIBRARY REFERENCES

Carriers 197(7).

Shipping 154.

WESTLAW Topic Nos. 70, 354.

C.J.S. Carriers Sections 485 to 486.

C.J.S. Shipping Sections 377 to 378.

**SECTION 36‑7‑309.** Duty of care; contractual limitation of carrier’s liability.

(a) A carrier that issues a bill of lading, whether negotiable or nonnegotiable, shall exercise the degree of care in relation to the goods which a reasonably careful person would exercise under similar circumstances. This subsection does not affect any statute, regulation, or rule of law that imposes liability upon a common carrier for damages not caused by its negligence.

(b) Damages may be limited by a term in the bill of lading or in a transportation agreement that the carrier’s liability shall not exceed a value stated in the bill or transportation agreement if the carrier’s rates are dependent upon value and the consignor is afforded an opportunity to declare a higher value and the consignor is advised of the opportunity. However, such a limitation is not effective with respect to the carrier’s liability for conversion to its own use.

(c) Reasonable provisions as to the time and manner of presenting claims and commencing actions based on the shipment may be included in a bill of lading or a transportation agreement.

HISTORY: 1962 Code Section 10.7‑309; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑309.

Changes: References to tariffs eliminated because of deregulation, adding reference to transportation agreements, and for style.

Purposes:

1. A bill of lading may also serve as the contract between the carrier and the bailor. Parties in their contract should be able to limit the amount of damages for breach of that contract including breach of the duty to take reasonable care of the goods. The parties cannot disclaim by contract the carrier’s obligation of care. Section 1‑302.

Federal statutes and treaties for air, maritime and rail transport may alter the standard of care. These federal statutes and treaties preempt this section when applicable. Section 7‑103. Subsection (a) does not impair any rule of law imposing the liability of an insurer on a common carrier in intrastate commerce. Subsection (b), however, applies to the common carrier’s liability as an insurer as well as to liability based on negligence. Subsection (b) allows the term limiting damages to appear either in the bill of lading or in the parties’ transportation agreement. Compare 7‑204(b). Subsection (c) allows the parties to agree to provisions regarding time and manner of presenting claims or commencing actions if the provisions are either in the bill of lading or the transportation agreement. Compare 7‑204(c). Transportation agreements are commonly used to establish agreed terms between carriers and shippers that have an on‑going relationship.

2. References to public tariffs in former Section 7‑309(2) and (3) have been deleted in light of the modern era of deregulation. See Comment 2 to Section 7‑103. If a tariff is required under state or federal law, pursuant to Section 7‑103(a), the tariff would control over the rule of this section. As governed by contract law, parties may incorporate by reference the limits on the amount of damages or the reasonable provisions as to the time and manner of presenting claims set forth in applicable tariffs, e.g. a maximum unit value beyond which goods are not taken or a disclaimer of responsibility for undeclared articles of extraordinary value.

3. As under former Section 7‑309(2), subsection (b) provides that a limitation of damages is ineffective if the carrier has converted the goods to its own use. A mere failure to redeliver the goods is not conversion to the carrier’s own use. “Conversion to its own use” is narrower than the idea of conversion generally. Art Masters Associates, Ltd. v. United Parcel Service, 77 N.Y.2d 200, 567 N.E.2d 226 (1990); See, Kemper Ins. Co. v. Fed. Ex. Corp., 252 F.3d 509 (1st Cir), cert. denied 534 U.S. 1020 (2001) (opinion interpreting federal law).

4. As used in this section, damages may include damages arising from delay in delivery. Delivery dates and times are often specified in the parties’ contract. See Section 7‑403.

Cross Reference: Sections 1‑302, 7‑103, 7‑204, 7‑403.

Definitional Cross References:

“Action”. Section 1‑201.

“Bill of lading”. Section 1‑201.

“Carrier”. Section 7‑102.

“Consignor”. Section 7‑102.

“Document of Title”. Section 1‑102.

“Goods”. Section 7‑102.

“Value”. Section 1‑204.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑309(1) restates the duty of carriers to exercise reasonable care in dealing with the goods. SC Code Section 58‑1713. Any law which imposes a higher responsibility than liability for negligence is expressly saved. This reference is to the extraordinary common law liability of the common carrier. See, Brown, Personal Property, Section 93 (2d ed 1955); 4 Williston, Contracts recognized this rule that a common carrier is liable as an insurer of the loss of goods intrusted to it unless such loss was caused by an act of God, a public enemy, some inherent defect in the goods, or the negligence of the shipper (e.g., Ewart v Street, 2 Bailey 157 (1831); Lucas v Garrett, 209 SC 521, 41 SE2d 212 (1947)).

Section 7‑309(2) permits a limitation of the amount of liability of carriers, by reference to a declared value of the goods deposited similar to Commercial Code Section 7‑204 with respect to warehousemen. While the rule under the Commercial Code (Section 1‑102(3)) as well as present law (SC Code Section 58‑1713) prohibits the carrier from contracting away his duty to exercise due care, the limitation of damages recoverable has been upheld where the shipper assents for consideration of reduced rates. See Southern Ry. v Kimball, 103 SC 365, 88 SE 14 (1951); Wise v Atlantic Coast Line Ry., 101 SC 510, 86 SE 22 (1915). This is also similar to the provisions under the federal act which established the validity of such “released value” in interstate rail transportation (49 USCA Section 20 (11)). Applied in White v Southern Ry., 208 SC 319, 38 SE2d 111 (1946).

Section 7‑309(3) is identical to Commercial Code Section 2‑204(3).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Absence of liability for good faith delivery of goods according to terms of document to title, etc., see Section 36‑7‑404.

Application of treaties, statutes, tariffs, and regulations, see Section 36‑7‑103.

Obligation of bailee to deliver goods to person entitled under document, see Section 36‑7‑403.

LIBRARY REFERENCES

Carriers 107, 147, 150, 153.

Shipping 119.1, 120, 131.

WESTLAW Topic Nos. 70, 354.

C.J.S. Aeronautics and Aerospace Sections 230, 239, 241, 244.

C.J.S. Carriers Sections 418, 421, 448, 451 to 454.

C.J.S. Shipping Sections 276 to 277, 279, 366.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Carriers Section 49, Loss of or Injury to Property.

S.C. Jur. Carriers Section 51, Limitation of Liability.

Part 4

Warehouse Receipts and Bills of Lading: General Obligations

**SECTION 36‑7‑401.** Irregularities in issue of receipt or bill or conduct of issuer.

The obligations imposed by this chapter on an issuer apply to a document of title even if:

(1) the document does not comply with the requirements of this chapter or of any other statute, rule, or regulation regarding its issue, form or content;

(2) the issuer violated laws regulating the conduct of its business;

(3) the goods covered by the document were owned by the bailee when the document was issued; or

(4) the person issuing the document is not a warehouse but the document purports to be a warehouse receipt.

HISTORY: 1962 Code Section 10.7‑401; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑401.

Changes: Changes for style only.

Purposes:

The bailee’s liability on its document despite non‑receipt or misdescription of the goods is affirmed in Sections 7‑203 and 7‑301. The purpose of this section is to make it clear that regardless of irregularities a document which falls within the definition of document of title imposes on the issuer the obligations stated in this Article. For example, a bailee will not be permitted to avoid its obligation to deliver the goods (Section 7‑403) or its obligation of due care with respect to them (Sections 7‑204 and 7‑309) by taking the position that no valid “document” was issued because it failed to file a statutory bond or did not pay stamp taxes or did not disclose the place of storage in the document. Tate v. Action Moving & Storage, Inc., 383 S.E.2d 229 (N.C. App. 1989), rev. denied 389 S.E.2d 104 (N.C. 1990). Sanctions against violations of statutory or administrative duties with respect to documents should be limited to revocation of license or other measures prescribed by the regulation imposing the duty. See Section 7‑103.

Cross References: Sections 7‑103, 7‑203, 7‑204, 7‑301, 7‑309.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Document of title”. Section 1‑201.

“Goods”. Section 7‑102.

“Issuer”. Section 7‑102.

“Person”. Section 1‑201.

“Warehouse receipt”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

If an instrument issued by a bailee of goods fails to comply with the formal requirements of a document of title, under existing law it would not be a warehouse receipt or bill of lading and thus the issuer may not be bound by the obligations imposed by the Uniform Acts. While Commercial Code Section 7‑202 prescribes certain formal prerequisites for a warehouse receipt, Section 7‑401(1) imposes the same obligation on an issuer even though one or more of these essential terms is absent. Of course, the instrument must at least be a “document which in the regular course of business or financing is treated as adequately evidencing that the person in possession of it is entitled to receive, hold and dispose of the document and the goods it covers” (definition of document of title in Commercial Code Section 7‑201(5)), in order to come within the coverage of this article.

As pointed out in the South Carolina Reporter’s Comments to Commercial Code Section 7‑201, “warehouseman” who may issue a warehouse receipt is defined as a person “lawfully” storing goods for hire. SC Code Section 69‑151(12). The inference that an instrument issued in violation of law is not such a document as would come within the statute would be rejected by the new definition of warehouseman in Commercial Code Section 7‑102(h) which omits the lawfulness requirement. This conclusion is expressly stated in Commercial Code Section 7‑401(b).

It was also pointed out in the comments to Commercial Code Section 7‑201 that the definition of warehouseman under existing law would preclude a person from warehousing his own goods. While this would also be true generally under Commercial Code Sections 7‑201 and 7‑102(h), subsection (c) of Commercial Code Section 7‑401 imposes all obligations of an issuer of a document of title upon a bailee of his own goods.

As stated above, a warehouse receipt could not be issued by a person who is not in the business of storing goods of others for profit. Subsection (d) makes it clear however, that the same obligations of a warehouseman are imposed on such a person.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Application of treaties, statutes, tariffs, and regulations, see Section 36‑7‑103.

Care required of carrier issuing bill of lading, see Section 36‑7‑309.

Liability of issuer of bill of lading for non‑receipt or misdescription of goods, see Section 36‑7‑301.

Liability of issuer of document of title for nonreceipt or misdescription of goods, see Section 36‑7‑203.

Liability of warehouseman for damages for loss of or injury to goods, see Section 36‑7‑204.

LIBRARY REFERENCES

Carriers 51.

Shipping 106(1).

Warehousemen 12, 13.

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Section 390.

C.J.S. Shipping Sections 256 to 257.

C.J.S. Warehousemen and Safe Depositaries Sections 16 to 17.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Uniform Commercial Code Section 7:135 , Introductory Comments.

