

METHODS OF PAYMENT IN INTERNATIONAL TRADE

Method	Time of Payment	Goods Available To Buyer	Risk To Seller	Risk to Buyer
CASH IN ADVANCE	Before Shipment	After payment	None if funds are "good" or collected & available in the seller's bank account	Relies completely on seller to ship the proper goods; assumes the political and economic risks.
LETTER OF CREDIT 1. Sight Draft	Upon presentation of conforming documents to the negotiating bank.	After payment unless directly consigned to the buyer (seller surrenders possession).	Very little or none, depending on terms of the letter of credit.	Relatively low in terms of whether shipment has been made. Relies completely on the seller to ship goods described in documents.
2. Time Draft	After shipment presentation of required documents, and bank's acceptance of draft due on specified date. Draft may or may not be discountable.	Usually after the bank's promise to pay is established, but before payment.	Very little or none, depending on terms of the letter of credit.	Relatively low in terms of whether shipment has been made. Relies completely on seller to ship goods described in documents.
COLLECTIONS 1. Sight Draft	Usually soon after the local bank notifies the buyer of receipt of documents.	After payment, unless directly consigned to the buyer (seller surrenders possession).	Many risks such as buyers integrity and standing and political and economic instability.	Relatively low in terms of whether shipment has been made. Relies completely on seller to ship goods described unless the buyer is allowed to inspect goods before payment (rare).

2. Time Draft	Expected on the maturity date of the draft.	Before payment, but after the buyer accepts the draft.	Reliance on the buyer to pay the draft when due. Other risks are the same as for a sight draft, except the goods have already been released.	Relatively low in terms of whether shipment has been made. Relies completely on seller to ship goods described unless the buyer is allowed to inspect goods before payment (rare).
OPEN ACCOUNT	As agreed.	Before payment	Seller relies completely on the buyer to pay the account as agreed. Political and economic risks.	None.