



Chapter 6: ***Payment of Goods***



Payment of goods

- **Three main changes** that are found during the evolution of international trade payments and settlements:
 - ① from **cash** settlement to **non-cash** settlement
 - ② from **direct payment** between traders to payment **via financial intermediary**
 - ③ from payment under **simple price terms** to payment under more **complex price terms**



Payment of Purchase Price

- A. Instrument of payment
- B. Modes of Payment
- C. Combination of different modes of Payment
- D. Terms of payment in the contract



A. Instrument of payment

■ Instrument of payment

1. Currency

2. Bill



A. Instrument of payment

1. Currency

- ① Currency of the seller's country
- ② Currency of the buyer's country
- ③ Currency of a third country



A. Instrument of payment

Choosing Currency

- ① Convertibility and stability of the currency
- ② Tendency of fluctuation of the currency



A. Instrument of payment

2. Bill

- a.** Bill of Exchange
- b.** Promissory Note
- c.** Cheque or Check



A. Instrument of payment

a. Bill of Exchange (Draft)

- Is **an unconditional order** in writing, addressed by one person (**drawer**) to another (**drawee**), signed by the person giving it, requiring the person to whom it is addressed (**drawee or payer**) to pay on demand, or at a fixed or determinable further time, a sum certain in money to, or to the order of, a specified person, or to any bearer (**payee**).



a. Bill of Exchange (Draft)

■ Parties to a Bill of Exchange

- ① **Drawer** : the person who draws the bill
 - Exporter or his bank
- ② **Drawee or payer** : the person who is to pay the money
 - Importer or the appointed bank under L/C
- ③ **Payee** : the person who is to receive the money
 - Drawer, exporter or his appointed bank, bearer of the bill



a. Bill of Exchange (Draft)

Basic Contents of A Draft

- ① Indicate: bill of exchange
- ② An unconditional order in writing
- ③ A sum certain in money
- ④ The name of drawee or payer
- ⑤ The name of Payee
- ⑥ Date of the bill of exchange drawn
- ⑦ Signature of the drawer



Specimen Bill of Exchange

No. 9340

£. Stg. 100

London, 15th July, 2010

**On demand pay to John Wood or bearer the
sum of One Hundred Pound
(English Currency) only.**

(Signed) Thomas Jones

**To: Mr. James Arthur
Manchester**



a. Bill of Exchange (Draft)

General Procedures in Handling a Bill of Exchange (Draft)

- ① Drawing
- ② Presentation
- ③ Acceptance
- ④ Payment
- ⑤ Endorsement
- ⑥ Dishonour



General Procedures in Handling A Bill of Exchange (Draft)

① Drawing (Issue)

- Means the act of the drawer in **filling up the bill of exchange** with particulars as to the name of the drawee, the amount payable, the date of payment and name of payee,
- and **after signature**, the drawer may present the bill to the drawee through the medium of the payee or a banker.



Drawing (Issue)

Three ways to stipulate the payee

- ① Restrictive payee
- ② To order
- ③ To bearer



Drawing (Issue)

① Restrictive payee

- Such as “pay ABC Co. Ltd. only”
or “pay ABC Co. Ltd., not negotiable”
- **Can not be negotiated or transferred to another party.**



Drawing (Issue)

② To order

- Such as “pay ABC Co. Ltd. or Order”
or “pay to the order of ABC Co. Ltd.”
- Can be negotiated or transferred to another party after endorsement by the payee or the amount may be collected by the payee himself.



Drawing (Issue)

③ To bearer

- Such as “pay to bearer”
or “pay to ABC Co. Ltd. or bearer”
- Does not need the endorsement by another party and can be negotiated or transferred merely by delivery.



General Procedures in Handling A Bill of Exchange (Draft)

② Presentation

- Refers to the act of the holder of the bill of exchange **presenting** the bill to the drawee, asking the latter either to pay or to accept the bill.
- The drawee's receiving or seeing the bill is called **“sight”**.



General Procedures in Handling A Bill of Exchange (Draft)

③ Acceptance

- Means the act of the drawee to **show his responsibility by accepting** the usance bill for payment at a fixed future date by **writing** the word “accepted”, **marking** the date of acceptance and **signing** on the face of the bill.

■ The drawee → “the Acceptor”



General Procedures in Handling A Bill of Exchange (Draft)

④ Payment

- Means the act of the drawee or the acceptor to pay the amount of the bill of exchange to the holder of the bill.
 - The holder of the bill must present the bill of exchange.



General Procedures in Handling A Bill of Exchange (Draft)

⑤ Endorsement

- In the case of a “**to order**” bill of exchange, endorsement is needed in the procedure of negotiation or transfer by the payee by signing his name on the back of the bill
 - Blank endorsement– bearer or holder
 - Full endorsement– transferee, endorsee



Endorsement

Discount

- The bank or discount company concerned may “discount” the bill by paying **immediate cash** for the bill at **a little less than its face amount**, i.e., after deducting charges and interest based on the current rate of discount, and then, will in the due date of the bill collect the full amount from the acceptor.



General Procedures in Handling A Bill of Exchange (Draft)

⑥ Dishonour

- When a bill has been duly presented for acceptance or payment and the acceptance or payment has been refused, the bill is said to be dishonoured.