**SECTION 36‑7‑402.** Duplicate document of title; overissue.

A duplicate or any other document of title purporting to cover goods already represented by an outstanding document of the same issuer does not confer any right in the goods, except as provided in the case of tangible bills of lading in a set of parts, overissue of documents for fungible goods, substitutes for lost, stolen or destroyed documents, or substitute documents issued pursuant to Section 36‑7‑105. The issuer is liable for damages caused by its overissue or failure to identify a duplicate document as such by conspicuous notation.

HISTORY: 1962 Code Section 10.7‑402; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑402.

Changes: Changes to accommodate electronic documents.

Purposes:

1. This section treats a duplicate which is not properly identified as a duplicate like any other overissue of documents: a purchaser of such a document acquires no title but only a cause of action for damages against the person that made the deception possible, except in the cases noted in the section. But parts of a tangible bill lawfully issued in a set of parts are not “overissue” (Section 7‑304). Of course, if the issuer has clearly indicated that a document is a duplicate so that no one can be deceived by it, and in fact the duplicate is a correct copy of the original, the issuer is not liable for preparing and delivering such a duplicate copy.

Section 7‑105 allows documents of title to be reissued in another medium. Re‑issuance of a document in an alternative medium under Section 7‑105 requires that the original document be surrendered to the issuer in order to make the substitute document the effective document. If the substitute document is not issued in compliance with section 7‑105, then the document should be treated as a duplicate under this section.

2. The section applies to nonnegotiable documents to the extent of providing an action for damages for one who acquires an unmarked duplicate from a transferor who knew the facts and would therefore have had no cause of action against the issuer of the duplicate. Ordinarily the transferee of a nonnegotiable document acquires only the rights of its transferor.

3. Overissue is defined so as to exclude the common situation where two valid documents of different issuers are outstanding for the same goods at the same time. Thus freight forwarders commonly issue bills of lading to their customers for small shipments to be combined into carload shipments for which the railroad will issue a bill of lading to the forwarder. So also a warehouse receipt may be outstanding against goods, and the holder of the receipt may issue delivery orders against the same goods. In these cases dealings with the subsequently issued documents may be effective to transfer title; e.g. negotiation of a delivery order will effectively transfer title in the ordinary case where no dishonesty has occurred and the goods are available to satisfy the orders. Section 7‑503 provides for cases of conflict between documents of different issuers.

Cross References:

Point 1: Sections 7‑105, 7‑207, 7‑304, and 7‑601.

Point 3: Section 7‑503.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Conspicuous”. Section 1‑201.

“Document of title”. Section 1‑201.

“Fungible goods.” Section 1‑201.

“Goods”. Section 7‑102.

“Issuer”. Section 7‑102.

“Right”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑402 in providing that the holder of an original document of title which symbolizes the goods cannot be divested of his property rights by the subsequent issue of a duplicate document issued by the same bailee covering the same goods, is consistent with SC Code Sections 58‑1755, 58‑1756, 69‑227 and 69‑228. In accord, Century Throwing Co. v Miller, 197 Fed 252 (3rd Cir 1912). The exceptions enumerated in this section are discussed in Commercial Code Sections 7‑304 (bills in a set), 7‑207 (overissue of documents for fungible goods), 7‑601 (substitutes for lost, stolen or destroyed documents).

In giving a right of damages against the issuer in favor of a transferee of any unmarked duplicate document, this section goes beyond present law which grants such right to a good faith purchaser of a negotiable document. SC Code Sections 69‑167, 58‑1716.

As pointed out in the official comments, this section would also change present law by creating a right of action for damages in favor of a transferee of a nonnegotiable document who acquires an unmarked duplicate from a transferor who knew the facts. Contra, Brock v Atteberry, 153 La 649, 96 So 505 (1923).

The application of this section is confined to documents covering the same goods issued by the same issuer. See Commercial Code Section 7‑503 for coverage of documents covering the same goods but not issued by the issuer.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Court’s order where document of title lost, stolen or destroyed, see Section 36‑7‑601.

Rights conferred against person having interest prior to issuance of document of title, see Section 36‑7‑503.

Rights under overissued warehouse receipts for commingled fungible goods, see Section 36‑7‑207.

Liability as to bill of lading drawn in set of parts, see Section 36‑7‑304.

LIBRARY REFERENCES

Carriers 51.

Shipping 106(1).

Warehousemen 12, 13.

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Section 390.

C.J.S. Shipping Sections 256 to 257.

C.J.S. Warehousemen and Safe Depositaries Sections 16 to 17.

**SECTION 36‑7‑403.** Obligation of bailee to deliver; excuse.

(a) A bailee shall deliver the goods to a person entitled under a document of title if the person complies with subsections (b) and (c), unless and to the extent that the bailee establishes any of the following:

(1) delivery of the goods to a person whose receipt was rightful as against the claimant;

(2) damage to or delay, loss, or destruction of the goods for which the bailee is not liable;

(3) previous sale or other disposition of the goods in lawful enforcement of a lien or on a warehouse’s lawful termination of storage;

(4) the exercise by a seller of its right to stop delivery pursuant to Section 36‑2‑705 or by a lessor of its right to stop delivery pursuant to Section 36‑2A‑526;

(5) a diversion, reconsignment, or other disposition pursuant to Section 36‑7‑303;

(6) release, satisfaction or any other personal defense against the claimant; or

(7) any other lawful excuse.

(b) A person claiming goods covered by a document of title shall satisfy the bailee’s lien if the bailee so requests or if the bailee is prohibited by law from delivering the goods until the charges are paid.

(c) Unless a person claiming the goods is a person against which the document of title does not confer a right under Section 36‑7‑503 (a):

(1) the person claiming under a document shall surrender possession or control of any outstanding negotiable document covering the goods for cancellation or indication of partial deliveries and;

(2) the bailee shall cancel the document or conspicuously indicate in the document the partial delivery or the bailee is liable to any person to which the document is duly negotiated.

HISTORY: 1962 Code Section 10.7‑403; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑403.

Changes: Definition in former Section 7‑403(4) moved to Section 7‑102; bracketed language in former Section 7‑403(1)(b) deleted; added cross reference to Section 2A‑526; changes for style.

Purposes:

1. The present section, following former Section 7‑403, is constructed on the basis of stating what previous deliveries or other circumstances operate to excuse the bailee’s normal obligation on the document. Accordingly, “justified” deliveries under the pre‑Code uniform acts now find their place as “excuse” under subsection (a).

2. The principal case covered by subsection (a)(1) is delivery to a person whose title is paramount to the rights represented by the document. For example, if a thief deposits stolen goods in a warehouse facility and takes a negotiable receipt, the warehouse is not liable on the receipt if it has surrendered the goods to the true owner, even though the receipt is held by a good faith purchaser. See Section 7‑503(a). However, if the owner entrusted the goods to a person with power of disposition, and that person deposited the goods and took a negotiable document, the owner receiving delivery would not be rightful as against a holder to whom the negotiable document was duly negotiated, and delivery to the owner would not give the bailee a defense against such a holder. See Sections 7‑502(a)(2), 7‑503(a)(1).

3. Subsection (a)(2) amounts to a cross reference to all the tort law that determines the varying responsibilities and standards of care applicable to commercial bailees. A restatement of this tort law would be beyond the scope of this Act. Much of the applicable law as to responsibility of bailees for the preservation of the goods and limitation of liability in case of loss has been codified for particular classes of bailees in interstate and foreign commerce by federal legislation and treaty and for intrastate carriers and other bailees by the regulatory state laws preserved by Section 7‑103. In the absence of governing legislation the common law will prevail subject to the minimum standard of reasonable care prescribed by Sections 7‑204 and 7‑309 of this Article.

The bracketed language found in former Section 7‑403(1)(b) has been deleted thereby leaving the allocations of the burden of going forward with the evidence and the burden of proof to the procedural law of the various states.

Subsection (a)(4) contains a cross reference to both the seller’s and the lessor’s rights to stop delivery under Article 2 and Article 2A respectively.

4. As under former Section 7‑403, there is no requirement that a request for delivery must be accompanied by a formal tender of the amount of the charges due. Rather, the bailee must request payment of the amount of its lien when asked to deliver, and only in case this request is refused is it justified in declining to deliver because of nonpayment of charges. Where delivery without payment is forbidden by law, the request is treated as implicit. Such a prohibition reflects a policy of uniformity to prevent discrimination by failure to request payment in particular cases. Subsection (b) must be read in conjunction with the priorities given to the warehouse lien and the carrier lien under Section 7‑209 and 7‑307, respectively. If the parties are in dispute about whether the request for payment of the lien is legally proper, the bailee may have recourse to interpleader. See Section 7‑603.

5. Subsection (c) states the obvious duty of a bailee to take up a negotiable document or note partial deliveries conspicuously thereon, and the result of failure in that duty. It is subject to only one exception, that stated in subsection (a)(1) of this section and in Section 7‑503(a). Subsection (c) is limited to cases of delivery to a claimant; it has no application, for example, where goods held under a negotiable document are lawfully sold to enforce the bailee’s lien.

6. When courts are considering subsection (a)(7), “any other lawful excuse,” among others, refers to compliance with court orders under Sections 7‑601, 7‑602 and 7‑603.

Cross References:

Point 2: Sections 7‑502 and 7‑503.

Point 3: Sections 2‑705, 2A‑526, 7‑103, 7‑204, and 7‑309 and 10‑103.

Point 4: Sections 7‑209, 7‑307 and 7‑603.

Point 5: Section 7‑503(1).

Point 6: Sections 7‑601, 7‑602, and 7‑603.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Conspicuous”. Section 1‑201.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Goods”. Section 7‑102.

“Lessor”. Section 2A‑103.

“Person”. Section 1‑201.

“Receipt of goods”. Section 2‑103.

“Right”. Section 1‑201.

“Terms”. Section 1‑201.

“Warehouse”. Section 7‑102.

SOUTH CAROLINA REPORTER’S COMMENTS

The several excuses enumerated in subsections (a) through (g) are substantially similar to those prescribed in a number of sections of the existing state which will be set out below.

Section 7‑403(1) restates the basic duty of the bailee to deliver the goods to a person entitled under the document as is presently prescribed in SC Code Sections 58‑1731 and 69‑181.

The first exception stated in subsection (1)(a) contemplates the situation of a paramount title in another party, such as where the goods have been deposited with the bailee by a thief or where the goods are subject to a perfected security interest. In accord, SC Code Sections 58‑1732(1), 69‑182(1).

Section 7‑403(1)(b), similar to SC Code Sections 69‑194 and 58‑1731, recognizes that the bailee is not liable for the loss or damage to the goods unless his conduct in caring for the goods falls below the standard prescribed by law. That standard under the Uniform Acts cited above and under the Commercial Code Sections 7‑204 and 7‑309 is to exercise reasonable care. The optional language placing the burden of proof on the owner of goods to establish negligence is the rule of some states and the federal law applicable to carriers engaged in interstate commerce. See, Brown, Personal Property, Section 87 (2d ed (1955)). Of the states which have enacted the Commercial Code to date, twenty‑one omitted this language and eight included it.

