

Chapter 8. Overview of International Trade Payment

1. Introduction

The method of payment determines how payment is going to be made.

The method of payment also determines the obligations of the parties (seller and buyer).

The main four basic payment terms in international trade are:

- 1) payment in advance (cash in advance)**
- 2) open account (cash in arrears)**
- 3) documentary collections**
- 4) documentary credits.**

Documentary collections come in two types:

- 1) documents against payment (cash against document)
- 2) documents against acceptance (sometimes referred to as time draft, or trade acceptance).

Documentary credits appear in two basic forms:

- 1) at sight letter of credit
- 2) usance letter of credit (sometimes referred to "acceptance letter of credit", or "time letter of credit")
- 3) deferred payment letter of credit

In another section we will discuss the respective payment terms in much greater detail.

Methods of payments can be classified into various categories by the methods or by the time. Methods of payments are at large classified into three categories, "bank transfer", "documentary collection", and "documentary credits".

TABLE Methods of Payments

Category	Terms of Payments
Payment in Advance	cash in advance : 선수금방식
Open Account	Open Account(O/A : 오픈어카운트), Cash in Arrears
Documentary Collection (추심방식)	D/P(Documents against Payment) : 지급인도조건
	D/A(Documents against Acceptance) : 인수인도조건
Documentary Credits (신용장방식)	Sight L/C : 일람불신용장
	Usance L/C (or Acceptance L/C) : 기한부신용장
	Deferred Payment L/C(연지급신용장)
By the Technical Methods of Payment (지급수단에 따라)	Telegraphic Transfer(T/T)(전신송금)
	Mail Transfer(M/T)(우편송금)
	Demand Draft(D/D)(송금수표)
concurrent payment (동시지급방식)	CAD(Cash against Documents) (서류상환지급방식)
	COD(Cash on Delivery) (물품인도지급방식)

The basic payment methods can be listed as follows in security order (in safety order) for an exporter:

- 1) payment in advance (cash in advance before delivery)**
- 2) documentary credits (documentary letter of credit (L/C))**
- 3) documentary collection**
- 4) bank transfer (based on open account trading terms)**

FIGURE Bank Transfer(Telegraphic Transfer(T/T))(송금방식)

