

3. Bills of Exchange

Bills of exchange, or drafts, represent a lower level of security, even though they do provide tangible evidence of an obligation. A bill of exchange is an unconditional order in writing, addressed and signed by the exporter. It requires the importer, to whom it is addressed, to pay on demand, or at a fixed or determinable future time, a specified amount of money to, or to the order of, a specified person. What usually occurs is that the draft will require the importer to pay the specified amount to the exporter or to the exporter's order. In commonly used terms, the exporter becomes the "drawer," the importer becomes the "drawee," and the exporter is the "payee."

The time when these drafts will have to be honoured depends upon the credit terms agreed to between the exporter and the importer. In most cases, the exporter will want payment as soon as the draft is presented to the importer and will order payment to be made "at sight."

If, however, you have agreed to give the buyer a specific time to pay, you may order payment to be made "at thirty days after sight," or "ninety days after sight," or "sixty days after date" (which refers to the date of the draft).

The drawee accepts a time draft by writing "accepted" on it, thereby making it a legal obligation.

Drafts may be either "clean," without shipping documents, or "documentary," accompanied by the shipping documents which confer ownership.

The use of clean drafts, whereby shipping documents are sent directly to the buyer, is generally restricted to inter-company transfers. The exporter will normally use documentary drafts.

The procedure in using drafts is as follows:

- The exporting company ships the goods and presents the shipping documents to its bank with instructions to release them only on payment/acceptance (for sight or time drafts respectively) by the buyer.
- The exporter's bank then forwards the documents to the importer's bank with these same instructions.
- The importer's bank notifies the buyer who will pay or accept the draft as required.

- In the case of a sight draft, the foreign bank remits the importer's payment to the exporter's bank (less service charges) from where the funds are transferred to the exporter's account (less service charges).
- Where a time draft is used, the foreign bank holds the bill to maturity and then forwards the proceeds. It may also discount the draft or take it as collateral in order to grant the exporter earlier payment.

4. Open Account

Open account sales are the simplest form of export finance. The seller ships the goods along with the title documents and relies on the buyer to pay the agreed prices at the agreed time. Before shipping on open account terms, you must have absolute confidence in the financial ability and willingness of the buyer to pay according to the terms of the contract. There is no tangible payment obligation or definite maturity date.

Shipping on open account, although risky, is probably the most common payment form with Canadian exporters. This is because the bulk of our trade is with the United States, and exporters can easily check out potential customers in that country.

5. Consignment

In this arrangement the seller retains ownership until the goods are sold. While this is very convenient for the buyer, the seller carries the entire financial burden and risk. These risks centre on:

- the difficulty of keeping track of physically distant merchandise;
- unclear laws regarding ownership in these circumstances; and
- delayed payment hampered by exchange controls.

CREDIT MANAGEMENT

The choice of payment terms is important both in terms of credit risk and sales promotion. Today's competitive international business climate places a premium on a company's use of credit. If the company is too liberal with credit, it will lose money. If it is not forthcoming with credit, it will lose customers. This is because the company's competitors from other countries will, in many cases, be willing to extend credit. The Canadian company must have a balanced credit policy to be successful.