Where the bailee has lawfully disposed of the goods in satisfaction of his lien interest (Commercial Code Sections 7‑209, 7‑307), subsection (1)(c) states the obvious rule that he is not liable to the holder of documents with respect to such goods. In accord, SC Code Sections 69‑209 and 58‑1746.

Section 7‑403(d) recognizes the obligation of the bailee to obey a proper stop delivery order under Commercial Code Section 2‑705 and thus excuses the resulting non‑delivery. In accord, Phillips‑Patterson Co. v Northwestern Ry., 108 SC 166, 93 SE 868 (1917); Pool v Columbia and Greenville Ry., 23 SC 286 (1885).

Section 7‑403(e) restates the rule of Commercial Code Section 7‑303 which specifies the conditions under which a carrier may obey a diversion or reconsignment with impunity. As stated in the South Carolina Reporter’s Comments to that section, the carrier is accorded protection against liability for obeying a consignor’s instructions, while under present law, he acts at his peril that the consignor was “lawfully entitled” to the goods.

Section 7‑403(f) and (g) are catch‑all provisions which would include excuse for a reasonable time in cases of conflicting claims or compulsion of legal process. The references to other laws which would afford an excuse is consistent with SC Code Sections 69‑154 and 58‑1705 referring to the rules of law and equity in cases not governed by the statute.

Section 7‑403(2) continues the substance of SC Code Sections 69‑181(1) and 58‑1731(1) creating a lawful excuse for the bailee to refuse delivery until satisfaction of liens for charges due. Subsection (2) would require the claimant to satisfy the bailee’s lien only when requested by the carrier or warehouseman, or when the bailee is prohibited by law from delivering the goods until the charges are paid. This would result in a minor change in the present statute which requires the claimant of the goods to offer to satisfy the lien.

Upon delivery of the goods to a claimant, subsection (3) requires cancellation of or notation on a negotiable document. The sanction for the bailee’s failure to perform this duty is its prospective liability to any person to whom the document is subsequently negotiated. Under SC Code Section 69‑245, a similar duty is imposed on the bailee but failure to comply is made a crime.

Section 7‑403(4) defines “a person entitled under the document,” as that term is used in subsection (1), consistent with SC Code Section 69‑181 in designating such person as “the holder of a receipt for the goods or the depositor.” In expressly including a person who holds a delivery order, this subsection would clarify the doubt under existing law which is silent on this point. (See, however, Commercial Code Section 7‑503(2) providing that delivery orders cannot properly be honored by a bailee if a negotiable document issued by him is outstanding.).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Document of title to goods defeated in certain cases, see Section 36‑7‑503.

Duty and liability of carrier issuing bill of lading, see Section 36‑7‑309.

Effect of treaties, statutes, tariffs, and regulations, see Section 36‑7‑103.

Form of warehouse receipt, essential terms, optional terms, see Section 36‑7‑202.

Lien of warehouse, see Section 36‑7‑209.

Rights acquired on negotiation of document of title, see Section 36‑7‑502.

Warehouseman’s liability for loss of or injury to goods, see Section 36‑7‑204.

LIBRARY REFERENCES

Carriers 86 to 93, 95, 98, 99, 107.

Shipping 113, 114, 118, 119.1.

Warehousemen 16, 25(.5) to 25(8).

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Aeronautics and Aerospace Sections 230, 239.

C.J.S. Carriers Sections 408, 410, 412 to 414, 418, 421, 441 to 443.

C.J.S. Shipping Sections 268 to 274, 276, 279, 336 to 337.

C.J.S. Warehousemen and Safe Depositaries Sections 27, 47 to 48, 51 to 53, 55 to 60, 84.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Carriers Section 47, Transportation or Delivery by Carrier.

**SECTION 36‑7‑404.** No liability for good‑faith delivery pursuant to document of title.

A bailee that in good faith has received goods and delivered or otherwise disposed of the goods according to the terms of a document of title or pursuant to this chapter is not liable for the goods even if:

(1) the person from which the bailee received the goods did not have authority to procure the document or to dispose of the goods; or

(2) the person to which the bailee delivered the goods did not have authority to receive the goods.

HISTORY: 1962 Code Section 10.7‑404; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑404.

Changes: Changes reflect the definition of good faith in Section 1‑201 [7‑102] and for style.

Purposes:

This section uses the test of good faith, as defined in Section 1‑201 [7‑102], to continue the policy of former Section 7‑404. Good faith now means “honesty in fact and the observance of reasonable commercial standards of fair dealing.” The section states explicitly that the common law rule of “innocent conversion” by unauthorized “intermeddling” with another’s property is inapplicable to the operations of commercial carriers and warehousemen that in good faith perform obligations that they have assumed and that generally they are under a legal compulsion to assume. The section applies to delivery to a fraudulent holder of a valid document as well as to delivery to the holder of an invalid document. Of course, in appropriate circumstances, a bailee may use interpleader or other dispute resolution process. See Section 7‑603.

Cross Reference: Section 7‑603.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Person”. Section 1‑201.

“Receipt of goods”. Section 2‑103.

“Term”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

As a matter of general common law, a bailee who merely receives possession of chattel for storage, safekeeping or transportation, in ignorance of the fact that it is lost or stolen, does not thereby become liable to the owner for conversion. By receiving goods from a thief and returning them to the thief or turning them over to a third party in good faith as directed, he does not become a converter as against the true owner. See, Prosser, Torts, Section 15 (3rd ed 1964). Commercial Code Section 7‑404 clearly codifies this rule which would probably be implied from SC Code Sections 69‑183 and 58‑1733.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Similar provisions respecting investment securities, see Section 36‑8‑115.

LIBRARY REFERENCES

Carriers 91 to 93.

Shipping 114.1.

WESTLAW Topic Nos. 70, 354.

C.J.S. Aeronautics and Aerospace Section 230.

C.J.S. Carriers Section 408.

C.J.S. Shipping Section 273.

Part 5

Warehouse Receipts and Bills of Lading: Negotiation and Transfer

**SECTION 36‑7‑501.** Form of negotiation and requirements of “due negotiation”.

(a) The following rules apply to a negotiable tangible document of title:

(1) If the document’s original terms run to the order of a named person, the document is negotiated by the named person’s indorsement and delivery. After the named person’s indorsement in blank or to bearer, any person may negotiate the document by delivery alone.

(2) If the document’s original terms run to bearer, it is negotiated by delivery alone.

(3) If the document’s original terms run to the order of a named person and it is delivered to the named person, the effect is the same as if the document had been negotiated.

(4) Negotiation of the document after it has been indorsed to a named person requires indorsement by the named person and delivery.

(5) A document is “duly negotiated” if it is negotiated in the manner stated in this section to a holder that purchases it in good faith, without notice of any defense against or claim to it on the part of any person, and for value, unless it is established that the negotiation is not in the regular course of business or financing or involves taking delivery of the document in settlement or payment of a monetary obligation.

(b) The following rules apply to a negotiable electronic document of title:

(1) If the document’s original terms run to the order of a named person or bearer, the document is negotiated by delivery of the document to another person. Indorsement by the named person is not required to negotiate the document.

(2) If the document’s original terms run to the order of a named person and the named person has control of the document, the effect is the same as if the document had been negotiated.

(3) A document is “duly negotiated” if it is negotiated in the manner stated in this subsection to a holder that purchases it in good faith, without notice of any defense against or claim to it on the part of any person, and for value, unless it is established that the negotiation is not in the regular course of business or financing or involves taking delivery of the document in settlement or payment of a monetary obligation.

(c) Indorsement of a nonnegotiable document of title neither makes it negotiable nor adds to the transferee’s rights.

(d) The naming in a negotiable bill of lading of a person to be notified of the arrival of the goods does not limit the negotiability of the bill or constitute notice to a purchaser of the bill of any interest of that person in the goods.

HISTORY: 1962 Code Section 10.7‑501; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑501.

Changes: To accommodate negotiable electronic documents of title.

Purpose:

1. Subsection (a) has been limited to tangible negotiable documents of title but otherwise remains unchanged in substance from the rules in former Section 7‑501. Subsection (b) is new and applies to negotiable electronic documents of title. Delivery of a negotiable electronic document is through voluntary transfer of control. Section 1‑201 definition of “delivery.” The control concept as applied to negotiable electronic documents of title is the substitute for both possession and indorsement as applied to negotiable tangible documents of title. Section 7‑106.

ARTICLE 7 does not separately define the term “duly negotiated.” However, the elements of “duly negotiated” are set forth in subsection (a)(5) for tangible documents and (b)(3) for electronic documents. As under former Section 7‑501, in order to effect a “due negotiation” the negotiation must be in the “regular course of business or financing” in order to transfer greater rights than those held by the person negotiating. The foundation of the mercantile doctrine of good faith purchase for value has always been, as shown by the case situations, the furtherance and protection of the regular course of trade. The reason for allowing a person, in bad faith or in error, to convey away rights which are not its own has from the beginning been to make possible the speedy handling of that great run of commercial transactions which are patently usual and normal.

There are two aspects to the usual and normal course of mercantile dealings, namely, the person making the transfer and the nature of the transaction itself. The first question which arises is: Is the transferor a person with whom it is reasonable to deal as having full powers? In regard to documents of title the only holder whose possession or control appears, commercially, to be in order is almost invariably a person in the trade. No commercial purpose is served by allowing a tramp or a professor to “duly negotiate” an order bill of lading for hides or cotton not their own, and since such a transfer is obviously not in the regular course of business, it is excluded from the scope of the protection of subsections (a)(5) or (b)(3).

The second question posed by the “regular course” qualification is: Is the transaction one which is normally proper to pass full rights without inquiry, even though the transferor itself may not have such rights to pass, and even though the transferor may be acting in breach of duty? In raising this question the “regular course” criterion has the further advantage of limiting, the effective wrongful disposition to transactions whose protection will really further trade. Obviously, the snapping up of goods for quick resale at a price suspiciously below the market deserves no protection as a matter of policy: it is also clearly outside the range of regular course.

Any notice on the document sufficient to put a merchant on inquiry as to the “regular course” quality of the transaction will frustrate a “due negotiation”. Thus irregularity of the document or unexplained staleness of a bill of lading may appropriately be recognized as negating a negotiation in “regular” course.

