



INTERNATIONAL TRADE PAYMENT METHODS



CASH IN ADVANCE	
APPLICABILITY	Recommended for use in high-risk trade relationships or export markets, and appropriate for small export transactions.
RISK	Exporter is exposed to virtually no risk as the burden of risk is placed almost completely on the importer.
PROS	<ul style="list-style-type: none"> - Payment before shipment. - Eliminates risk of non-payment.
CONS	<ul style="list-style-type: none"> - May lose customers to competitors over payment terms. - No additional earnings through financing operations.
NOTES	
LETTERS OF CREDIT	
APPLICABILITY	Recommended for use in higher-risk situations or new or less-established trade relationships when the exporter is satisfied with the creditworthiness of the buyer's bank.
RISK	Risk is spread between exporter and importer, provided that all terms and conditions as specified in the LC are adhered to. Risk of non-payment is passed to buyer's bank (or confirming bank).
PROS	<ul style="list-style-type: none"> - Payment made after shipment. Cannot be canceled by applicant (buyer). - A variety of payment, financing and risk mitigation options available.
CONS	<ul style="list-style-type: none"> - Comparatively more labor intensive process. - Relatively expensive method in terms of transaction costs.
NOTES	

DOCUMENTARY COLLECTIONS

APPLICABILITY	Recommended for use in established trade relationships, in stable export markets and for transactions involving ocean shipments.
RISK	Riskier for the exporter, though D/C terms are more convenient and cheaper than an LC to the importer.
PROS	<ul style="list-style-type: none"> - Bank assistance in obtaining payment in exchange for access to merchandise. - The process is simple and less costly than LCs.
CONS	<ul style="list-style-type: none"> - Banks' role is limited, and they do not guarantee payment. - Banks do not verify the accuracy of the documents.
NOTES	

OPEN ACCOUNT

APPLICABILITY	Recommended for use (a) in low-risk trading relationships or markets and (b) in competitive markets to win customers with the use of one or more appropriate trade finance techniques.
RISK	Substantial risk to the exporter because the buyer could default on payment obligation after shipment of the goods.
PROS	<ul style="list-style-type: none"> - Boost competitiveness in the global market. - Help establish and maintain a successful trade relationship.
CONS	<ul style="list-style-type: none"> - Significant exposure to the risk of non-payment. - Additional costs associated with risk mitigation measures.
NOTES	