Getting Paid

All international transactions involve a degree of risk either for buyers or sellers or both. Negotiations will inevitably favour the party with stronger bargaining power and the end result will form an integral part of the contract of sale.

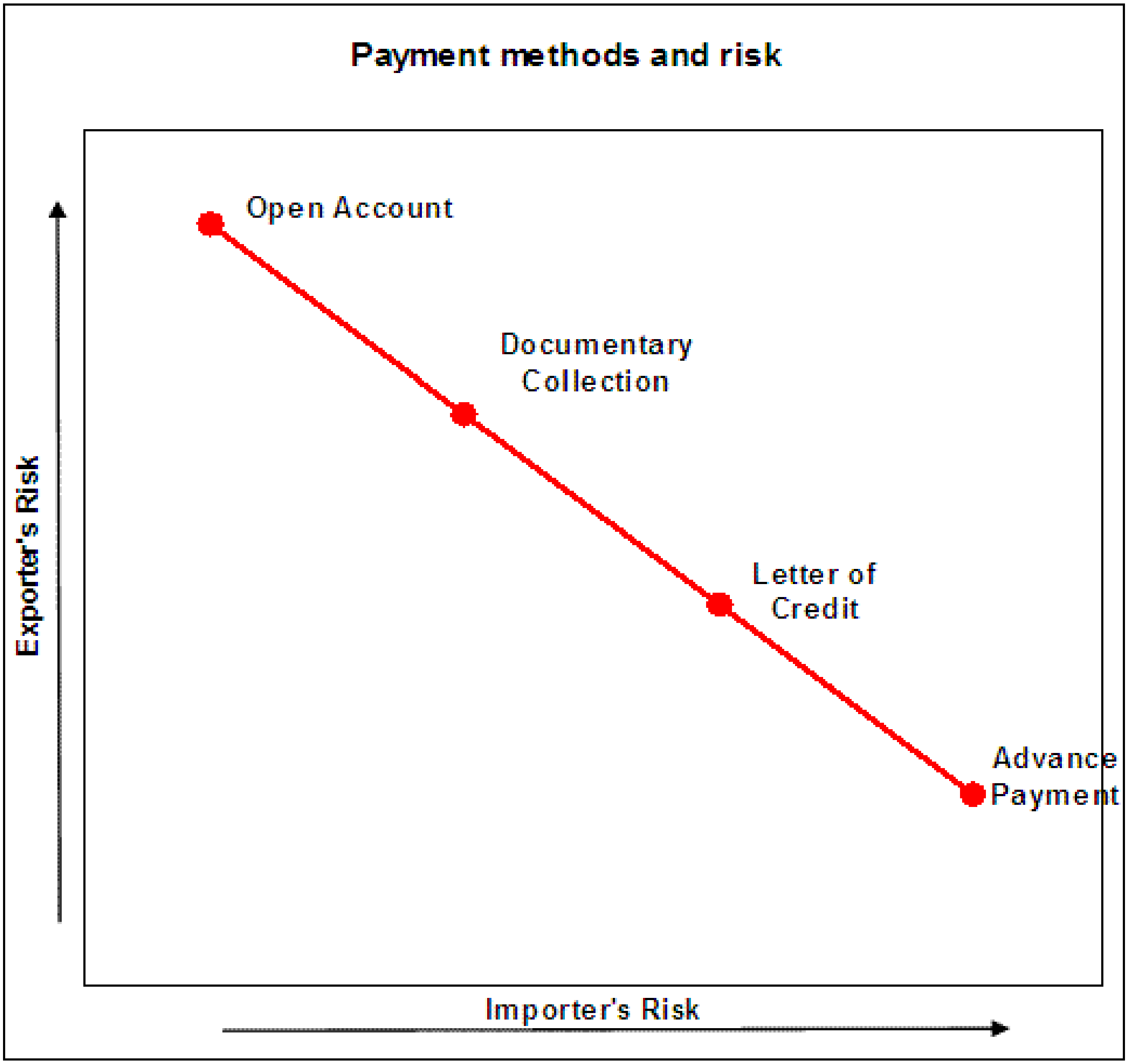
The following options are available to exporters and importers:

- Advance payment - Where an importer is required to pay for merchandise prior to shipment. High risk for importers/low risk for exporters. This is common where buyers and sellers do not have a close relationship or where there may be adverse credit issues.
- Open account - Where the exporter ships merchandise and bills the importer at a later date. High risk for exporters/low risk for importers. This is used where buyer and seller have a high degree of trust e.g. between subsidiaries of international companies.

Between these two extremes are:

- Documentary Collection - Where a bank acts as an intermediary between buyer and seller without accepting financial risk. It is commonly used when there is an ongoing business relationship between the two parties.
- Letters of Credit - Where the importer's bank issues a document stating that the bank will pay the exporter when the terms of the document are fulfilled. Typically used when an importer's credit rating is questionable, when the exporter needs finance or when market regulations require them. They may be **irrevocable**(changes may only be made where both buyer/seller agree), **revocable** (which may be changed without the exporter's agreement) or **confirmed** (payment may be made by a third bank in the event of default)

While not entirely eliminating the risk of non-payment, these methods can provide you with a reasonable measure of confidence.


Payment methods and risk
Open Account
Documentary
Collection
Letter of
Credit
Advance
Payment
Exporter's Risk
Importer's Risk