A pre‑existing claim constitutes value, and “due negotiation” does not require “new value.” A usual and ordinary transaction in which documents are received as security for credit previously extended may be in “regular” course, even though there is a demand for additional collateral because the creditor “deems himself insecure.” But the matter has moved out of the regular course of financing if the debtor is thought to be insolvent, the credit previously extended is in effect cancelled, and the creditor snatches a plank in the shipwreck under the guise of a demand for additional collateral. Where a money debt is “paid” in commodity paper, any question of “regular” course disappears, as the case is explicitly excepted from “due negotiation”.

2. Negotiation under this section may be made by any holder no matter how the holder acquired possession or control of the document.

3. Subsections (a)(3) and (b)(2) make explicit a matter upon which the intent of the pre‑Code law was clear but the language somewhat obscure: a negotiation results from a delivery to a banker or buyer to whose order the document has been taken by the person making the bailment. There is no presumption of irregularity in such a negotiation; it may very well be in “regular course.”

4. This Article does not contain any provision creating a presumption of due negotiation to, and full rights in, a holder of a document of title akin to that created by Uniform Commercial Code Article 3. But the reason of the provisions of this Act (Section 1‑307) on the prima facie authenticity and accuracy of third party documents, joins with the reason of the present section to work such a presumption in favor of any person who has power to make a due negotiation. It would not make sense for this Act to authorize a purchaser to indulge the presumption of regularity if the courts were not also called upon to do so. Allocations of the burden of going forward with the evidence and the burden of proof are left to the procedural law of the various states.

5. Subsections (c) and (d) are unchanged from prior law and apply to both tangible and electronic documents of title.

Cross References: Sections 1‑307, 7‑502 and 7‑503.

Definitional Cross References:

“Bearer”. Section 1‑201.

“Control”. Section 7‑106.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Good faith”. Section 1‑201 [7‑102].

“Holder”. Section 1‑201.

“Notice”. Section 1‑202.

“Person”. Section 1‑201.

“Purchase”. Section 1‑201.

“Rights”. Section 1‑201.

“Term”. Section 1‑201.

“Value”. Section 1‑204.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑501 spells out the mechanics of “due negotiation” of a negotiable document whereby the bona fide purchaser acquires full protection. In so doing, this section consolidates and simplifies the language of the existing uniform acts.

Section 7‑501(1) providing for negotiation by indorsement and delivery and negotiation by delivery alone after indorsement in blank, restates the rules of SC Code Sections 69‑221 through 69‑224 and 58‑1751 through 58‑1755.

Section 7‑501(2) (a) restates the rule of SC Code Section 69‑221 which recognizes bearer warehouse receipts negotiated by delivery alone. As pointed out in the South Carolina Reporter’s Comments to Commercial Code Section 7‑104, the existing statute does not provide for bearer bills of lading. Commercial Code Section 7‑104 recognizes bearer bills of lading and subsection (2)(a) complements that section with the provision for negotiation of bearer bills.

Section 7‑501(2)(b) clarifies a point on which the existing statute is silent by treating the initial delivery of a document to the person to whose order it runs as a due negotiation. The practical significance is to permit such person who qualifies as a holder of the document to take free of the defenses under the same terms as any other holder. This rule is similar to Commercial Code Section 3‑302(2) which permits a payee to be a holder in due course.

Section 7‑501(3) restates the rule of SC Code Sections 69‑222 and 58‑1755 requiring indorsement of a special indorsee for a proper negotiation.

Section 7‑501(4) continues the several requirements of “due negotiation” that the holder pay value in good faith, without notice of any defects in the transferor’s title. SC Code Sections 69‑233 and 58‑1761. Subsection (4) substantially modifies present law by adding the requirement that the negotiation be “in the current course of business or financing.” While this phrase is not defined, the Official Comments point out that it involves two elements: the transferor is a person who normally makes such a transfer, and the transaction is one in which it is normally proper to pass full rights without inquiry.

The usual standard for the purchaser to qualify as a holder is the “white heart” or subjective good faith. The “current course of business” standard would modify this by injecting a “suspicious circumstances” or “prudent man” test to the qualifications of a holder entitled to cut‑off protection.

Section 7‑501(5) providing that the indorsement of a non‑negotiable document does not make it negotiable, restates the rule of SC Code Sections 58‑1753 and 69‑223.

Section 7‑501(6) restates the rule of SC Code Section 58‑1718.

SOUTH CAROLINA REPORTER’S COMMENT (2014 REVISION)

The 2014 amendment added the requirements for negotiation and due negotiation of a negotiable electronic document of title that are codified at Section 36‑7‑501(b).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Protection of purchasers of instruments and documents, see Sections 36‑9‑320, 36‑9‑331.

When title under warehouse receipt defeated, see Section 36‑7‑205.

LIBRARY REFERENCES

Carriers 55, 56.

Shipping 106(5).

Warehousemen 15.

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 398 to 399.

C.J.S. Shipping Sections 256, 259.

C.J.S. Warehousemen and Safe Depositaries Section 25.

RESEARCH REFERENCES

Forms

Am. Jur. Pl. & Pr. Forms Uniform Commercial Code Section 7:155 , Introductory Comments.

**SECTION 36‑7‑502.** Rights acquired by due negotiation.

(a) Subject to Section 36‑7‑503, a holder to which a negotiable document of title has been duly negotiated acquires thereby:

(1) title to the document;

(2) title to the goods;

(3) all rights accruing under the law of agency or estoppel, including rights to goods delivered to the bailee after the document was issued; and

(4) the direct obligation of the issuer to hold or deliver the goods according to the terms of the document free of any defense or claim by the issuer except those arising under the terms of the document or under this chapter, but in the case of a delivery order, the bailee’s obligation accrues only upon the bailee’s acceptance of the delivery order and the obligation acquired by the holder is that the issuer and any indorser will procure the acceptance of the bailee.

(b) Subject to Section 36‑7‑503, title and rights acquired by due negotiation are not defeated by any stoppage of the goods represented by the document of title or by surrender of the goods by the bailee, and are not impaired even if:

(1) the due negotiation or any prior due negotiation constituted a breach of duty;

(2) any person has been deprived of possession of a negotiable tangible document or control of a negotiable electronic document by misrepresentation, fraud, accident, mistake, duress, loss, theft or conversion; or

(3) a previous sale or other transfer of the goods or document has been made to a third person.

HISTORY: 1962 Code Section 10.7‑502; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑502.

Changes: To accommodate electronic documents of title and for style.

Purpose:

1. This section applies to both tangible and electronic documents of title. The elements of duly negotiated, which constitutes a due negotiation, are set forth in Section 7‑501. The several necessary qualifications of the broad principle that the holder of a document acquired in a due negotiation is the owner of the document and the goods have been brought together in the next section (Section 7‑503).

2. Subsection (a)(3) covers the case of “feeding” of a duly negotiated document by subsequent delivery to the bailee of such goods as the document falsely purported to cover; the bailee in such case is estopped as against the holder of the document.

3. The explicit statement in subsection (a)(4) of the bailee’s direct obligation to the holder precludes the defense that the document in question was “spent” after the carrier had delivered the goods to a previous holder. But the holder is subject to such defenses as non‑negligent destruction even though not apparent on the document. The sentence on delivery orders applies only to delivery orders in negotiable form which have been duly negotiated. On delivery orders, see also Section 7‑503(b) and Comment.

4. Subsection (b) continues the law which gave full effect to the issuance or due negotiation of a negotiable document. The subsection adds nothing to the effect of the rules stated in subsection (a), but it has been included since such explicit reference was provided under former Section 7‑502 to preserve the right of a purchaser by due negotiation. The listing is not exhaustive. The language “any stoppage” is included lest an inference be drawn that a stoppage of the goods before or after transit might cut off or otherwise impair the purchaser’s rights.

Cross References: Sections 7‑103, 7‑205, 7‑403, 7‑501, and 7‑503.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Control”. Section 7‑106.

“Delivery”. Section 1‑201.

“Delivery order”. Section 7‑102.

“Document of title”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Fungible”. Section 1‑201.

“Goods”. Section 7‑102.

“Holder”. Section 1‑201.

“Issuer”. Section 7‑102.

“Person”. Section 1‑201.

“Rights”. Section 1‑201.

“Term”. Section 1‑201.

“Warehouse receipt”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑502(1)(a) and (b) is consistent with SC Code Sections 69‑227 and 58‑1755 in granting the holder of a negotiable document of title the title to the goods and ownership of the document.

Section 7‑502(1)(c) covers a situation referred to in the official comments as “feeding the estoppel” where a bailee issues a document before it has received the goods. If it subsequently acquires the goods, it is said to be estopped to deny the terms of the document so that the subsequently acquired goods make valid the earlier issued document. In accord, Baldwin v Childs, 249 NY 212, 163 NE 737 (1928); Lowell v Newman, 192 Fed 753 (5th Cir 1912).

Section 7‑502(d) states the usual right of the holder of a negotiable document to look to the issuer for delivery free of certain defenses and claims. SC Code Sections 58‑1755 and 69‑227. This subsection goes further and fills a gap in existing law by making it clear that the bailee is not liable under a delivery order until acceptance.

Section 7‑502(2) continues the rule of the 1922 amendment to the Warehouse Receipts Act, SC Code Section 69‑233, in providing that a holder by due negotiation of a document may cut off claims of ownership even though the owner was deprived of possession of the document by loss, theft, fraud, accident, mistake, duress, or conversion. The result is to give the holder by due negotiation of a document of title greater rights than he would have had had he bought stolen goods. This rule is extended to cover bills of lading as well as warehouse receipts.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Application of treaty, statute, tariff, or regulation, see Section 36‑7‑103.

Buyer of fungible goods as taking free of claim under negotiated warehouse receipt, see Section 36‑7‑205.

Court’s order for delivery of goods or issuance of substitute document where document lost, stolen or destroyed, see Section 36‑7‑601.

Excuse for bailee’s failure to deliver goods to person entitled under document, see Section 36‑7‑403.

Right of financing agency to stop delivery of goods, see Section 36‑2‑506.

Seller’s stoppage of delivery, see Section 36‑2‑705.

Sufficient identification on sale of share in fungible goods, see Section 36‑2‑105.

Title acquired by purchaser of goods, see Section 36‑2‑403.

LIBRARY REFERENCES

Carriers 57 to 59.

Shipping 106(5).

Warehousemen 15(.5) to 15(3).

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 392, 400 to 402.

C.J.S. Shipping Sections 256, 259.

C.J.S. Warehousemen and Safe Depositaries Sections 25 to 26, 28.

