

PAYMENT TERMS

Payment terms specify the conditions under which a sale takes place. It usually indicates the terms like period allowed to the buyer to pay the amount within the due date, cash in advance, cash on delivery, etc. You can find below a detailed description of the payment terms.

1) Letter of Credit – (LC)

Letter of Credit, LC is issued by the bank. The bank here refers to the one in the buyers' country. Bank issues this letter guaranteeing that the buyer will pay the seller on time the correct amount. If the buyer fails to do so, the bank has to pay the seller the full or the remaining amount of the purchase. The seller has to also produce shipping documents to the bank, authenticating that the shipping of goods would be done within the terminal date.

2) Document against Acceptance – (D/A)

Document against Acceptance (D/A) is a payment option under which the buyers need not pay immediately. He will be give a credit period of 30 days, 60 days or even more where he can pay on the maturity date as per the accepted bill of exchange.

Under this option the seller will first ship the goods to the buyer. The seller has to obtain the following documents –

Bill of Exchange,
Invoice,
Bill of Lading (or other transport documents),
Insurance Policy,
Certificate of Origin, etc.

The documents will be submitted to the seller's bank known as remitting bank. It will also be produced in the buyer's bank known as collecting bank.

Risks faced by sellers under D/A payment option –

If the buyer fails to pay the seller on the maturity date, the collecting bank will not take any action to pay the remitting bank. Thus the seller will not receive any payment. The seller has to confer with the buyer to resolve the issue & receive the payment. The collecting & the remitting banks will act only as agents.

3) Document against payment (D/P)

Once when the seller ships the goods, he will send the all the shipping documents to his bank for payment collection. Now, the seller's bank will forward the documents including the collection notice to the buyer's bank that in return will send the collection notice to the buyer.

The importer will get the original shipping documents only when he makes the payment. It simply means that the goods will come under the ownership of the buyer only when he credits the payment in the seller's account.

4) Telegraphic transfer

This a payment option in which the buyer pays the seller in advance even before receiving the goods/services. It is nothing but that the shipping would be done only when the seller receives payment from the buyer.

The documents like air waybills, commercial invoices and packing lists will be sent along with the goods. Once when the shipment arrives the buyer can clear the customs & pick the goods.

This option is at buyer's risk.

PRICE TERMS

The INCOTERMS (International trade terms) are worldwide recognized trade terms published by the International Chamber of Commerce (ICC). It classifies the trade contract responsibilities and issues between buyer and seller.

Find below, the detailed description of the common price terms -

1) What is FOB?

FOB is one of the payment terms used in the import / export of goods from one country to another. FOB stands for “Free on board”. It includes the cost of export up to the point where the material is loaded in the ship vessel, plane, etc. excluding **freight** charges. The responsibility/ownership is transferred to the buyer from the seller once when the materials are loaded in the ship, plane, etc.

In general, it means that the seller has to deliver the goods to the place (ship, plane, etc.) as chosen by the buyer only after which the seller fulfills the obligation.

Freight - A charge paid for carriage or transportation of goods by air, land, or sea.

2) What is EXW?

EX works means that the sellers’ obligation is fulfilled once when he delivers the goods to the buyer in his place. The place may be the seller’s warehouse, factory, etc. Seller would not be responsible to reach the goods at ship, plane or any other means of transportation. All the transportation cost & risk would be the buyer’s responsibility.

This price term represents minimum obligation to the seller.

Kind Attention: Buyers who cannot fulfill the export formalities should not use this option.

3) What is CIF?

Cost, Insurance and Freight – CIF, is the term where the seller has to arrange for the carriage of the goods by means of waterways to the port of destination. It simply means that the cargo insurance and delivery of goods to the port of destination would be at the seller's expense.

Loss of damage to the goods, additional costs that may occur after the time of delivery would be the buyers' responsibility. However, the seller has to procure marine insurance against buyers' risk. The seller contracts for insurance & pays insurance premium for minimum cover. If the buyer requires greater insurance cover, then he has to make his own extra insurance arrangements.

The seller has to furnish the required documents to the buyer in order to receive the goods.

What is minimum insurance cover?

Under the institute of London underwriters, insurance is available in “minimum cover” under clause C, “Medium cover” under clause B & “Most extended cover” under clause A.

Important note: COST, INSURANCE AND FREIGHT can only be used for sea or inland waterway transport.

4) What is CFR?

Cost & Freight is the price term in which the seller has to pay the cost & freight necessary to reach the goods to the port of destination. Anyhow, the other risks such as loss of damage to the goods, the additional costs that may occur after the time of delivery would be the buyers' responsibility as the seller would only clear the goods for export.

Note: *COST AND FREIGHT* can only be used for sea or inland waterway transport.

5) What is FCA?

Free carrier, FCA

It is a term where the seller has to deliver the goods to the named port, terminal, or any other carrier as named by the buyer. The transportation cost, risk of loss would be buyers' responsibility.

"Free Carrier" means the seller has to deliver the goods to the carrier as named by the buyer in his own cost.

Free Carrier can be used for any type of transport. This term is even applicable for **multimodal transport**.

Note: Multimodal transport is one where the goods would be transported by two or more modes of transport under single contract.

6) What is FAS?

Free **Alongside Ship**, FAS means that the seller has to deliver the goods to the dock or near the ship where it would be easier for the buyer to load the goods to the vessel. The goods should be delivered alongside of the ship vessel at the sellers' expense.

Note: Alongside means a place at easy reach from the ship vessel where the goods would be loaded.

Loading the goods, carriage/freight, cargo insurance & all other risks would be at the buyers' expense.

7) What is CIP?

In this term, the delivery of goods to the named port by the buyer & the cargo insurance would be at the sellers' expense. The seller has to clear the goods for export.

Buyer is responsible for import custom clearance & taxes, other costs, risk or damage of goods once when the seller has delivered the goods to the named port/carrier.
