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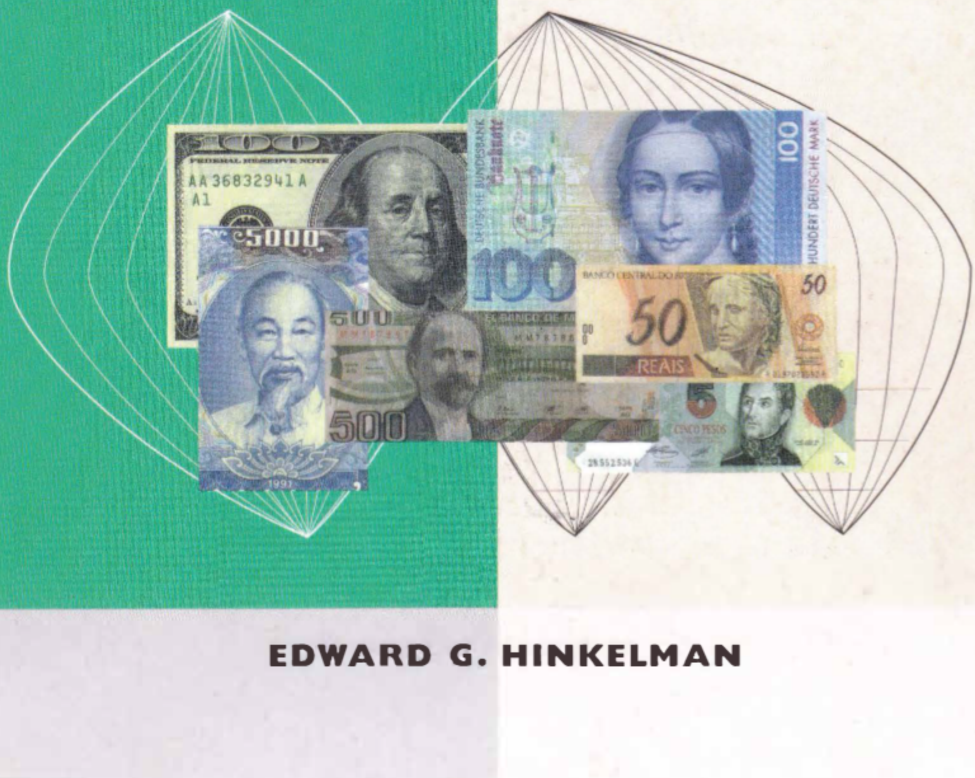
INTERNATIONAL PAYMENTS

2nd Edition

Letters of Credit, Documentary Collections and Cyberpayments in International Transactions



EDWARD G. HINKELMAN

THE SHORT COURSE IN INTERNATIONAL TRADE SERIES

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A SHORT COURSE IN

INTERNATIONAL PAYMENTS

2nd Edition

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EDWARD G. HINKELMAN is an international economist with more than 25 years experience as an importer and exporter. He is the author of four books on international trade, including the industry standard *Dictionary of International Trade* and the *Short Course in International Trade Documentation*.

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A SHORT COURSE IN

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How to use letters of credit, D/P and D/A terms, prepayment, credit and cyberpayments in international transactions

Edward G. Hinkelman

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INTRODUCTION

The past 15 years have seen a dramatic fall in trade barriers, the globalization of markets, and a huge growth in international trade. Companies of all sizes are seeking to take advantage of the opportunities in this new world economy.

International transactions, however, add an additional layer of risk for buyers and sellers familiar only with doing business in their domestic markets. Currency regulations, foreign exchange risk, political, economic, or social upheaval in the buyer's or seller's country, questions of payment, and different business customs may all contribute to uncertainty. Ultimately, sellers want to get paid and buyers want to get what they pay for. Choosing the right payment method can be the key to a transaction's feasibility and profitability.

This book is designed to help both buyers and sellers learn about international payment options. The relative merits of the four most common types of payments are explained, and the two most common options—documentary collections and documentary letters of credit—are featured. This book also contains chapters on cyberpayments, Incoterms 2000, a comprehensive glossary, and a section devoted to documents used in international transactions.

To learn more about payment methods read one or more of the publications listed in the resources chapter and consult with the international trade finance department of your bank.

Edward G. Hinkelman
San Rafael, California

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Key Issues in International Payments

THERE ARE SEVERAL broad issues that affect what payment method will ultimately be used in an international transaction. Every participant in the transaction must consider these issues, though they will affect each differently and to a different degree.

Even after these broader issues are resolved, questions will continue to be raised throughout the transaction. Therefore, careful consideration of these issues can make a transaction go smoother, keep costs to a minimum, and ensure timely and efficient delivery and distribution of goods.

Who Bears the Credit Risk?

In almost all business transactions the buyer would prefer to obtain easy, extended, and inexpensive (preferably free!) credit terms. Credit gives the commercial buyer the opportunity to resell the goods before having to pay for them. In many instances, the buyer will have a market for goods but not possess sufficient working capital to make an outright purchase and payment prior to their resale. Credit makes many such transactions possible.

At the same time, the seller has a different set of priorities. Having paid for product development, raw materials, component parts, labor, and overhead, the seller needs to get his investment back. The seller may not know the buyer or may not trust that the buyer is financially stable enough to make payment at a future date. International transactions are not as stable, secure, transparent, or reliable as domestic transactions and many things can happen between the time of the sale and the expected time of payment. For these and other reasons, the seller will always prefer to be paid immediately; either at delivery or even prior to delivery.

- BUYER/IMPORTER: Prefers that the seller bear the credit risk and wants to make certain that he receives the goods once he has paid
- SELLER/EXPORTER: Prefers that the buyer bear the credit risk and wants to make certain he receives payment for goods shipped

Who Finances the Transaction?

In an international transaction it may take from several weeks to several months for merchandise to find its way from the warehouse of the seller to the warehouse of the buyer. Goods must be prepared for export, trucked or sent by rail to the port, export cleared, shipped to another port, possibly transshipped to the final port, warehoused awaiting customs clearance, inspected, customs cleared, sent overland to the final destination, and finally inventoried at the buyer's warehouse. The seller has already made a substantial investment in