**SECTION 36‑7‑503.** Document of title to goods defeated in certain cases.

(a) A document of title confers no right in goods against a person that before issuance of the document had a legal interest or a perfected security interest in the goods and that did not:

(1) deliver or entrust the goods or any document of title covering the goods to the bailor or the bailor’s nominee with:

(A) actual or apparent authority to ship, store or sell;

(B) power to obtain delivery under Section 36‑7‑403; or

(C) power of disposition under Section 36‑2‑403, 36‑2A‑304(2), 36‑2A‑305(2), 36‑9‑320, or 36‑9‑321(c), or other statute or rule of law; or

(2) acquiesce in the procurement by the bailor or the bailor’s nominee of any document.

(b) Title to goods based upon an unaccepted delivery order is subject to the rights of any person to which a negotiable warehouse receipt or bill of lading covering the goods has been duly negotiated. That title may be defeated under Section 36‑7‑504 to the same extent as the rights of the issuer or a transferee from the issuer.

(c) Title to goods based upon a bill of lading issued to a freight forwarder is subject to the rights of any person to which a bill issued by the freight forwarder is duly negotiated. However, delivery by the carrier in accordance with Part 4 of this chapter pursuant to its own bill of lading discharges the carrier’s obligation to deliver.

HISTORY: 1962 Code Section 10.7‑503; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑503.

Changes: Changes to cross‑reference to Article 2A and for style.

Purposes:

1. In general it may be said that the title of a purchaser by due negotiation prevails over almost any interest in the goods which existed prior to the procurement of the document of title if the possession of the goods by the person obtaining the document derived from any action by the prior claimant which introduced the goods into the stream of commerce or carried them along that stream. A thief of the goods cannot indeed by shipping or storing them to the thief’s own order acquire power to transfer them to a good faith purchaser. Nor can a tenant or mortgagor defeat any rights of a landlord or mortgagee which have been perfected under the local law merely by wrongfully shipping or storing a portion of the crop or other goods. However, “acquiescence” by the landlord or mortgagee does not require active consent under subsection (a)(2) and knowledge of the likelihood of storage or shipment with no objection or effort to control it is sufficient to defeat the landlord’s or the mortgagee’s rights as against one who takes by due negotiation of a negotiable document. In re Sharon Steel, 176 B.R. 384 (Bankr. W.D. Pa. 1995); In re R.V. Segars Co, 54 B.R. 170 (Bankr. S.C. 1985); In re Jamestown Elevators, Inc., 49 B.R. 661 (Bankr. N.D. 1985).

On the other hand, where goods are delivered to a factor for sale, even though the factor has made no advances and is limited in its duty to sell for cash, the goods are “entrusted” to the factor “with actual ... authority ... to sell” under subsection (a)(1), and if the factor procures a negotiable document of title it can transfer the owner’s interest to a purchaser by due negotiation. Further, where the factor is in the business of selling, goods entrusted to it simply for safekeeping or storage may be entrusted under circumstances which give the factor “apparent authority to ship, store or sell” under subsection (a)(1), or power of disposition under Section 2‑403, 2A‑304(2), 2A‑305(2), 7‑205, 9‑320, or 9‑321(c) or under a statute such as the earlier Factors Acts, or under a rule of law giving effect to apparent ownership. See Section 1‑103.

Persons having an interest in goods also frequently deliver or entrust them to agents or servants other than factors for the purpose of shipping or warehousing or under circumstances reasonably contemplating such action. This Act is clear that such persons assume full risk that the agent to whom the goods are so delivered may ship or store in breach of duty, take a document to the agent’s own order and then proceed to misappropriate the negotiable document of title that embodies the goods. This Act makes no distinction between possession or mere custody in such situations and finds no exception in the case of larceny by a bailee or the like. The safeguard in such situations lies in the requirement that a due negotiation can occur only “in the regular course of business or financing” and that the purchase be in good faith and without notice. See Section 7‑501. Documents of title have no market among the commercially inexperienced and the commercially experienced do not take them without inquiry from persons known to be truck drivers or petty clerks even though such persons purport to be operating in their own names.

Again, where the seller allows a buyer to receive goods under a contract for sale, though as a “conditional delivery” or under “cash sale” terms and on explicit agreement for immediate payment, the buyer thereby acquires power to defeat the seller’s interest by transfer of the goods to certain good faith purchasers. See Section 2‑403. Both in policy and under the language of subsection (a)(1) that same power must be extended to accomplish the same result if the buyer procures a negotiable document of title to the goods and duly negotiates it.

This comment 1 should be considered in interpreting delivery, entrustment or acquiescence in application of Section 7‑209.

2. Under subsection (a) a delivery order issued by a person having no right in or power over the goods is ineffective unless the owner acts as provided in subsection (a)(1) or (2). Thus the rights of a transferee of a non‑negotiable warehouse receipt can be defeated by a delivery order subsequently issued by the transferor only if the transferee “delivers or entrusts” to the “person procuring” the delivery order or “acquiesces” in that person’s procurement. Similarly, a second delivery order issued by the same issuer for the same goods will ordinarily be subject to the first, both under this section and under Section 7‑402. After a delivery order is validly issued but before it is accepted, it may nevertheless be defeated under subsection (b) in much the same way that the rights of a transferee may be defeated under Section 7‑504. For example, a buyer in ordinary course from the issuer may defeat the rights of the holder of a prior delivery order if the bailee receives notification of the buyer’s rights before notification of the holder’s rights. Section 7‑504(b)(2). But an accepted delivery order has the same effect as a document issued by the bailee.

3. Under subsection (c) a bill of lading issued to a freight forwarder is subordinated to the freight forwarder’s document of title, since the bill on its face gives notice of the fact that a freight forwarder is in the picture and the freight forwarder has in all probability issued a document of title. But the carrier is protected in following the terms of its own bill of lading.

Cross References:

Point 1: Sections 1‑103, 2‑403, 2A‑304(2), 2A‑305(2), 7‑205, 7‑209, 7‑501, 9‑320, 9‑321(c), and 9‑331.

Point 2: Sections 7‑402 and 7‑504.

Point 3: Sections 7‑402, 7‑403 and 7‑404.

Definitional Cross References:

“Bill of lading”. Section 1‑201.

“Contract for sale”. Section 2‑106.

“Delivery”. Section 1‑201.

“Delivery order”. Section 7‑102.

“Document of title”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Goods”. Section 7‑102.

“Person”. Section 1‑201.

“Right”. Section 1‑201.

“Warehouse receipt”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑503 states an important exception to the general rule of Commercial Code Section 7‑502 that the holder by due negotiation of a document gets perfect title to the goods. The exception of subsection (1) has been expressed by Professor Williston as a general common law rule:

“As a general proposition it needs no argument to show that a bailor having no title to goods cannot, by depositing them with a warehouseman, or carrier, and receiving a document of title in return, whatever its form, give a good title to them to a purchaser of the document, however innocent he may be. The only qualification to this principle is that if the depositor of the goods, though he had no title, had ability or capacity to transfer title to a purchaser for value, either by virtue of actual authority or because the owner had allowed a situation to arise which would estop him from asserting his title to the goods, the same reason will protect a purchaser of the document of title that would protect a purchaser of the goods.” 2 Williston, Sales Section 421 P 588 (Rev ed 1948.).

Section 7‑503(2) was drafted to cover the conflicting claims that might arise if a delivery order (written direction to deliver addressed to the bailee from the party entitled to the goods) and the original document of title covering the goods are both outstanding. This subsection makes it clear that the holder of the negotiable document prevails over the holder of the delivery order. While this rule is new, it is apparently in accord with Commercial understanding and a delivery order would not be honored, accepted or purchased until the negotiable warehouse receipt or bill of lading is taken up or marked.

Section 7‑503(3) deals with freight forwarders (those engaged in the business of consolidating less than carload shipments into carloads to obtain the benefit of carload rates). Freight forwarders are required by I.C.C. regulations to issue bills of lading to their shippers (see 259 I.C.C. 277 (1944)) who are defined by the Federal Act as a “common carrier” (49 USC Section 1002(a)(5)). The freight forwarder also receives a bill of lading from the carrier when he loads the shipper’s goods on board. The issue of these two documents is in effect an overissue creating the possibility of conflicting claims. Subsection (3) provides in such event that the holder of a bill issued by the forwarder prevails over the holder of the bill issued by the carrier, but the carrier is discharged by delivery in accordance with the bill of lading issued by the carrier. These provisions fill a gap and settle the doubt under existing law.

Editor’s Note

“This act,” referred to in this section, means Act No. 1065 of the 1966 Acts and Joint Resolutions, originally codified as Titles 10.1 to 10.10 of the Code of Laws of South Carolina 1962, and now codified as Title 36 of the Code of Laws of South Carolina 1976.

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Absence of liability for bailee’s good faith delivery in accordance with document of title, see Section 36‑7‑404.

Buyer of fungible goods as taking free of claim under warehouse receipt, see Section 36‑7‑205.

Excuse from obligation to deliver immediately, in event of adverse claims, see Section 36‑7‑603.

Freedom of buyer from security interest created by seller, see Section 36‑9‑320.

Freedom of purchaser of document from lien imposed by judicial process, see Section 36‑7‑602.

Obligation of bailee to deliver, excuse, see Section 36‑7‑403.

Protection of purchasers of instrument and documents, see Sections 36‑9‑320, 36‑9‑331.

Restriction on rights acquired under duplicate document of title, see Section 36‑7‑402.

Rights acquired by due negotiation, see Section 36‑7‑502.

LIBRARY REFERENCES

Carriers 57 to 59.

Shipping 106(5).

Warehousemen 15(.5) to 15(3).

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 392, 400 to 402.

C.J.S. Shipping Sections 256, 259.

C.J.S. Warehousemen and Safe Depositaries Sections 25 to 26, 28.

**SECTION 36‑7‑504.** Rights acquired in the absence of due negotiation; effect of diversion; seller’s stoppage of delivery.

(a) A transferee of a document of title, whether negotiable or nonnegotiable, to which the document has been delivered but not duly negotiated, acquires the title and rights that its transferor had or had actual authority to convey.

(b) In the case of a transfer of a nonnegotiable document of title, until but not after the bailee receives notice of the transfer, the rights of the transferee may be defeated:

(1) by those creditors of the transferor which could treat the transfer as void under Section 36‑2‑402 or Section 36‑2A‑308;

(2) by a buyer from the transferor in ordinary course of business if the bailee has delivered the goods to the buyer or received notification of the buyer’s rights;

(3) by a lessee from the transferor in ordinary course of business if the bailee has delivered the goods to the lessee or received notification of the lessee’s rights; or

(4) as against the bailee, by good faith dealings of the bailee with the transferor.

(c) A diversion or other change of shipping instructions by the consignor in a nonnegotiable bill of lading that causes the bailee not to deliver to the consignee defeats the consignee’s title to the goods if the goods have been delivered to a buyer in ordinary course of business or lessee in ordinary course of business and, in any event, defeats the consignee’s rights against the bailee.

