

## Letters of Credit. Methods of Payment

**Objectives:** This Learning Unit aims at:

- Analyzing various methods of payment used in international trade and outlining their differences, advantages and disadvantages both for the importer and the exporter.
- To understand what documentary collections are and how they work. Export and Import Collections will be analysed.
- Understanding the following:
  - The importance of documentary credits in international trade
  - How a documentary credit works
  - Obligations of the parties involved
- To understand how Import Documentary Credits operate.

**In this unit you will** learn about the various methods of payment and the differences which exist between the different payment methods used in international trade.

**This will be achieved by:**

- Outlining a definition of an international sale and explaining what a method of payment in international trade is.
- Examining how to receive and effect payment for international contracts of sale.
- Analyzing the various methods of payment in international trade.
- Learning about Documentary Collection and the difference between Clean and Documentary Collection.

### Learning Unit Summary

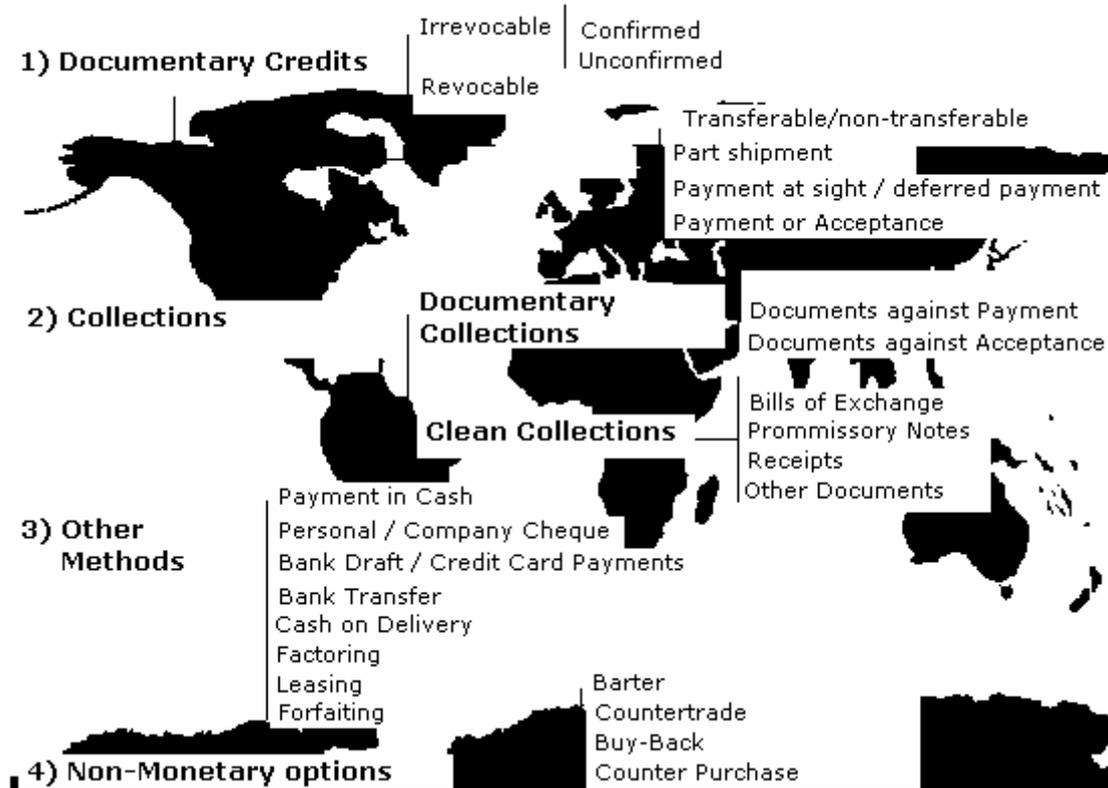
In this Learning Unit we will examine how to receive and effect payment for international contracts of sale. Our focus will be on export methods of payment. The information presented here is also applicable to import transactions. The selection of the most suitable method of payment is a key factor of a successful export sale. We will focus on providing you with an overview of the various methods of payment. The primary methods of payment will be examined in detail in individual learning units.

This course covers all aspects related to obtaining payment. Learners will examine how to receive and effect payment for international contracts of sale. The primary focus is on export methods of payment with the information presented also applicable to import trade transactions. The selection of the most suitable method of payment is a

key factor of a successful export sale and these are examined in detail from advance payment and documentary collections through to documentary credits.

Property*	Initiates payment	Payment Security	Speed of payment	Notes for the exporter
Cheque		\$		- No Advantage - High Risk
Bank Draft		\$		- Low risk if the bank is solvent
Payment Order		\$		- Importer can receive goods and not pay
Documentary Payment Order		\$		- Exporter delivers the goods upon receipt of the payment order.
Clean Collection	Depends	\$		The importer gets the goods and may not pay
Documentary Collection		\$		Exporter keeps control until payment/acceptance.
Documentary Credit		\$		Exporter ships after bank issues bank undertaking.

Exporter      \* Property of the goods before payment  
 Importer      \$ = Low Cost      \$ = Higher Cost      \$ = Highest Cost



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