on the importer's credit and reputation. One must also consider if free transfer of funds is prevalent in the importing country as well as the existence of tight foreign exchange controls.

In granting open account terms to the buyer, the exporter will ship the goods and forward the pertaining documents to the importer with the understanding that settlement, with no guarantees, will take place at a pre-determined date. If the buyer should default, the exporter then will lose control over the documents and thereby the goods.

PAYMENT IN ADVANCE

Prepayment or cash in advance, which is uncommon, is the most risk-free condition for the exporter.

DOCUMENTARY COLLECTIONS

The principle of a documentary collection is that the exporter will ship the goods before receiving payment. He/she will use a bank in the importing country (normally the importer's bank) to exchange on his/her behalf documents for payment. The exporter will then obtain payment by one of the two forms of the following documentary collections:

1. Documents against payment (D/P), which involves a sight draft;

   or

2. Documents against acceptance (D/A), which involves a term draft.

Settlement by documents against payment (D/P) will give the exporter certain security of payment since the documents will remain under the bank's protection until payment is effected. Thus the exporter will retain control over the documents and thereby the goods.

In the case of settlement by documents against acceptance (D/A) the bank in the importing country will release the documents solely on the strength of the importer's signed acceptance of the draft to pay at a specified future date. The importer's signed acceptance establishes only his/her obligation to pay but not his/her ability to do so. Therefore the exporter may be in a situation of losing control of the documents and goods.

PARTIES TO A DOCUMENTARY COLLECTION

The parties to a documentary collection are:

1. **Drawer:** the party signing the bill of exchange (exporter).

2. **Remitting bank:** the drawer's bank (in the exporting country) that will remit the documents to the importer's bank.

3. **Collecting bank:** the bank (in the importing country) that will collect the funds or obtain acceptance of the term draft against the release of the documents.

4. **Drawee:** the party (importer) who is presented with the bill of exchange and will effect payment or accept the term draft.

5. **Payee:** the party (bank or drawer) to which payment is made.

It must be clearly understood that in documentary collections, banks act simply as a reliable conduit for the flow of documents and funds, not as guarantors of payment. Furthermore, banks are under no obligation to examine the documents except to verify that they (the documents) appear to be as listed in the collection instructions.

THE AVAL

The AVAL signifies the undertaking by a bank or another financial institution to guarantee payment of a term draft. Canada and some European and Latin American countries accept and recognize this concept.

The "avalist" (guarantor) name and signature will be added to the term draft. The exporter should obtain information on the solvency of the avalist.

DOCUMENTARY CREDITS (LETTERS OF CREDIT)

A documentary credit commonly known as a "letter of credit", is widely used in trade on an international level. This payment vehicle must certainly be considered as the most secure and advantageous for the exporter. The most important aspect is that the responsibility of payment shifts from the buyer to a bank, thus greatly reducing the risk to the exporter. This enables the seller to engage in transactions that otherwise might not take place.

The ideal situation in buying and selling goods internationally would be that the buyer does not effect payment until the goods are in his/her possession, and the seller does not ship until payment is in his/her bank account. A letter of credit offers both buyer and seller a compromise in that they will enter into a contract for documents, these documents representing the seller's performance. The essence of a letter of credit is that payment is made against documents, with no concern over the goods. Another important aspect is the direct