(d) Delivery of the goods pursuant to a nonnegotiable document may be stopped by a seller under Section 36‑2‑705 or a lessor under Section 36‑2A‑526, subject to the requirements of due notification in those sections. A bailee honoring the seller’s or lessor’s instructions is entitled to be indemnified by the seller or lessor against any resulting loss or expense.

HISTORY: 1962 Code Section 10.7‑504; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑504.

Changes: To include cross‑references to Article 2A and for style.

Purposes:

1. Under the general principles controlling negotiable documents, it is clear that in the absence of due negotiation a transferor cannot convey greater rights than the transferor has, even when the negotiation is formally perfect. This section recognizes the transferor’s power to transfer rights which the transferor has or has “actual authority to convey.” Thus, where a negotiable document of title is being transferred the operation of the principle of estoppel is not recognized, as contrasted with situations involving the transfer of the goods themselves. (Compare Section 2‑403 on good faith purchase of goods.) This section applies to both tangible and electronic documents of title.

A necessary part of the price for the protection of regular dealings with negotiable documents of title is an insistence that no dealing which is in any way irregular shall be recognized as a good faith purchase of the document or of any rights pertaining to it. So, where the transfer of a negotiable document fails as a negotiation because a requisite indorsement is forged or otherwise missing, the purchaser in good faith and for value may be in the anomalous position of having less rights, in part, than if the purchaser had purchased the goods themselves. True, the purchaser’s rights are not subject to defeat by attachment of the goods or surrender of them to the purchaser’s transferor (contrast subsection (b)); but on the other hand, the purchaser cannot acquire enforceable rights to control or receive the goods over the bailee’s objection merely by giving notice to the bailee. Similarly, a consignee who makes payment to its consignor against a straight bill of lading can thereby acquire the position of a good faith purchaser of goods under provisions of the Article of this Act on Sales (Section 2‑403), whereas the same payment made in good faith against an unendorsed order bill would not have such effect. The appropriate remedy of a purchaser in such a situation is to regularize its status by compelling indorsement of the document (see Section 7‑506).

2. As in the case of transfer—as opposed to “due negotiation”—of negotiable documents, subsection (a) empowers the transferor of a nonnegotiable document to transfer only such rights as the transferor has or has “actual authority” to convey. In contrast to situations involving the goods themselves the operation of estoppel or agency principles is not here recognized to enable the transferor to convey greater rights than the transferor actually has. Subsection (b) makes it clear, however, that the transferee of a nonnegotiable document may acquire rights greater in some respects than those of his transferor by giving notice of the transfer to the bailee. New subsection (b)(3) provides for the rights of a lessee in the ordinary course.

Subsection (b)(2) & (3) require delivery of the goods. Delivery of the goods means the voluntary transfer of physical possession of the goods. See amended 2‑103.

3. Subsection (c) is in part a reiteration of the carrier’s immunity from liability if it honors instructions of the consignor to divert, but there is added a provision protecting the title of the substituted consignee if the latter is a buyer in ordinary course of business. A typical situation would be where a manufacturer, having shipped a lot of standardized goods to A on nonnegotiable bill of lading, diverts the goods to customer B who pays for them. Under pre‑Code passage‑of‑title‑by‑appropriation doctrine A might reclaim the goods from B. However, no consideration of commercial policy supports this involvement of an innocent third party in the default of the manufacturer on his contract to A; and the common commercial practice of diverting goods in transit suggests a trade understanding in accordance with this subsection. The same result should obtain if the substituted consignee is a lessee in ordinary course. The extent of the lessee’s interest in the goods is less than a buyer’s interest in the goods. However, as against the first consignee and the lessee in ordinary course as the substituted consignee, the lessee’s rights in the goods as granted under the lease are superior to the first consignee’s rights.

4. Subsection (d) gives the carrier an express right to indemnity where the carrier honors a seller’s request to stop delivery.

5. Section 1‑202 gives the bailee protection, if due diligence is exercised where the bailee’s organization has not had time to act on a notification.

Cross References:

Point 1: Sections 2‑403 and 7‑506.

Point 2: Sections 2‑403 and 2A‑304.

Point 3: Sections 7‑303, 7‑403(a)(5) and 7‑404.

Point 4: Sections 2‑705 and 7‑403(a)(4).

Point 5: Section 1‑202.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Bill of lading”. Section 1‑201.

“Buyer in ordinary course of business”. Section 1‑201.

“Consignee”. Section 7‑102.

“Consignor”. Section 7‑102.

“Creditor”. Section 1‑201.

“Delivery”. Section 1‑201.

“Document of Title”. Section 1‑201.

“Duly negotiate”. Section 7‑501.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Honor”. Section 1‑201.

“Lessee in ordinary course”. Section 2A‑103.

“Notification” Section 1‑202.

“Purchaser”. Section 1‑201.

“Rights”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑504 prescribes the rights of all purchasers of non‑negotiable documents and purchasers of negotiable documents who do not take by due negotiation.

Section 7‑504(1) restates the rule of SC Code Sections 69‑228 and 58‑1756 limiting the rights of a purchaser to those of his transferor where he takes other than by negotiation.

Section 7‑504(2), applicable only to non‑negotiable documents, makes receipt of notification by the bailee rather than delivery of the document decisive as to rights of the transferee. At this point, the situation is treated as if delivery had been made to the holder. Before such notification, subsection (2)(a) prescribes that the transferee may be defeated by transferor’s creditors who could void a sale where a transferor remains in possession under Commercial Code Section 2‑402. This latter section refers to existing case law where a seller remains in possession after sale which is treated in South Carolina as presumptively fraudulent. See, Dinkins v Robbins, 200 SC 475, 21 SE2d 10 (1942); Beaufort Veneer & Package Co. v Hiers, 142 SC 78, 140 SE 238 (1927). Cf., SC Code Sections 58‑1756 and 69‑228 providing that prior to notification of the bailee, the transferee’s rights are subject to defeat “. . . by the levy of an attachment or execution upon the goods by a creditor or the transferor . . .”

Section 7‑504(2)(b) protects buyers of the goods against the transferee of a non‑negotiable document representing the goods if such buyer receives the goods or notifies the bailee before the bailee receives notification of the transfer of the documents. This is similar to SC Code Sections 58‑1756 and 69‑228.

Section 7‑504(2)(c) under which the rights of the transferee may be defeated by “good faith dealings of the bailee with the transferor” expresses a probable common law result so far as it refers to the right of the transferee as against the bailee. A bailee who delivers to the consignee or person to whom the goods are deliverable under a non‑negotiable document would not be liable to a transferee of the document.

Section 7‑504(3) restates the carrier’s immunity from liability for honoring diversion instructions from a consignor under a non‑negotiable bill. See Commercial Code Section 7‑303 and South Carolina Reporter’s Comments thereto.

Section 7‑504(4) continues the rule of existing law that a consignor can stop in transit goods being shipped under a non‑negotiable bill of lading. In accord, Phillips‑Patterson Co. v Northwestern Ry., 108 SC 166, 35 SE 868 (1917); Faust v Southern Ry., 74 SC 360, 54 SE 566 (1906); Pool v Columbia & Greenville Ry., 23 SC 286 (1885). The provision granting the carrier a right to indemnity where it honors a seller’s order to stop delivery is new.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Document of title to goods defeated in certain cases, see Section 36‑7‑503.

Excuse for bailee’s failure to fulfill obligation to deliver, see Section 36‑7‑403.

Instructions for alteration of goods’ destination, see Section 36‑7‑303.

Title acquired by purchaser of goods, see Section 36‑2‑403.

LIBRARY REFERENCES

Carriers 57 to 58.

Shipping 106(5).

Warehousemen 15(.5) to 15(3).

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 392, 400, 402.

C.J.S. Shipping Sections 256, 259.

C.J.S. Warehousemen and Safe Depositaries Sections 25 to 26, 28.

**SECTION 36‑7‑505.** Indorser not a guarantor for other parties.

The indorsement of a tangible document of title issued by a bailee does not make the indorser liable for any default by the bailee or by previous indorsers.

HISTORY: 1962 Code Section 10.7‑505; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑505.

Changes: Limited to tangible documents of title.

Purposes:

This section is limited to tangible documents of title as the concept of indorsement is irrelevant to electronic documents of title. Electronic documents of title will be transferred by delivery of control. Section 7‑106. The indorsement of a tangible document of title is generally understood to be directed towards perfecting the transferee’s rights rather than towards assuming additional obligations. The language of the present section, however, does not preclude the one case in which an indorsement given for value guarantees future action, namely, that in which the bailee has not yet become liable upon the document at the time of the indorsement. Under such circumstances the indorser, of course, engages that appropriate honor of the document by the bailee will occur. See Section 7‑502(a)(4) as to negotiable delivery orders. However, even in such a case, once the bailee attorns to the transferee, the indorser’s obligation has been fulfilled and the policy of this section excludes any continuing obligation on the part of the indorser for the bailee’s ultimate actual performance.

Cross Reference: Sections 7‑106 and 7‑502.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Document of title”. Section 1‑201.

“Party”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑505 continues the understanding under existing law that an indorsement of a document, unlike indorsement of a check, is merely a conveyance of the property interest and does not carry any contractual obligations with respect to the bailee’s performance. SC Code Sections 69‑231 and 58‑1757.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

LIBRARY REFERENCES

Carriers 57 to 59.

Shipping 106(5).

Warehousemen 15(.5) to 15(2).

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 392, 400 to 402.

C.J.S. Shipping Sections 256, 259.

C.J.S. Warehousemen and Safe Depositaries Sections 25 to 26.

**SECTION 36‑7‑506.** Delivery without indorsement; right to compel indorsement.

The transferee of a negotiable tangible document of title has a specifically enforceable right to have its transferor supply any necessary indorsement, but the transfer becomes a negotiation only as of the time the indorsement is supplied.

HISTORY: 1962 Code Section 10.7‑506; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑506.

Changes: Limited to tangible documents of title.

Purposes:

1. This section is limited to tangible documents of title as the concept of indorsement is irrelevant to electronic documents of title. Electronic documents of title will be transferred by delivery of control. Section 7‑106. From a commercial point of view the intention to transfer a tangible negotiable document of title which requires an indorsement for its transfer, is incompatible with an intention to withhold such indorsement and so defeat the effective use of the document. Further, the preceding section and the Comment thereto make it clear that an indorsement generally imposes no responsibility on the indorser.

2. Although this section provides that delivery of a tangible document of title without the necessary indorsement is effective as a transfer, the transferee, of course, has not regularized its position until such indorsement is supplied. Until this is done the transferee cannot claim rights under due negotiation within the requirements of this Article (Section 7‑501(a)(5)) on “due negotiation”. Similarly, despite the transfer to the transferee of the transferor’s title, the transferee cannot demand the goods from the bailee until the negotiation has been completed and the document is in proper form for surrender. See Section 7‑403(c).

