

METHODS OF PAYMENT

There are four primary methods of exchanging goods for payment. Each method offers advantages and disadvantages depending upon the relationship between the Importer and the Exporter (buyer and seller).

EXPORTERS RISK LEVEL	IMPORTERS ADVANTAGE	
High risk	Open account Collection Letter of credit	Best terms
Low risk	Cash in advance	Worst terms

Open Accounts

In an open account transaction the Importer generally receives the goods followed by the invoice and shipment documents and then makes payment to the Exporter. In this transaction the Importer takes no risk.

Collection/CAD

Collections allow the exchange of goods for payment. In the usual transaction, the Exporter controls the merchandise until payment is made by the Importer. The Exporter will employ his or her bank to transmit the Exporter's documents and original bill of lading to the Importer's bank. The Importer's bank will hold the documents until the Importer pays the monies due. Sometimes, Exporters can forward documents through a Freight forwarder or Customs broker to speed the process.

Letter of credit

The letter of credit assures payment by one party to another through the use of the 'full faith and credit' of the Importer's bank. The bank issuing the letter of credit (the Importer's bank) requires that if documents are provided by the seller under the terms and conditions of the letter of credit the Importer's bank will pay the Exporter (through the Exporter's bank). The letter of credit confirmed by the Exporter's domestic bank reduces the need for the Exporter to investigate the buyer's credit worthiness. A significant difference between a letter of credit and a collection letter is that the collection letter does not guarantee payment, only control of the goods while the letter of credit controls the goods and obligates payment.

Cash In Advance, CIA

This method of payment is least advantageous to the Importer. Under these terms, the Importer is required to pay for the goods prior to receipt of the goods, usually before the goods are even shipped.