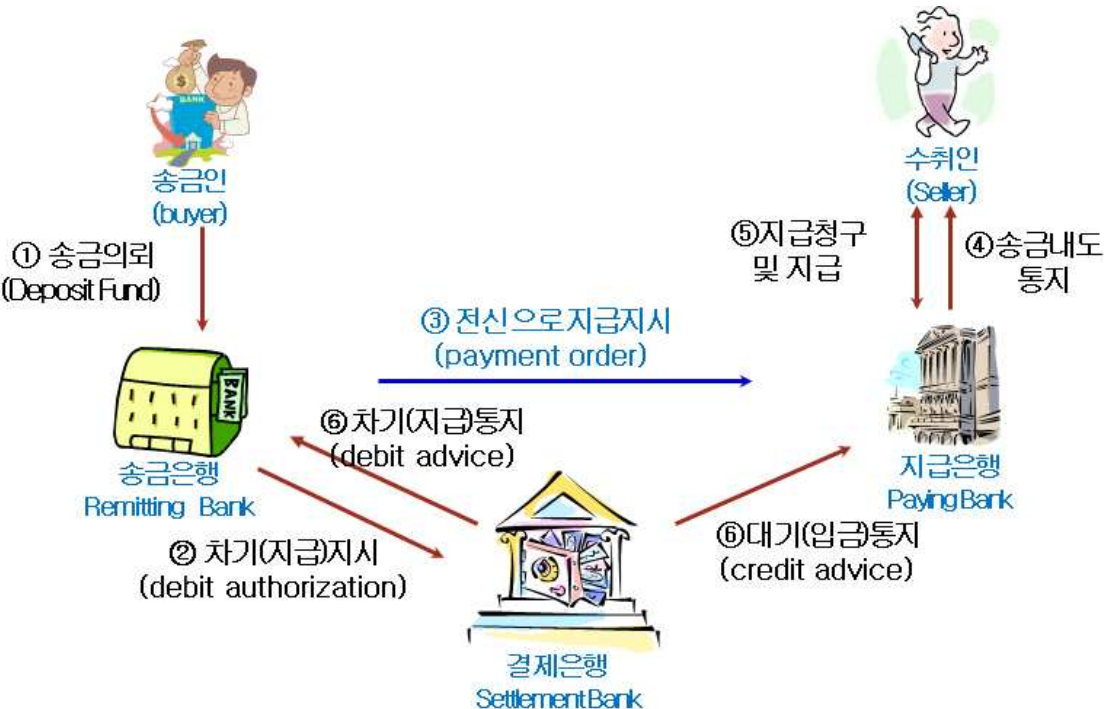
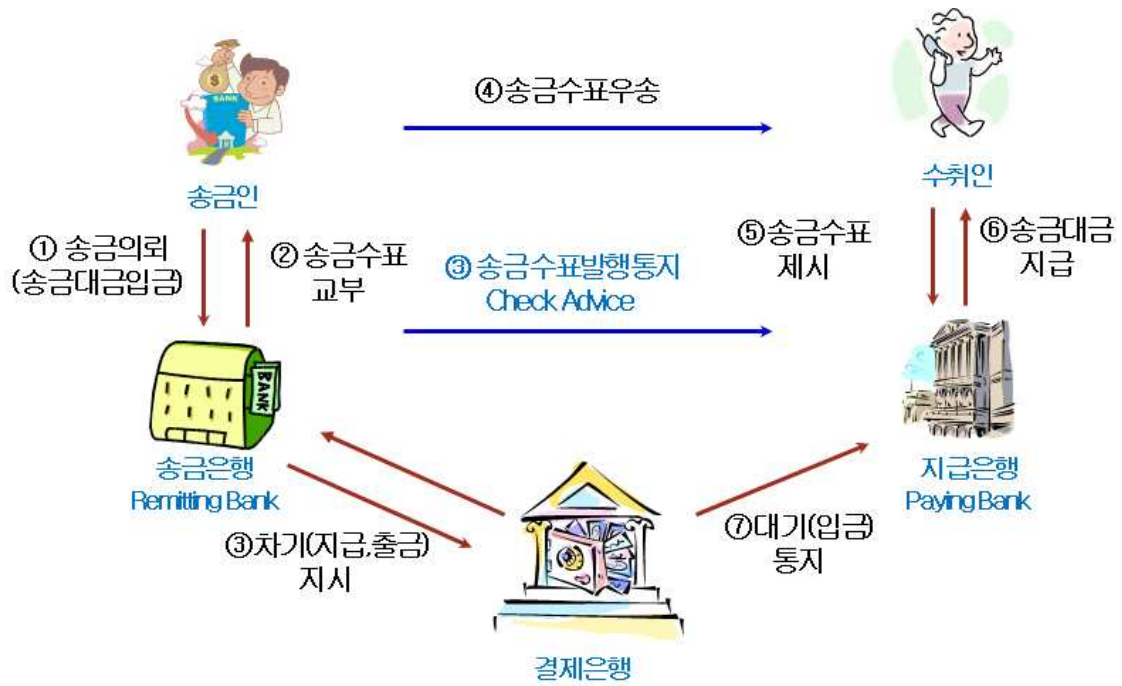


FIGURE Demand Draft(송금수표)



3. Payment in Advance(Cash in Advance)

In payment in advance (also known as ("aka") cash in advance), a seller gets paid before delivery of goods (or shipment).

A buyer makes payment up front before shipment of goods (or delivery of goods).

From the seller's point of view, receiving payment prior to the shipment is an ideal situation as it eliminates all risks related with nonpayment.

However, all the risks will be borne to a buyer. Therefore a buyer loathe cash in advance.

A buyer wonders if he will get the goods. Most buyers find this totally unacceptable except some limited cases.

The amount of payment in advance varies from 5% to 100% of the contract amount.

Payment in advance carries the highest risk to the buyer as they are wholly dependent on the seller's shipping the correct goods in accordance with the contract.