General Procedures in Handling A Bill of Exchange (Draft)

Protesting

- The holder has an immediate right to take action against all parties to the bill --- **the right of recourse.**
- ① The holder must give a **formal notice of dishonour** to all the parties he wishes to make liable.
- ② The holder should apply for a **letter of protest** from the notary public.



a. Bill of Exchange (Draft)

Classification of Bills of Exchange

- ① Commercial bill and banker's bill
- ② Clean bill and documentary bill
- ③ Sight (demand) bill and time (usance) bill
- ④ Commercial acceptance bill and banker's acceptance bill



a. Bill of Exchange (Draft)

① Commercial bill and banker's bill

- ① **Commercial bill**: the drawer is a commercial firm
- ② **Banker's bill**: both the drawer and drawee are banks



Classification of Bills of Exchange

② Clean bill and documentary bill

- **Clean bill**: when no shipping documents are accompanied with it.
- **Documentary bill**: which is accompanied with shipping documents
 - Such as: B/L, Commercial Invoice, Packing List, Insurance Policy, Inspection Certificate etc.



a. Bill of Exchange (Draft) 汇票

③ Sight (demand) bill and time (usance) bill

- **Sight (demand) bill** : the draft is payable at sight on presentation.
- **Time (usance) bill** : the drawee is required to pay the bill at a later date.
 - Require: acceptance before payment



a. Bill of Exchange (Draft)

Time (Usance) Bill

- ① payable certain days after sight, such as 30 days, 60 days
- ② payable certain days after the date of draft
- ③ payable certain days after the date of B/L
- ④ payable certain days after the fixed date
- ⑤ payable certain days after the date of arrival of goods



a. Bill of Exchange (Draft)

④ Commercial Acceptance Bill and Banker's Acceptance Bill

- **Commercial acceptance bill** : in time commercial bills, when the drawer is a commercial firm and **the drawee is another commercial firm**, the bill after acceptance by the drawee
- **Banker's acceptance bill** : when the drawer is a commercial firm or a bank and **the drawee is a bank**, the bill after acceptance by the bank



2. Bill

b. Promissory Note

- Is **an unconditional promise** in writing made by one person to another signed by the maker, engaging to pay, on demand or at a fixed or determinable future time, a sum certain in money to, or to a order of, a specified person or to a bearer.



2. Bill

Kinds of Promissory Note

① Commercial promissory note

- Sight or Time

- No “Acceptance”

② Banker’s promissory note

- Sight



2. Bill

c. Cheque (Check)

- Is **an unconditional order** in writing **drawn on a banker** signed by drawer, requiring the banker to pay **on demand** a sum certain in money to, or to the order of specified person or to a bearer.
- **“A bill of exchange drawn on a bank payable on demand.”**



2. Bill

c. Cheque (Check)

- **Rubber check:** A check returned by a bank because of insufficient funds in the account on which it is drawn.
- **Crossed cheque:** when two parallel lines are drawn across it.



B. Modes of Payment

Main Modes of Payment:

I. Remittance

II. Collection

III. Letter of Credit

IV. Letter of Guarantee



B. Modes of Payment

I. Remittance

- Means that the buyer remits money to the seller through a bank **on his own initiative.**



I. Remittance

Parties in Remittance

- 1. Remitter:** usu. importer
- 2. Payee or Beneficiary:** usu. exporter
- 3. Remitting Bank:** usu. importer's bank
- 4. Paying Bank:** usu. exporter's bank



I. Remittance

Kinds of Remittance

1. Mail Transfer (M/T)
2. Telegraphic Transfer (T/T)
3. Demand Draft (D/D)



I. Remittance

1. Mail Transfer (M/T)

- The buyer gives money to a local bank which sends a **trust deed** for payment to its correspondent bank at the seller's end **by mail** and entrusts it with the task to pay money to the seller.



I. Remittance

2. Telegraphic Transfer (T/T)

- At the request of the buyer, a local bank sends a **trust deed** for payment **by cable directly** to its correspondent bank at the seller's end and entrusts the work to it to pay money to the seller.

