PART II – FOREIGN COLLECTIONS

INTRODUCTION

Obtaining payment is the key element in successfully completing an export sale. Payment terms are dependent upon several important factors; the credit standing and integrity of the trading partner, the economic and political stability of the country of importation, the existence of foreign exchange controls, the competitiveness of the product, etc. It must also be noted that in highly competitive markets exporters are often forced to grant generous terms of payment.

The choice by which an exporter is going to obtain settlement for the sale of goods to a foreign buyer is one that requires careful consideration. In some cases obtaining payment for an export sale may well depend on the method chosen.

Knowledge and familiarity with international collection procedures and the role that banks play in facilitating the process, is of utmost importance. One must also recognize the costs and different degrees of risk attached to each method of payment.

The following is a brief review of the different methods of payment for the international sale of goods. Letters of credit will be dealt with separately in PART III.

BILL OF EXCHANGE

One must begin with a clear understanding of the Bill of Exchange commonly known as "draft" particularly as it constitutes the essential mechanism for foreign collections, and in most cases, for letters of credit.

The bill of exchange initiated by the exporter, can be described simply as a dated form signed by one party to another demanding payment of a specific amount of money, either at sight or on a specified future date and made to the order of a specified party or to the bearer. (See exhibit 12 at the end of PART II.)

PARTIES TO A BILL OF EXCHANGE

The parties to a bill of exchange are:

- the drawer (exporter, seller) – recipient of funds;
- the drawee (importer, buyer) – the party requested to pay;
- the payee – the party to whom payment is to be made.

Another element of a bill of exchange is the "tenor" which establishes when and how the payment will take effect.

THE BILL OF EXCHANGE IN CANADA

In Canada, the Bill of Exchange Act governs the Bill of Exchange (see exhibit 13 at the end of PART II). When the bill is processed through the Canadian banking system it may be drawn under three different terms:

1. Demand – payment to be made by the drawee on first presentation of the bill.
2. Sight – payment to be made within two business days.
3. Term – payment to be made at a specific future date.

When presented with a draft at sight the drawee is required to pay upon presentation. A term draft will permit the drawee to "accept" by signing it and thereby promising to pay at maturity. (normally 30, 60 or 90 days)

METHODS OF PAYMENT

All methods of payment involve costs, risks and advantages for both the importer and the exporter.

In international transactions there are four methods by which an exporter can obtain payment. They are:

1. Open Account.
2. Payment in Advance.
3. Documentary Collections.
   - (i) documents against payment (D/P)
   - (ii) documents against acceptance (D/A)
4. Documentary Credit. (Letter of Credit)

OPEN ACCOUNT

When using an open account term of payment the risk to the exporter is high. Consequently, it should only be considered when there is a high level of trust often based