

国际贸易实务(双语版)

Chapter Eleven Payment of Goods



Chapter 11 Payment of Goods

Teaching Plan 4

Teaching Contents

Section 2 Methods of payment in international trade

II. Collection

1. Definition of Collection
2. Parties to collection
3. Types of collection

Teaching time: Two-class hour (90 minutes)

Learning Objectives

1. Master the meaning of and parties to collection
2. Master the meaning and procedures of D/P
3. Master the meaning and procedures of D/A



Important Points

1. Parties to collection
2. D/P
3. D/A

Difficult Points

1. D/P
2. D/A

Teaching Methodology:

Questions and Answers; Presentation; Group discussion; Case analysis

Teaching Aids:

PPT, blackboard, multimedia classroom



2. Collection

1. Definition of Collection

Collection is one of the most important international payment terms. It is used in the following case: the exporter does not want to deliver goods to the importer on “open account” basis, but due to a long-term stable business relationship between the parties there is no need for security provided by a letter of credit. Collection is an order by the principal (exporter) to his bank to collect payment from the drawee (importer) in exchange for the transfer of documents.



2. Collection

According to the definition given in the Uniform Rules for Collections 托收统一规则(ICC Publication No.522), “Collection” means the handling by banks of “documents”, in accordance with instructions received, in order to:

- ① obtain payment and/or acceptance, or**
- ② deliver documents against payment and/or against acceptance, or**
- ③ deliver documents on other terms and conditions.**

2. Collection

“Documents” means financial documents and/or commercial documents;

“Financial documents” means bills of exchange, promissory notes, checks, or other similar instruments used for obtaining the payment of money;

“commercial documents” means invoices, transport documents, documents of title or other similar documents, or any other documents whatsoever, not being financial documents.

2. Parties to Collection



2. Parties to collection

1)The principal (委托人)

The principal is generally the seller, exporter, drawer, consignor as well as the party entrusts the handling of a collection to a bank. It is customary that the principal must fill in a collection application form in which he gives clear instructions for collection to the bank. The instructions will be copied onto the collection instruction which must be sent together with a bill for collection.



2) The drawee (受票人)

The drawee is the party that makes cash payment or signs a draft according to the terms of the collection instruction in exchange for the documents from the presenting/collecting bank and takes possession of the goods. The drawee is normally the buyer, importer.

3) The remitting bank (托收银行或寄单行)

The remitting bank receives documents from the principal for forwarding to the collecting bank along with instruction for payment. The remitting bank is normally a local bank in the principal's country, so it is also called exporter's bank. The remitting bank will usually write out the collection instruction based on the principal's instruction in the collection application form.



4) The collecting bank (代收银行)

The collecting bank is the bank entrusted by the remitting bank to collect cash payment or a promise to pay in the future (a bill of exchange) from the buyer. The collecting bank is normally a bank in payer's country, so it is also the buyer's/importer's bank.

5) The presenting bank (提示银行)

The presenting bank is the collecting bank making a draft and/or documents presentation to the drawee. The presenting bank is usually the collecting bank.



Banks in collection only act upon specific instructions given by the principle in the Collection Instruction. Banks do not guarantee payment or assume any credit risk, as they do in documentary letter of credit transactions. According to URC 522, banks are not liable for the quantity, packing, value, quality or conditions of goods represented by any documents and loss arising out for delays or loss in transit of messages, letters, documents and so on. They are only concerned that the documents received appear to be as listed in the collection instruction.



3. Types of collection

There are two types of collection: clean collection and documentary collection.

1) Clean collection

Clean collection means collection of financial documents not accompanied by commercial documents. In clean collection, the transported documents are sent to the buyer directly by the seller, and the draft is entrusted to the bank to collect payment. Typical clean items that may be handled on a collection basis include: drafts, promissory notes and checks.



2) Documentary collection

Documentary collection means collection of financial documents accompanied by commercial documents or commercial documents not accompanied by financial documents. In other words, documentary collection is a process, in which the seller instructs his bank to forward documents related to the export of goods to the buyer's bank with a request to present these documents to the buyer for payment, indicating when and on what conditions these documents can be released to the buyer. In international trade, documentary collection is most often used. So when we speak of collection, we usually refer to documentary collection.



There are two types of documentary collections and each relates to a buyer's option for payment for the documents at presentation.

(1) Documents against payment (D/P)

In documents against payment terms, the collecting bank releases the documents to the buyer only upon full payment. This type of documentary collection offers the greatest security to the seller. Therefore, the seller does not worry about selling out the goods.



(1) Documents against payment (D/P)

According to the time of making payment, documents against payment can be further divided into documents against payment at sight (D/P at sight), and documents against payment after sight (D/P after sight).

D/P at sight means that the buyer should pay the draft amount as soon as the sight draft is presented by the bank.

D/P after sight means the buyer will pay the draft amount in a specified number of days after the time draft drawn by the seller is presented and accepted. The documents can only be released to the buyer when payment is made.



The procedure of documents against payment involves the step-by-step exchange of documents giving title to goods for payment.