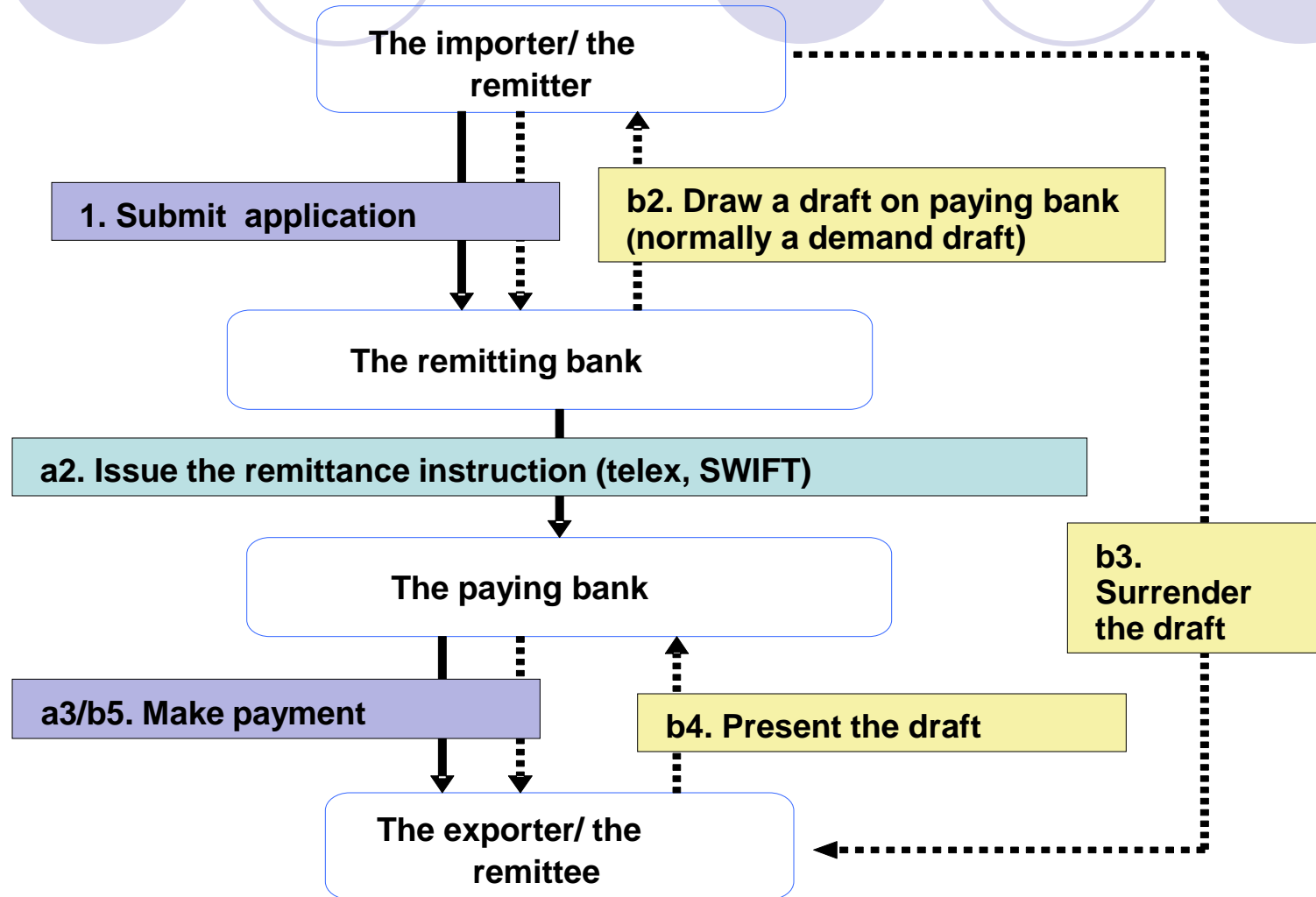


I. Remittance

3. Demand Draft (D/D) (Remittance by Banker's Demand Draft)

- The buyer buys a **draft** from a local bank and sends it by mail to the seller, the seller or his appointed person can collect money from the relative bank at his end against the draft sent by the buyer.

Procedure of remittance





I. Remittance

Use of Remittance

1. Payment in Advance

-  Cash with Order (C.W.O.)

2. Payment after Arrival of the Goods

-  Cash on Delivery (C. O. D.)
-  Open Account



B. Modes of Payment

II. Collection

- The **exporter draws a bill** and asks his bank to arrange for the acceptance or payment of the bill overseas, and the bank will carry his task through its own branch office abroad or a correspondent bank. This procedure is termed as collection of proceeds of sales.



II. Collection

Parties in Collection

1. The principal or exporter
2. The remitting bank
3. The collecting bank
4. The payer or importer



II. Collection

Kinds of Collection

1. Collection on clean bill
2. Collection on documentary bill



Kinds of Collection

1. Collection on Clean Bill

- Means that the exporter collects the purchase price **against the draft only**, without any shipping documents attached thereto.
- Usu. Used in collecting balance under L/C, advance, commission and costs of samples.



Kinds of Collection

2. Collection on Documentary

➤ Means that the exporter collects the purchase price **against the documentary bill.**

① **Documents against payment (D/P)**

② **Documents against acceptance (D/A)**



Documentary Collection

① Documents Against Payment (D/P)

- Calls for **actual payment** against the transfer of shipping documents.
 - a) D/P at sight
 - b) D/P after sight



