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# **APEC: GROWING INDIGENOUS BUSINESSES THROUGH TRADE (PHASE 3) 2024**



## **Methods of payment**





# FACTSHEET

## Methods of Payment

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How exporters are being paid for their offerings is an important decision that is based on how much risk they are willing to take. Meeting their own preferences while at the same time satisfying the importer's needs can be a fine balance.

Exporters can choose from the following 4 payment options:

### **Open Account:**

- The importer agrees to pay for the goods at a specific date, either at arrival or at a nominated date after arrival (i.e. 30 days after).
- It represents a high risk for the exporter because documents usually get sent to the importer directly who will get control of the goods before giving payment.
- This method of payment is commonly used by parties who have been doing joint business for an extended period of time.

### **Documentary Collection:**

- The exporter sends all original documents to his bank, including the bill of exchange, or draft, which is the major tool to settle the payment.
- This draft is then signed by the importer, confirming his acceptance of the payment terms. This could be completed either at sight- documents will only be released after payment - or after sight- documents will be released once the draft is accepted. In case of the latter, the exporter has to be prepared to offer credit (usually 30, 60, or 90 days after arrival).
- Documentary Collection is a very common method of payment in international trade.

## Letters of Credit:

- The exporter's risk is minimized since this 'credit letter' from the bank guarantees that the importer's payment will be completed on time, covering the full amount that is to be paid.
- In the event that the importer is unable to pay for the purchase, the bank must cover the full or remaining sum of that purchase.
- It is essentially a contract and the importer's bank will only issue a letter of credit if it is satisfied with the importer's creditworthiness.
- The most commonly used documentary Letters of Credit in international trade are IRREVOCABLE. Once issued, they cannot be cancelled or amended without the consent of all parties concerned.
- Parties to a documentary Letter of Credit:
  - Applicant: the importer/ buyer
  - Beneficiary: the exporter/seller
  - Issuing bank: the applicant's bank
  - Advising bank: the corresponding bank of the issuing bank (this may be the exporter's bank)
- Letter of Credit is the most complex and expansive payment method out of all four options, yet the safest for all.

## Payment in Advance:

- For an exporter, this would be the best method of payment since it offers the lowest risk with getting paid before the shipment, sometimes even before production.
- The importer bears the full risk of non-delivery and is generally only used in situations when the offer is urgently needed, or when there is strong contract is in place.