The procedure of D/P at sight goes like the following:



Procedure of D/P at sight



Firstly, the principal/seller and the drawee/buyer sign a contract and both of them agree to use D/P at sight as the terms of payment. Secondly, the principal ships the goods to the drawee. And then:

① After the goods have been made shipment, the principal/seller submits the collection application form together with the draft and shipping documents to the remitting bank.



② The remitting bank makes out the collection instruction according to the collection application form and then sends the collection instruction, draft and shipping documents to the collecting/presenting bank in the buyer's country with instructions to present them to the drawee/buyer and collect payment.

③ The collecting/presenting bank checks the documents, then presents the draft to the drawee/buyer.

④ The drawee/buyer makes payment when the draft is presented.

⑤ The collecting/presenting bank releases the documents once the payment has been made.

⑥ The collecting/presenting bank sends the payment to the remitting bank.

⑦ The remitting bank then pays the principal/seller.



Procedure of D/P after sight



The procedure of D/P after sight is quite similar to that of D/P at sight, except some steps. The procedure of D/P after sight goes like the following:



Procedure of D/P after sight

Firstly, the principal and the drawee sign a contract and both of them agree to use D/P after sight as the terms of payment. Secondly, the principal ships the goods to the drawee. And then:

① After the goods have been made shipment, the principal submits the collection application form together with the draft and shipping documents to the remitting bank.

② The remitting bank makes out the collection instruction according to the collection application form and then sends the collection instruction, draft and shipping documents to the collecting/presenting bank in the buyer's country with instructions to present them to the drawee and collect payment.

③ The collecting/presenting bank reviews the documents, then presents the draft to the drawee, requiring acceptance.



Procedure of D/P after sight

- ④ The drawee signs an acceptance on the draft after checking and then sends it back to the collecting/presenting bank.
- ⑤ The collecting/presenting bank presents the draft to the drawee again on maturity date and asks for payment.
- ⑥ The drawee makes payment when the draft is presented on maturity date.
- ⑦ The collecting/presenting bank releases the documents once the payment has been made.
- ⑧ The collecting/presenting bank sends the payment to the remitting bank.
- ⑨ The remitting bank then pays the principal.



Task: Please use your own words to describe the procedure of D/P at sight and D/P after sight.



信托收据（TRUST RECEIPT）就是进口人借单时提供一种书面信用担保文件，用来表示愿意以代收行的受托人身份代为提货、报关、存仓、保险、出售并承认货物所有权仍属于银行。



(2) Documents against acceptance (D/A)

In documents against acceptance terms the collecting bank is permitted to release the documents to the buyer against acceptance of a tenor draft or in other words, the buyer signs a time draft to promise to pay at a later date, for example, on a date 90 days after the goods were dispatched. In D/A terms, the buyer takes possession of the merchandise before payment is made. The advantage of this is that the buyer can re-sell the goods immediately, thereby raising the necessary funds to pay the draft on the due date. However, the seller bears the risk of non-payment because he grants the buyer a period of credit and in return receives a draft accepted by the drawee which all the seller can rely on until the draft matures. The procedure goes like the following:



Procedures of D/A



Procedures of D/A

Firstly, the principal and the drawee sign a contract and both of them agree to use D/A as the terms of payment. Secondly, the principal ships the goods to the drawee. And then:

- ① The principal submits the collection application form together with the draft and shipping documents to the remitting bank.**
- ② The remitting bank makes out the collection instruction according to the collection application form and then sends the collection instruction, draft and shipping documents to the collecting/presenting bank in the buyer's country with instructions to present them to the drawee and collect payment.**
- ③ The collecting/presenting bank reviews the documents, then presents the draft to the drawee, requiring acceptance.**



Procedures of D/A

- ④ The drawee writes the word "accepted" and the date on which he accepts the draft as well as his signature and then sends it back to the collecting/presenting bank.
- ⑤ The collecting/presenting bank releases the documents once he gets back the "accepted" draft.
- ⑥ The collecting/presenting bank presents the draft to the drawee again on maturity date and asks for payment.
- ⑦ The drawee makes payment when the draft matures.
- ⑧ The collecting/presenting bank sends the payment to the remitting bank.
- ⑨ The remitting bank then pays the principal.



Brainstorm: What are the differences between D/P after sight and D/A, which one is more secure for the exporter?



Summary

Documentary collection offers sellers far greater security than selling on open account, but not as much as a letter of credit. Credit, political and transfer risks, for instance, are not covered. And unlike a letter of credit, for a documentary collection the bank acts as a channel for the documents but does not guarantee payment. Sellers should therefore check before starting sales negotiations whether documentary collection is the right method of payment. Compared with letter of credit, collection is more convenient and easy to operate. What's more, it involves lower banking charges, which helps the sellers and buyers to save expenses and control costs.



Little capital is occupied when using collection as the terms of payment, because no prepayment is required at the preparation and shipping stage of the seller and the buyer can obtain the documents and dispose the goods upon payment or acceptance.

To the seller, D/P after sight is more secure than D/A because documents can only be released to the buyer when payment is made under D/P after sight. While, D/A is beneficial to the buyer because he can obtain the commercial documents and dispose the goods upon acceptance of the bill, and the payment can be made after the goods are sold out and cash inflow realized.





Thank You !