Cross References:

Point 1: Sections 7‑106 and 7‑505.

Point 2: Sections 7‑501(a)(5) and 7‑403(c).

Definitional Cross References:

“Document of title”. Section 1‑201.

“Rights”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑506 is similar to SC Code Sections 69‑229 and 58‑1757 in giving to a transferee of a negotiable document the right to an indorsement from the transferor. This section also carries over the rule under the present statute that the transfer becomes a negotiation when the indorsement is actually supplied.

A minor change which this Code section would produce is the omission of the requirement that the transfer be for value as is prescribed by the present statute. The omission seems to be based on the fact that the transferor assumes no liability by his indorsement and therefore there is no reason to require the transferee to take for value in order to be entitled to an indorsement of a document of title (cf. Commercial Code Section 3‑201(3) granting the right of indorsement to a transferee of order commercial paper who takes “for value”. The indorser of commercial paper is, of course, secondarily liable on the instrument.).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

LIBRARY REFERENCES

Assignments 42.

Carriers 56.

Shipping 106(5).

Warehousemen 15(.5, 2).

WESTLAW Topic Nos. 38, 70, 354, 403.

C.J.S. Assignments Section 50.

C.J.S. Carriers Section 399.

C.J.S. Shipping Sections 256, 259.

C.J.S. Warehousemen and Safe Depositaries Sections 25 to 26.

**SECTION 36‑7‑507.** Warranties on negotiation or delivery of document of title.

If a person negotiates or delivers a document of title for value, otherwise than as a mere intermediary under Section 36‑7‑508, then unless otherwise agreed the transferor, in addition to any warranty made in selling or leasing the goods, warrants to its immediate purchaser only that:

(1) the document is genuine;

(2) the transferor does not have knowledge of any fact that would impair the document’s validity or worth; and

(3) the negotiation or delivery is rightful and fully effective with respect to the title to the document and the goods it represents.

HISTORY: 1962 Code Section 10.7‑507; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑507.

Changes: Substitution of the word “delivery” for the word “transfer,” reference leasing transactions and style.

Purposes:

1. Delivery of goods by use of a document of title does not limit or displace the ordinary obligations of a seller or lessor as to any warranties regarding the goods that arises under other law. If the transfer of documents attends or follows the making of a contract for the sale or lease of goods, the general obligations on warranties as to the goods (Sections 2‑312 through 2‑318 and Sections 2A‑210 through 2A‑316) are brought to bear as well as the special warranties under this section.

2. The limited warranties of a delivering or collecting intermediary, including a collecting bank, are stated in Section 7‑508.

Cross References:

Point 1: Sections 2‑312 through 2‑318 and 2A‑310‑through 2A‑316.

Point 2: Section 7‑508.

Definitional Cross References:

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Genuine”. Section 1‑201.

“Goods”. Section 7‑102.

“Person”. Section 1‑201.

“Purchaser”. Section 1‑201.

“Value”. Section 1‑204.

SOUTH CAROLINA REPORTER’S COMMENTS

While Commercial Code Section 7‑505 relieves the indorser of a document of title from liability for any default by the bailee, Section 7‑507 prescribes certain warranties of such transferors of documents. These warranties are similar to those set out in SC Code Sections 58‑1758 and 69‑230 relating to the genuineness of the document, that the transferor has no knowledge of defects and that the transfer is rightful and effective. Also like the present law, these warranties apply to negotiation or transfer only where the transfer is for value and may be expressly disclaimed by the transferor.

The provision in the present statute calling for a warranty that “the goods are merchantable or fit for a particular purpose” are omitted from this section on the ground that it is unnecessary. These are sales warranties with respect to the goods transferred governed by Article 2 and Commercial Code Sections 2‑313 and 2‑314 would be applicable to create such implied warranties.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Warranties on sale of goods, see Sections 36‑2‑312 to 36‑2‑318.

LIBRARY REFERENCES

Carriers 57 to 59.

Shipping 106(5).

Warehousemen 15(.5, 2), 16, 17.

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Sections 392, 400 to 402.

C.J.S. Shipping Sections 256, 259.

C.J.S. Warehousemen and Safe Depositaries Sections 25 to 27.

**SECTION 36‑7‑508.** Warranties of collecting bank as to documents of title.

A collecting bank or other intermediary known to be entrusted with documents of title on behalf of another or with collection of a draft or other claim against delivery of documents warrants by the delivery of the documents only its own good faith and authority even if the collecting bank or other intermediary has purchased or made advances against the claim or draft to be collected.

HISTORY: 1962 Code Section 10.7‑508; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑508.

Changes: Changes for style only.

Purposes:

1. To state the limited warranties given with respect to the documents accompanying a documentary draft.

2. In warranting its authority a collecting bank or other intermediary only warrants its authority from its transferor. See Section 4‑203. It does not warrant the genuineness or effectiveness of the document. Compare Section 7‑507.

3. Other duties and rights of banks handling documentary drafts for collection are stated in Article 4, Part 5. On the meaning of draft, see Section 4‑104 and Section 5‑102, comment 11.

Cross References:

Sections 4‑104, 4‑203, 4‑501 through 4‑504, 5‑102, and 7‑507.

Definitional Cross References:

“Collecting bank”. Section 4‑105.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑102.

“Documentary draft”. Section 4‑104.

“Intermediary bank”. Section 4‑105.

“Good faith”. Section 1‑201 [7‑102.]

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑508 states an exception to the warranty obligation rule of the preceding section where the transferor is a “mere intermediary”. Such a transferor warrants only its good faith and authority and all other warranties are negated.

The closest comparable provision under existing law is SC Code Sections 69‑232 and 58‑1760 which limits the warranties implied when the transferor accepts payment of a debt secured by a document. The typical case contemplated by these sections arises where a bank discounts for a seller of goods his draft drawn on the buyer, accompanied by bills of lading covering the goods, and obtains the buyer’s acceptance or payment of the draft. The usual common law rule was that the discounting or pledgee financing agency was not selling the document attached to the draft and thus warranted neither the genuineness of the documents nor the quantity or quality of the goods. See 2 Williston, Sales Section 435 (Rev ed 1948). (The same result is also reached under the usual practice of a bank in collecting drafts secured by documents of title to expressly disclaim responsibility for genuineness of the document or the condition of the goods.) The existing Uniform Acts codified this rule.

Section 7‑508 continues the principle of the existing statutes, but it applies only to a collecting bank or other intermediary known to be entrusted with documents for collection. The immunity from warranty liability also applies where the intermediary has purchased or made advances against the draft to be collected.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Collection of documentary drafts, see Sections 36‑4‑501 to 36‑4‑504.

Instructions to collecting bank, see Section 36‑4‑203.

Warranties on negotiation or delivery of document of title, see Section 36‑7‑507.

LIBRARY REFERENCES

Banks and Banking 161(1).

WESTLAW Topic No. 52.

C.J.S. Banks and Banking Sections 317, 319, 327, 383, 385 to 386, 388 to 392, 407, 409 to 410, 414.

**SECTION 36‑7‑509.** Adequate compliance with commercial contract.

Whether a document of title is adequate to fulfill the obligations of a contract for sale, a contract for lease, or the conditions of a letter of credit is determined by the chapters on sales (Chapter 2), leases (Chapter 2A), and on letters of credit (Chapter 5).

HISTORY: 1962 Code Section 10.7‑509; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑509.

Changes: To reference Article 2A.

Purposes:

To cross‑refer to the Articles of this Act which deal with the substantive issues of the type of document of title required under the contract entered into by the parties.

Cross References: Articles 2, 2A and 5.

Definitional Cross References:

“Contract for sale”. Section 2‑106.

“Document of title”. Section 1‑201.

“Lease”. Section 2A‑103.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑509 leaves the question of whether a document of title conforms to a contract for sale or the conditions of a letter of credit to Articles 2 and 5. For a full discussion of the situations that might come up in which questions of documentary compliance might arise, see, Braucher, Documents of Title, pp 116‑127 (1955).

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Consideration requisite for letter of credit, see Section 36‑5‑105.

Formal requirements of letters of credit, see Section 36‑5‑104.

Formation of sales contract, see Sections 36‑2‑201 et seq.

Letters of credit, see Sections 36‑5‑101 et seq.

Sales, see Sections 36‑2‑101 et seq.

LIBRARY REFERENCES

Carriers 51.

Shipping 106(3.1).

Warehousemen 12.

WESTLAW Topic Nos. 70, 354, 403.

C.J.S. Carriers Section 390.

C.J.S. Shipping Sections 261 to 265.

C.J.S. Warehousemen and Safe Depositaries Section 16.

Part 6

Warehouse Receipts and Bills of Lading: Miscellaneous Provisions

**SECTION 36‑7‑601.** Lost, stolen, or destroyed documents of title.

(a) If a document of title is lost, stolen or destroyed, a court may order delivery of the goods or issuance of a substitute document and the bailee may without liability to any person comply with the order. If the document was negotiable, a court may not order delivery of the goods or issuance of a substitute document without the claimant’s posting security unless it finds that any person that may suffer loss as a result of nonsurrender of possession or control of the document is adequately protected against the loss. If the document was nonnegotiable, the court may require security. The court also may order payment of the bailee’s reasonable costs and attorney’s fees in any action under this subsection.

(b) A bailee that, without a court order, delivers goods to a person claiming under a missing negotiable document of title is liable to any person injured thereby. If the delivery is not in good faith, the bailee is liable for conversion. Delivery in good faith is not conversion if the claimant posts security with the bailee in an amount at least double the value of the goods at the time of posting to indemnify any person injured by the delivery that files a notice of claim within one year after the delivery.

HISTORY: 1962 Code Section 10.7‑601; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provision: Former Section 7‑601.

Changes: To accommodate electronic documents; to provide flexibility to courts similar to the flexibility in Section 3‑309; to update to the modern era of deregulation; and for style.

Purposes:

1. Subsection (a) authorizes courts to order compulsory delivery of the goods or compulsory issuance of a substitute document. Compare Section 7‑402. Using language similar to that found in Section 3‑309, courts are given discretion as to what is adequate protection when the lost, stolen or destroyed document was negotiable or whether security should be required when the lost, stolen or destroyed document was nonnegotiable. In determining whether a party is adequately protected against loss in the case of a negotiable document, the court should consider the likelihood that the party will suffer a loss. The court is also given discretion as to the bailee’s costs and attorney fees. The rights and obligations of a bailee under this section depend upon whether the document of title is lost, stolen or destroyed and is in addition to the ability of the bailee to bring an action for interpleader. See Section 7‑603.