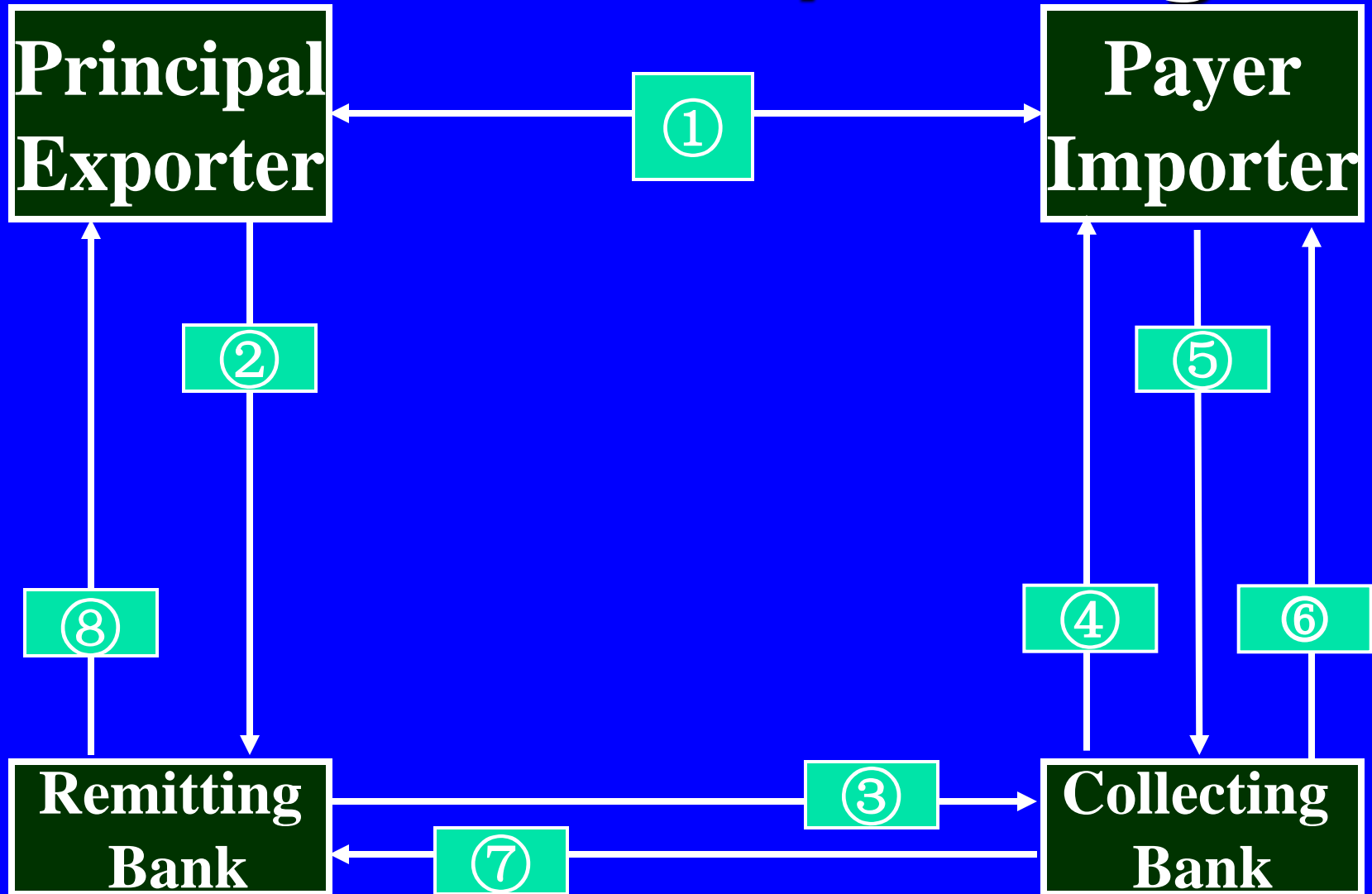
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Documents Against Payment

a) D/P at sight

- After shipment of the goods, the exporter shall draw a **sight bill of exchange**, and send it as well as shipping documents to a local bank, through which and whose correspondent bank the documentary draft is presented to the importer. The importer shall pay against the documentary draft drawn by the seller **at sight**.

