

Finally, it's payday

There are several common ways for customers to pay an invoice in international trade: cash in advance, letter of credit, documentary credit, documentary collection, and open account. We'll examine them in order of increasing risk to your company.

Cash in advance

Cash in advance is your most secure option, since it eliminates all risk of non-payment and adds to working capital. Unfortunately, few foreign buyers are willing to pay cash in advance, although some will pay a portion when goods or services are specially ordered. For services, a retainer might be paid upon signing a contract, after which progress payments are matched to deliverables.

Letter of credit

Letters of credit (LCs) provide some security to both the importer and exporter because they rely on banks to receive and check shipping documents, and to guarantee payment. An LC can allow the costs of financing a transaction to be borne by either the exporter or importer. Both sight and term payment provisions can be arranged.

Letters of credit can be *confirmed* or *unconfirmed*. For example, a Canadian bank can *confirm* an LC issued by a foreign bank, thus guaranteeing that the Canadian bank will pay the exporter even if the foreign bank doesn't. This kind of LC is obviously much better for you than the unconfirmed one.

LCs can also be *irrevocable*. This means they can't be cancelled or amended without your approval. The most secure form of an LC is one that is both confirmed and irrevocable.

However, letters of credit aren't foolproof – you should examine them carefully before accepting one. Check them as follows:

- Are the names of the applicant (buyer) and the beneficiary (exporter) complete and spelled correctly?
- Is the LC irrevocable?
- Is the LC confirmed by a reputable Canadian bank?
- Are the amount and currency of the LC acceptable?
- Are the shipping and expiry dates acceptable, and is the time period for presentation of documents sufficient?
- Can the shipping instructions be met?
- Are the goods or services to be provided accurately described?
- Are the insurance specifications acceptable?

Source: Adapted with permission from the Atlantic Canada Opportunities Agency, The Atlantic Canada Opportunities Agency Trade Tool Kit.

TIP

When you're researching your export financing, don't forget to investigate TCI's ExportSource Web portal at exportsource.ca. It has links to international, federal and provincial bodies that offer financial information and assistance to both new and experienced exporters.

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