2. Courts have the authority under this section to order a substitute document for either tangible or electronic documents. If the substitute document will be in a different medium than the original document, the court should fashion its order in light of the requirements of Section 7‑105.

3. Subsection (b) follows prior Section 7‑601 in recognizing the legality of the well established commercial practice of bailees making delivery in good faith when they are satisfied that the claimant is the person entitled under a missing (i.e. lost, stolen, or destroyed) negotiable document. Acting without a court order, the bailee remains liable on the original negotiable document and, to avoid conversion liability, the bailee may insist that the claimant provide an indemnity bond. Cf. Section 7‑403.

4. Claimants on non‑negotiable instruments are permitted to avail themselves of the subsection (a) procedure because straight (non‑negotiable) bills of lading sometimes contain provisions that the goods shall not be delivered except upon production of the bill. If the carrier should choose to insist upon production of the bill, the consignee should have some means of compelling delivery on satisfactory proof of entitlement. Without a court order, a bailee may deliver, subject to Section 7‑403, to a person claiming goods under a non‑negotiable document that the same person claims is lost, stolen, or destroyed.

5. The bailee’s lien should be protected when a court orders delivery of the goods pursuant to this section.

Cross References:

Point 1: Sections 3‑309, 7‑402 and 7‑603.

Point 2: Section 7‑105.

Point 3: Section 7‑403.

Point 4: Section 7‑403.

Point 5: Sections 7‑209 and 7‑307.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Good faith”. Section 1‑201 [7‑102].

“Goods”. Section 7‑102.

“Person”. Section 1‑201.

SOUTH CAROLINA REPORTER’S COMMENTS

Since a bailee is exposed to liability to the holder of a document, it is not safe to deliver goods represented by the document without a cancellation or marking of the document. Moise v Southern Ry., 129 SC 162, 123 SE 791 (1924). It may even amount to a crime under the Uniform Warehouse Receipts Act (SC Code Section 69‑245). Thus where a negotiable document has been lost or destroyed, SC Code Sections 69‑187 and 58‑1736 sets up the procedure whereby the owner may get possession of the goods by court order and the bailee will be protected in making delivery by an indemnity bond.

Section 7‑601 continues the principles of these statutes with a few modifications. The coverage is broadened to include non‑negotiable as well as negotiable documents. The coverage is also expressly extended to “stolen” as well as lost or destroyed documents.

SC Code Section 58‑1736 only provides for a court order to deliver the goods represented by a missing bill of lading while SC Code Section 69‑187 was altered from the uniform version to authorize the issue of a duplicate warehouse receipt which is missing. Subsection (1) authorizes the alternative relief of the issuance of a substitute for both bills of lading and warehouse receipts so that the bailment can continue.

Both of the existing uniform statutes as originally drafted provided that the delivery of the goods under an order of the court did not relieve the bailee from liability to a holder of a negotiable document. The provision was omitted from the Warehouse Receipts Act when enacted in South Carolina (SC Code Section 69‑187). Subsection (1) would change the present rule of a carrier’s liability to a holder of a bill of lading and limit the recourse of such a holder to the posted bond which is required where the missing document was negotiable and discretionary where the document is non‑negotiable.

The Uniform Acts authorize the delivery of the goods only under court order. Subsection (2) and the South Carolina amendment to the Warehouse Receipts Act (SC Code Section 69‑187) authorizes delivery of the goods to a person claiming under a negotiable document without a court order. In that event, however, the bailee acts at his peril with respect to his liability to a holder of a negotiable document. This would presumably be the result under existing law since the bailee would not have the protection of the statute (SC Code Sections 69‑183 and 58‑1735).

The existing law characterizes the warehouseman’s liability for delivery to other than the holder as a “conversion”. SC Section 69‑183. The nature of the carrier’s liability under similar circumstances is not specified. Subsection (2) would modify the conversion liability by limiting it to the bailee who delivers in bad faith and without court action and expressly negates such liability if the bailee in good faith delivers pursuant to a filed classification or tariff. In such case, as well as where the claimant posts security of double the value of the goods, the bailee’s liability will be limited to actual damages.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Application of tariffs and classifications to documents of title, see Section 36‑7‑103.

Lost, destroyed and stolen securities, see Sections 36‑8‑405, 36‑8‑406.

Rights acquired on negotiation of document notwithstanding document’s loss, theft, etc., see Section 36‑7‑502.

LIBRARY REFERENCES

Carriers 46.5.

Lost Instruments 1, 3.

Shipping 106(1).

Warehousemen 11.1.

WESTLAW Topic Nos. 70, 246, 354, 403.

C.J.S. Carriers Section 390.

C.J.S. Lost Instruments Sections 2 to 4.

C.J.S. Shipping Sections 256 to 257.

C.J.S. Warehousemen and Safe Depositaries Section 16.

RESEARCH REFERENCES

Encyclopedias

S.C. Jur. Attorney Fees Section 19, Lost Documents.

LAW REVIEW AND JOURNAL COMMENTARIES

Recovery of Attorneys’ Fees as Costs or Damages in South Carolina. 38 S.C. L. Rev. 823.

**SECTION 36‑7‑602.** Judicial process against goods covered by negotiable document of title.

Unless a document of title was originally issued upon delivery of the goods by a person that did not have power to dispose of them, a lien does not attach by virtue of any judicial process to goods in the possession of a bailee for which a negotiable document of title is outstanding unless possession or control of the document is first surrendered to the bailee or the document’s negotiation is enjoined. The bailee shall not be compelled to deliver the goods pursuant to process until possession or control of the document is surrendered to the bailee or to the court. A purchaser of the document for value without notice of the process or injunction takes free of the lien imposed by judicial process.

HISTORY: 1962 Code Section 10.7‑602; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provisions: Former Section 7‑602.

Changes: Changes to accommodate electronic documents of title and for style.

Purposes:

1. The purpose of the section is to protect the bailee from conflicting claims of the document of title holder and the judgment creditors of the person who deposited the goods. The rights of the former prevail unless, in effect, the judgment creditors immobilize the negotiable document of title through the surrender of possession of a tangible document or control of an electronic document. However, if the document of title was issued upon deposit of the goods by a person who had no power to dispose of the goods so that the document is ineffective to pass title, judgment liens are valid to the extent of the debtor’s interest in the goods.

2. The last sentence covers the possibility that the holder of a document who has been enjoined from negotiating it will violate the injunction by negotiating to an innocent purchaser for value. In such case the lien will be defeated.

Cross Reference:

Sections 7‑106 and 7‑501 through 7‑503.

Definitional Cross References:

“Bailee”. Section 7‑102.

“Delivery”. Section 1‑201.

“Document of title”. Section 1‑201.

“Goods”. Section 7‑102.

“Notice”. Section 1‑202.

“Person”. Section 1‑201.

“Purchase”. Section 1‑201.

“Value”. Section 1‑204.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑602, similar to SC Code Sections 69‑198 and 58‑1743, protects bailees from attachment of goods in their possession until the document of title is surrendered or impounded by the court. The reason for this rule is that the bailee is under a duty to have goods ready to be delivered to the holder of a negotiable document of title and thus should retain possession until the documents are surrendered. This rule does not apply, however, as against one who has a valid claim independent of and adverse to the document as where the goods were stolen and then deposited.

The last sentence of this section giving a purchaser who acquires a document without notice freedom from process of injunction is new.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Attachment, generally, see Sections 15‑19‑10 et seq.

When document of title confers no right against person having prior interest in goods, see Section 36‑7‑503.

LIBRARY REFERENCES

Attachment 63, 175, 180, 182.

Execution 113, 115, 130.

WESTLAW Topic Nos. 44, 161.

C.J.S. Attachment Sections 48, 191 to 193, 219 to 226.

C.J.S. Executions Sections 111, 142 to 143, 151.

**SECTION 36‑7‑603.** Conflicting claims; interpleader.

If more than one person claims title to or possession of the goods, the bailee is excused from delivery until the bailee has a reasonable time to ascertain the validity of the adverse claims or to commence an action for interpleader. The bailee may assert an interpleader either in defending an action for nondelivery of the goods, or by original action.

HISTORY: 1962 Code Section 10.7‑603; 1966 (54) 2716; 2014 Act No. 213 (S.343), Section 2, eff October 1, 2014.

OFFICIAL COMMENT

Prior Uniform Statutory Provisions: Former Section 7‑603.

Changes: Changes for style only.

Purposes:

1. The section enables a bailee faced with conflicting claims to the goods to compel the claimants to litigate their claims with each other rather than with the bailee. The bailee is protected from legal liability when the bailee complies with court orders from the interpleader. See e.g. Northwestern National Sales, Inc. v. Commercial Cold Storage, Inc., 162 Ga. App. 741, 293 S.E.2d. 30 (1982).

2. This section allows the bailee to bring an interpleader action but does not provide an exclusive basis for allowing interpleader. If either state or federal procedural rules allow an interpleader in other situations, the bailee may commence an interpleader under those rules. Even in an interpleader to which this section applies, the state or federal process of interpleader applies to the bailee’s action for interpleader. For example, state or federal interpleader statutes or rules may permit a bailee to protect its lien or to seek attorney’s fees and costs in the interpleader action.

Cross reference:

Point 1: Section 7‑403.

Definitional Cross References:

“Action”. Section 1‑201.

“Bailee”. Section 7‑102.

“Delivery”. Section 1‑201.

“Goods”. Section 7‑102.

“Person”. Section 1‑201.

“Reasonable time”. Section 1‑205.

SOUTH CAROLINA REPORTER’S COMMENTS

Section 7‑603, similar to SC Code Sections 69‑190, 69‑191, 58‑1738 and 58‑1739, does not require the bailee to act at his peril between conflicting claims to the goods. He is excused from delivering until he has had a reasonable time to ascertain the validity of the adverse claim and he may either originate an action for interpleader or move to interplead an adverse claimant in an action for nondelivery.

Editor’s Note

2014 Act No. 213, Section 51, provides as follows:

“SECTION 51. This act becomes effective on October 1, 2014. It applies to transactions entered into and events occurring after that date.”

CROSS REFERENCES

Civil remedies and procedure generally, see Title 15.

LIBRARY REFERENCES

Carriers 91, 94(2).

Interpleader 13.

Shipping 132(6).

Warehousemen 34(3).

WESTLAW Topic Nos. 70, 222, 354, 403.

C.J.S. Aeronautics and Aerospace Section 230.

C.J.S. Carriers Sections 408, 415.

C.J.S. Interpleader Section 12.

C.J.S. Shipping Section 365.

C.J.S. Warehousemen and Safe Depositaries Sections 74, 85.