Process of D/P at Sight





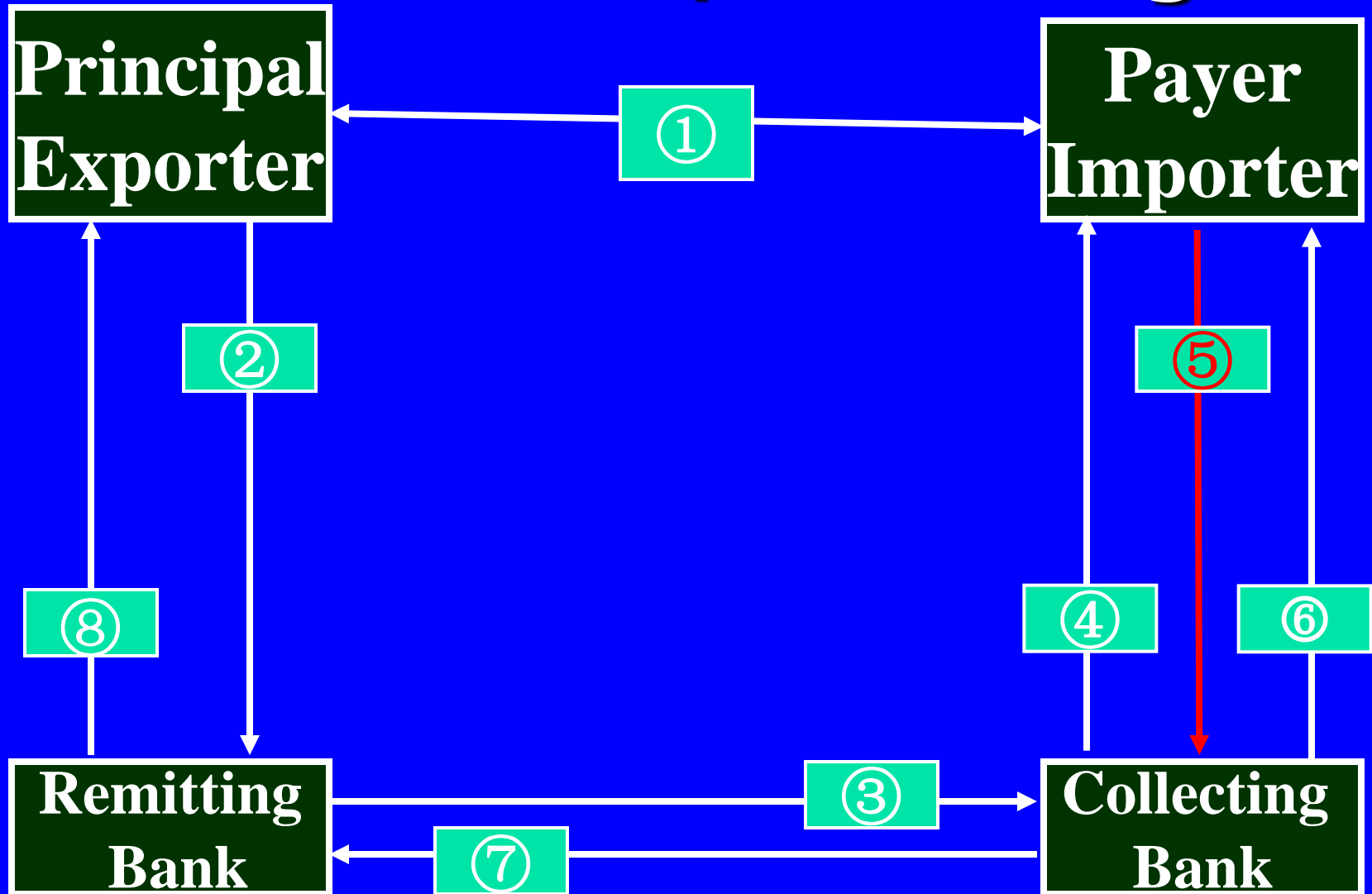
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Documents Against Payment

b) D/P after sight

- After shipment of the goods, the exporter shall draw a **usance bill of exchange**, and send it as well as shipping documents to a local bank, through which and whose correspondent bank the documentary draft is presented to the importer. The importer shall **accept** the usance draft, and **make payment on the due date of the usance bill**.

Process of D/P after Sight





b) D/P after sight

Trust Receipts (T/R)

- Is a **written guaranty** provided by the importer to the collecting bank for the purpose of **borrowing** B/L from the latter,
- in which the importer declares that he will take delivery of the goods, declare to the customs, store the goods, take out insurance on and push sales of the goods **as the consignee of the collecting bank**,
- and acknowledge the **title to the goods and proceeds of the sale belonging to the collecting bank**
- and will guarantee to **make payment on the date due.**