Payment in advance are not commonly used in international trade.

It is used in product of high demand, unique product, small orders (such as spare parts), first orders, etc.

4. Open Account

In an open account transaction the seller will dispatch the goods to the buyer and send the invoice with shipping documents directly to the buyer.

Open account means that the seller delivers goods or services to the buyer without receiving cash, a bill of exchange or any other legally binding security at the time of delivery, and the buyer is expected to pay according to the terms of the contract.

If goods are shipped by sea then the documents of title will usually be sent directly to the buyer.

The seller loses all control of the goods and is relying on the creditworthiness of the buyer to pay.

5. Documentary Collection(Bank Collection)

Documentary collection, also sometimes referred to as "bank collection", is a method of payment where the seller's and buyer's banks assist by forwarding documents to the buyer against payment or against acceptance of a draft (or a bill of exchange).

In documentary collection the buyer should either pay or accept the draft before they gain control over the documents.

6. Documentary Credits

A documentary credit (or letter of credit (L/C)) is basically a payment guarantee by the buyer's bank ("issuing bank").

A documentary credit states that if the documents presented complies with the terms and conditions of the credit, the issuing bank will make payment to the beneficiary (usually to a seller).

The applicant (a buyer) will request their bank to issue an letter of credit. The credit is advised (notified) through the banking system (through the advising bank) to the beneficiary (a seller).

Once the seller receives an letter of credit, they can ship the goods and prepares all of the documents required by the credit and presents them through the banking system.

7. Examples of Payment Terms

Terms of Payment

Example 1)

Payment : By a Documentary Letter of Credit at 60 days after sight in our favour

Example 2)

Article 2. Payment

2.1 Currency & Payment method

Except otherwise agreed by the parties, all the payment for the Goods shall be made in EURO 20,070.00.

60% T/T : before preparing goods.

40% T/T : 120 days after arrival of goods.

Example 3)

Article 4. Payment

4.1 The standard payment for the Goods shall be made in United States Dollars by D/A payment in favour of the Seller. D/A payment term would be possible under the limitation on KEIC's credit limitation. The seller should issue Proforma Invoice with the payment term of D/A 90 days from the B/L date.

4.1.1 The payment currency for the shipment destined Artenius Hellas would be EURO. Both parties would settle final price with USD-EUR conversion rate on the shipment date. Temporary price for the shipment in P/I will be calculated by temporary conversion rate near the date of P/I issuing.

Example 4)

Article 4. Payment

Except otherwise agreed by both parties in written agreement, all the payment for the Goods shall be made in United States Dollars either by Cash in advance or an irrevocable letter of credit in favor of the Seller.

Example 5)

8. TERMS OF PAYMENT : D/A 60 DAYS FROM B/L DATE

Example 6)

A7 Payment Conditions (Art. 5)

Payment on open account (art. 5.1)

Time for payment (if different from art. 5.1) _____ days from date of invoice.

Other : _____

Open account backed by demand guarantee or standby letter of credit (art. 5.5)

Payment in advance (art. 5.2)

Date (if different from art. 5.2) : _____

Total price _____ % of the price

Documentary Collection (art. 5.5)

D/P Documents against payment D/A Documents against acceptance

Irrevocable documentary credit (art. 5.3)

Confirmed Unconfirmed

Place of issue (if applicable) : _____ Place of confirmation (if applicable) : _____

Credit available : _____ Partial shipments : _____ Transshipment : _____

By payment at sight Allowed Allowed

By deferred payment at : ___ days Not allowed Not allowed

By acceptance of drafts at : ___ days

By negotiation

Date on which the documentary credit must be notified to seller (if different from art. 5.3)

___ days before date of delivery Other : _____

Other : _____

(e.g. cheque, bank draft, electronic funds transfer to designated bank account of seller)

Terms of Shipment

Example 1)

Shipment

Shipment will be done within 30 days after sending 60% T/T by the Buyer.

But if possible, the Seller tries to reduce time.

Example 2)

Article 5. Shipment of the Goods(선적)

5.1 The Goods shall be delivered by the Seller to the Buyer in accordance with the agreed Shipment schedule.