Payment as the most important link of foreign trade operations

During the transaction the buyer is usually the following goals:

1. Get the specified term in the contract goods and services in the right quantity and adequate quality.
2. Ensure funding and pay contract, being sure, the seller fully meet its obligations.

Seller is interested primarily fastest payment is received. Thus it needs:

1. Be sure that, in case of their duties contract will be paid within the agreed time and in full.
2. Be sure that, no external circumstances do not prevent you from obligations that directly affect the terms of receiving payment.

So including payment terms considering whereas the opposite direction interests of the parties always the subject of complex negotiations and accommodation.

In modern international trade are the following types of payments:

1. payment on an open account (clean payment).
2. pay bill (by draft=Bill of exchange).
3. documentary collection.
4. letter of credit=L/C.

Essence of the first way is paid by the buyer as a rule by bank transfer or check, merchant account for goods and services.

If payments on the drafts conditionally possible to allocate “import” or “export” draft depending on he issued in the country of buyer or seller.

If payments for documentary collection exporter sends through remitting bank (usually your bank) contract documents in the collecting bank (usually in the importing country) to pay (documents against payment) or acceptance of draft (documents against acceptance).

Importer obtains documents only after payment or acceptance.

Documentary Letter of Credit is the obligation of the bank, given by him alone or as directed by the importer, at the disposal beneficiary (exporter) certain amount in a fixed currency provided accurate compliance with the terms of credit.

The major role played in bank letter of credit transactions, that exposes credit, or bank issuer. Open letter of credit is at the direction of Applicant (Importer), which defines its key terms. Transfer of credit beneficiary (exporter) is usually, through a bank intermediary, called the advising bank. Role of the last is to test the validity of document. In case, advising bank assumes additional obligations, associated with pay letter of credit, he goes into the category of the confirming bank.

Thus, in “classical letters of credit operations” there are four members: applicant (importer), issuing bank, advising/confirming bank and beneficiary (exporter). Their relationships are presented schematically in Figure.

On the following methods of payment credit is the most neutral and balanced from the standpoint of the interests of the exporter and importer. There are many types of credit. Consider only 2 of them, frequently encountered in practice.

Irrevocable L/C - irrevocable letter of credit, which can be rejected only with the consent of a person, which expects to pay for goods or services.

Confirmed L/C - confirmed letter of credit, to which the bank that makes payment, gives a guarantee that payment will be made after the presentation of certain documents.