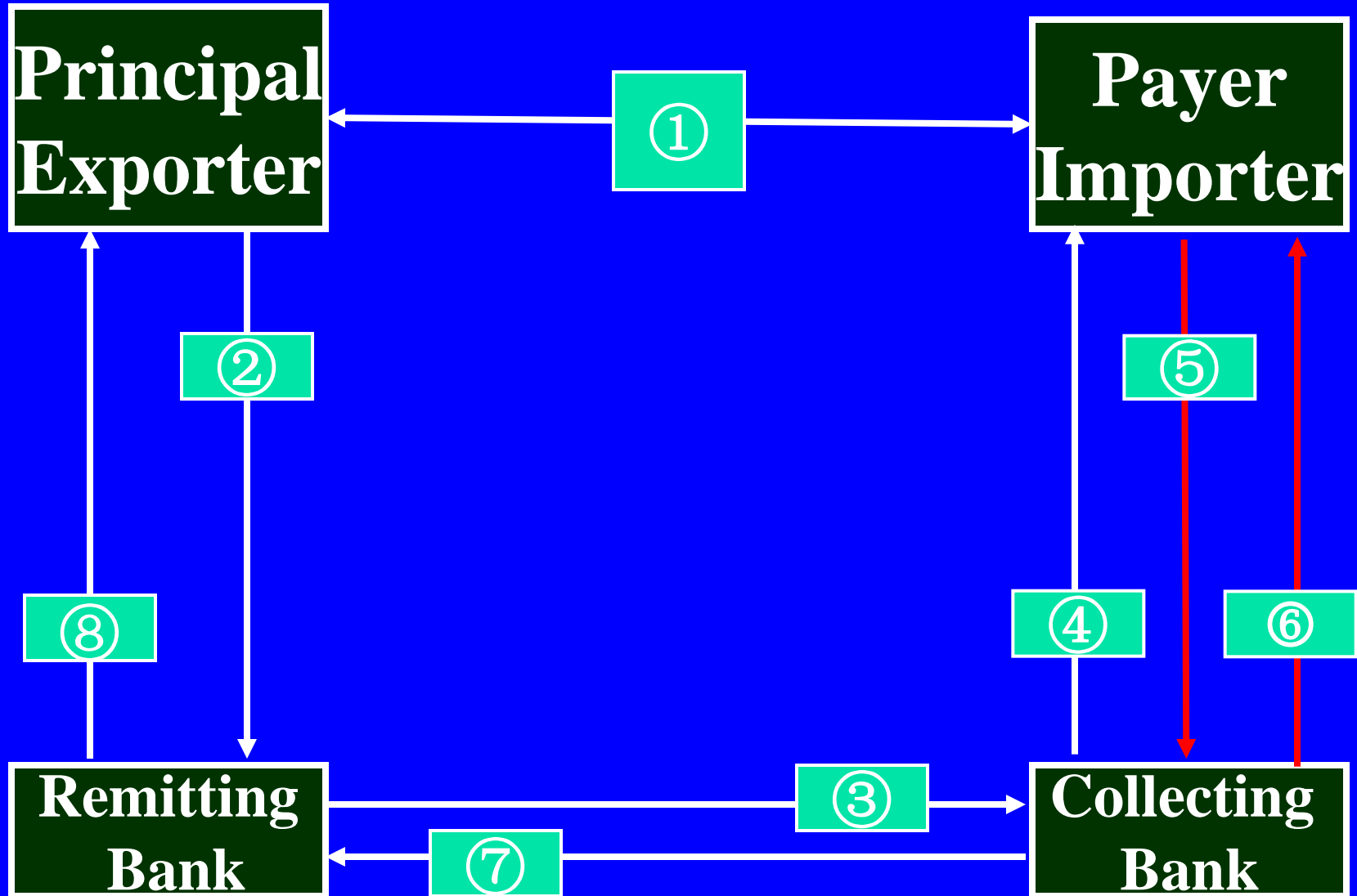


Documentary Collection

② **Documents Against Acceptance (D/A)**

- Calls for delivery of documents against **acceptance of the draft** drawn by the exporter.
- D/A is always after sight

Process of D/A





B. Modes of Payment

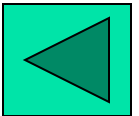
III. Letter of Credit

1. Feature of L/C
2. Parties relating to L/C
3. Procedure of L/C
4. Contents of L/C
5. Kinds of L/C



Definition

- It is a **written undertaking** issued by a bank (the **issuing bank**) to the seller (**beneficiary**) at the request and in accordance with the instructions of the buyer (the **applicant**) to effect payment (that is, by making a payment, or by **accepting** or **negotiating bill of exchange**) up to a stated sum of money, within a prescribed time limit and against stipulated documents.





III. Letter of Credit

1. Feature of Letter of Credit

- ① L/C is a credit of the bank.
- ② Credits, by their nature, are separate transactions from the sales or other contract(s) on which they may be based.
- ③ Documents business.



III. Letter of Credit

2. Parties relating to L/C

1. Applicant
2. Opening Bank, Issuing Bank
3. Advising Bank, Notifying Bank
4. Beneficiary
5. Negotiating Bank
6. Paying Bank, Drawee Bank



III. Letter of Credit

2. Parties relating to L/C

- ① **Applicant:** who applies to the bank for issuance of a letter of credit.
- ② **The originating bank or opening bank or issuing bank:** which is the bank receiving the application from the applicant to issue the L/C and will be responsible for payment.



III. Letter of Credit

2. Parties relating to L/C

- ③ **The advising bank or correspondent bank:** which is a bank at the place where the exporter resides and may usually be a branch of the issuing bank or its correspondent. The advising bank **hands the L/C to the exporter** under the instructions from the issuing bank.
- ④ **The beneficiary:** who is empowered to use the L/C.

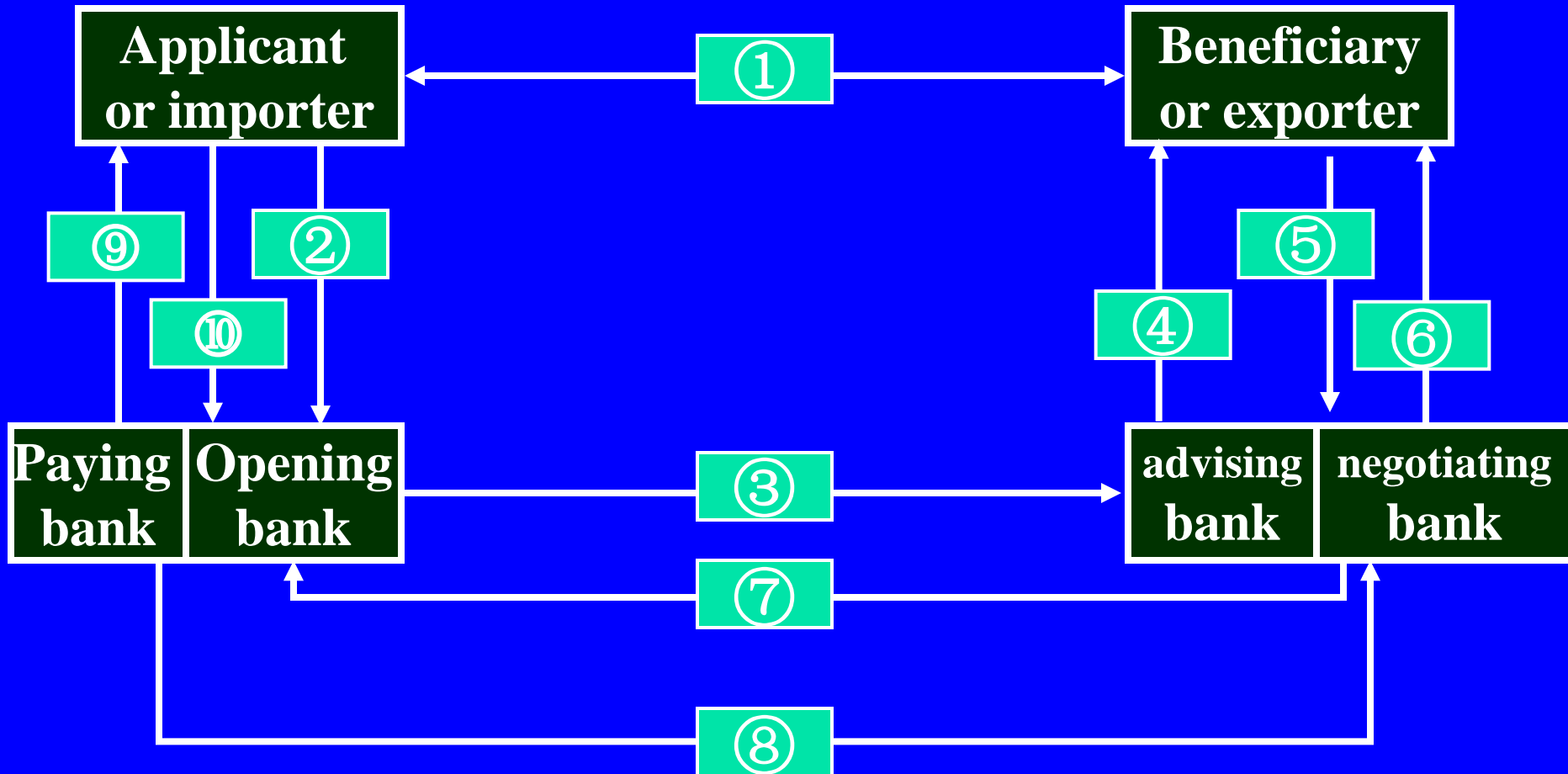


III. Letter of Credit

2. Parties relating to L/C

- ⑤ **The negotiating bank:** which is a bank ready to accept or discount the documentary bill drawn by the beneficiary under L/C.
- ⑥ **The paying bank:** which is a bank responsible for the payment specified in the L/C.

3. Procedure of L/C





III. Letter of Credit

4. Contents of L/C

1. Description of L/C: kind, validity, expiry date etc.
2. Description of the goods to be shipped
3. Description of the shipment
4. Description of the documents for payment
5. Any special requirements
6. Clauses covering the responsibility of payment by the issuing bank in favor of the beneficiary



5. Kinds of L/C

- ① **Revocable L/C and Irrevocable L/C**
 - **Revocable L/C:** Means that the opening bank may amend or revoke the credit before negotiation, acceptance or payment without agreement of the beneficiary.
 - **Irrevocable L/C:** Means that once the L/C is opened, without agreement of the beneficiary, the opening bank cannot amend or revoke the L/C within its validity.



5. Kinds of L/C

② Documentary L/C and Clean L/C

- **Documentary L/C:** Means that the bill of exchange drawn by the seller should be accompanied with shipping documents.
- **Clean L/C:** If the bill of exchange is a clean bill, the L/C is called a clean L/C.



5. Kinds of L/C

③ Confirmed L/C and Unconfirmed L/C

- **Confirmed L/C:** An irrevocable L/C confirmed by another bank named by the opening bank
- **Confirming bank:** the bank authorized or requested by the opening bank to confirm the L/C
- **Unconfirmed L/C:** the L/C drawn by the opening bank is not confirmed by another bank.



5. Kinds of L/C

④ Sight L/C and Usance L/C

- **Sight L/C:** Stipulates that the beneficiary may collect the purchase price from the bank against a sight draft.
- **Usance L/C:** Stipulates that the beneficiary may collect the purchase price from the bank against a usance draft.
 - **Buyer's usance L/C: (Usance Credit Payable at Sight)**
 - beneficiary: payment at sight
 - Applicant: payment after sight



5. Kinds of L/C

⑤ Transferable L/C

- Allows the beneficiary to transfer the amount partly or wholly of the letter of credit to one or more than one parties, i.e., the second beneficiary.
- The first beneficiary: middleman or broker
- The second beneficiary: the actual suppliers of the goods



5. Kinds of L/C

⑥ Revolving L/C

- A revolving credit obliges the issuing bank to restore the credit to the original amount after it has been utilized, without the need for amendment.
 - Used especially for ongoing transactions.
 - which at no time shall exceed a fixed maximum.



5. Kinds of L/C

⑦ Reciprocal L/C

- When the two parties conclude a transaction in which they act as importers and exporters mutually and the trades are related and equal or almost equal, the two parties open Ls/C in favor of each other. So the two Ls/C are conditioned on each other.
- Usu. in: compensation trade, barter trade, processing with supplied materials



5. Kinds of L/C

⑧ Back to Back L/C

- The exporter sends the L/C established by the importer in his favor to a bank as sole security, requiring the local bank to reopen an L/C in favor of the actual exporter.
- Original Letter of Credit, (Prime Letter of Credit)
- Back-to-Back Letter of credit (Subsidiary Letter of Credit)



5. Kinds of L/C

⑨ Anticipatory credit (Packing credit)

- The opening bank allows the beneficiary to collect the purchase price against the draft or other evidence, but he must give a **receipt** and an **undertaking** to present the required shipping documents within the validity of the credit.
 - a) **Clean payment credit**
 - b) **Partial payment credit**



⑧ ***Anticipatory credit (Packing credit)***

- **Clean payment credit and Partial payment credit**
 - **Clean payment credit** : means that the importer pays in advance the whole amount under the L/C
 - **Partial payment credit**
 - The red clause credit
 - The green clause credit



⑧ *Anticipatory credit (Packing credit)*

■ **Red Clause Credit and Green Clause Credit**

- **Red clause credit:** collect the partial purchase price against a **declaration** for shipping documents to be sent afterwards and **a sight draft** and the bank will pay off the balance against shipping documents after shipment.
- **Green clause credit:** store the goods in the customs warehouse in the place of export, collect the partial purchase price against a godown warrant or warehouse receipt.



5. Kinds of L/C

⑩ Standby credit (Commercial paper credit)

- A guaranty issued by the opening bank on behalf of the applicant declaring that the bank will undertake certain obligations.
- Used in making payment, guaranteeing to perform a contract, making repayment for loan, and fulfilling other agreed obligations.



B. Modes of Payment

Difference between standby L/C and common L/C

- ① The L/C is usu. Used in specific trade, while the standby L/C is used only in the case of non-performance of duty by the applicant
- ② Documents presented are different.



B. Modes of Payment

IV. Letter of Guarantee

- Is a **written document** issued by the bank on behalf of the importer or exporter in favor of the latter or the former guaranteeing to **undertake payment, conclusion or performance of a contract, etc.**
 1. L/G for performance of import and export contract
 2. L/G for bid and loan



IV. Letter of Guarantee

1. L/G for performance of import and export contract

① L/G for performance of import contract

- Such as: import of equipment, compensation trade, etc

② L/G for performance of export contract

- Such as: Important export business, plant export guarantee



IV. Letter of Guarantee

2. L/G for bid

- A kind of guaranty issued by the bank to the inviter for tender on behalf of the bidder which guarantees that the bidder will not **withdraw the bid halfway or amend the bidding conditions unilaterally** and will not refuse to **sign a contract and pay performance bond** after winning the bid, otherwise the bank shall be responsible for making compensation for losses sustained by the inviter for tender.



B. Modes of Payment

Difference between bank L/G and L/C

- ① Under L/C: issuing bank: as the first payer ↔ Under bank L/G: issuing bank: the second payer
- ② Under L/C: issuing bank: handles business, not contract ↔ Under L/G: opening bank: handles business according to the contract
- ③ Under L/C: beneficiary can get accommodation through negotiation ↔ Under L/G: beneficiary can not do through negotiation.



B. Modes of Payment

Difference between L/G and standby L/C

- ① Under L/G: opening bank: subsidiary payer
Under standby L/C: opened in the favor of the beneficiary
- ② The opening bank of L/G is likely to be involved in the contract disputes, while under standby L/C, the opening bank has nothing to do with the contract.



Payment of Purchase Price

C. Combination of Different Modes of Payment

1. Combination of Remittance and L/C
2. Combination of L/C and Collection
3. Combination of Remittance and L/G



C. Combination of Different Modes of Payment

1. Combination of Remittance and L/C

- Partial amount is paid by L/C, the balance is settled by remittance.
 - Example: the business of ore



C. Combination of Different Modes of Payment

2. Combination of L/C and Collection

- Partial amount is paid by L/C, the balance is settled by collection.
- The exporter will draw two drafts
 - a) The amount under L/C paid against a **clean draft**
 - b) **The full set of shipping documents** attached to the sight draft or time draft under collection



C. Combination of Different Modes of Payment

3. Combination of Remittance and L/G

- 5% - 10% of the value of the goods is paid by remittance, the remaining amount is settled through **progressive payment** or **deferred payment** against the L/G issued by the bank.
- Such as: full sets of equipment, big machinery, etc.



C. Combination of Different Modes of Payment

Progressive Payment (Payment By Installments)

- Means that the importer pays the purchase price **periodically** according to the processes of production and delivery.



C. Combination of Different Modes of Payment

Deferred Payment

- Means that the importer should pay a **deposit** first, then according to the processes of production and delivery, pay a certain amount of the purchase price periodically.



C. Combination of Different Modes of Payment

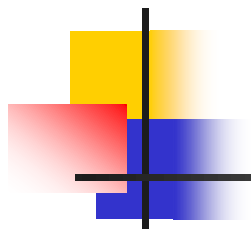
Difference Between Progressive Payment and Deferred Payment

- 1.** Progressive payment is also called cash on spot delivery, while under the deferred payment, the importer shall undertake the interest.
- 2.** The transfer of the title to the goods is different.



D: Terms of Payment in the contract

1. Stipulation of Remittance
2. Stipulation of Collection
3. Stipulation of L/C
4. Combination of L/C and Collection
5. Combination of L/C and Remittance
6. Combination of Remittance and L/G



END