

# INCOTERMS AND PAYMENT METHODS IN INTERNATIONAL TRADE

A DIFFERENT APPROACH

BY

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## IN GENERAL

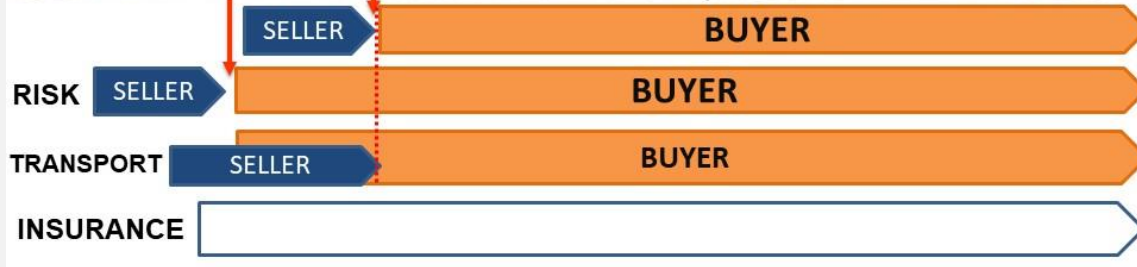
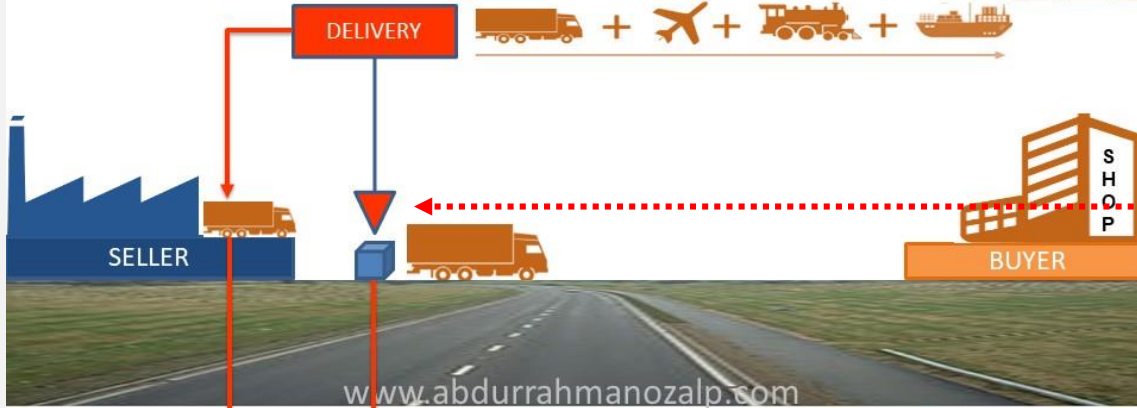
Delivery and payment are indispensable elements of sales contracts

Delivery is essential under Incoterms

Payment is essential under payment methods

Both approach to risk is different, while one focus on delivery other focus on payment

# FCA (Free Carrier)

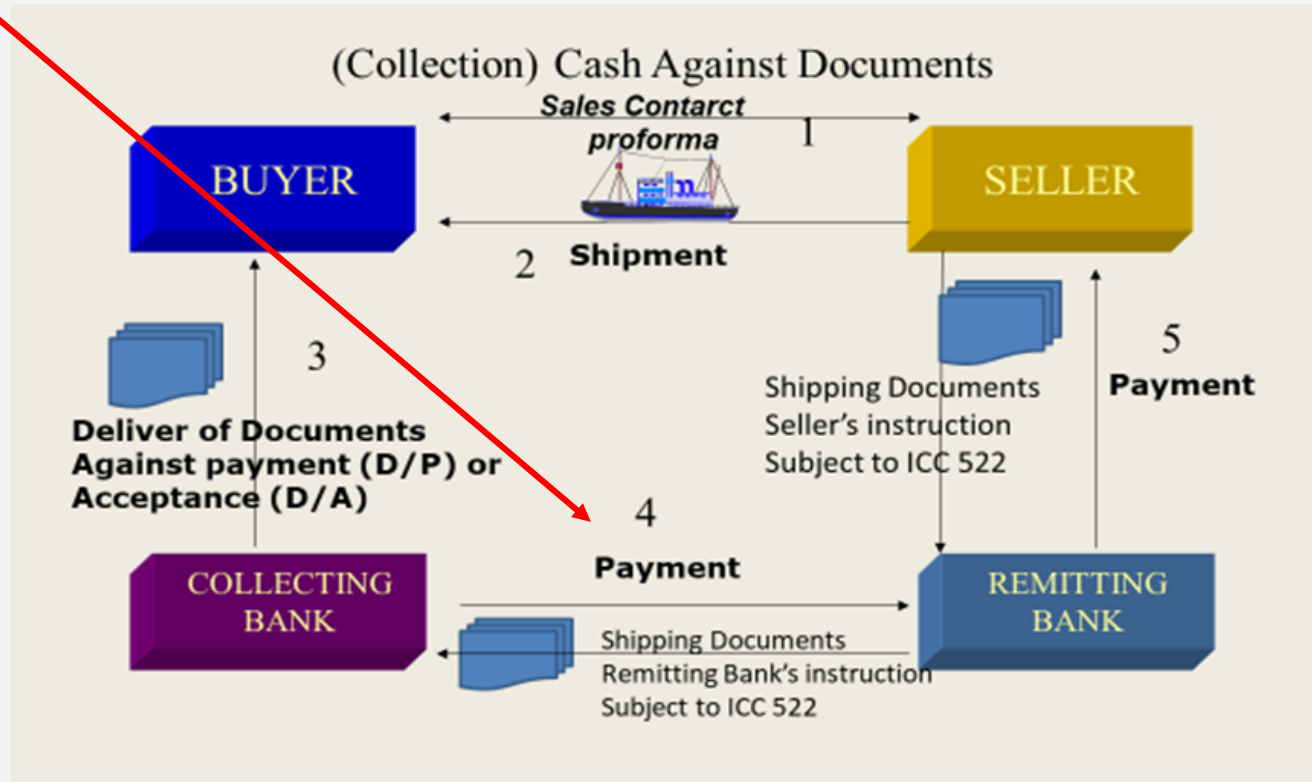


INCOTERMS DOES NOT DEAL WITH PAYMENT  
 INCOTERMS DEAL WITH DELIVERY RISK, COST AND ARRANGEMENTS

UNTIL THIS POINT THE SELLER HAS NOT BEEN PAID YET UNDER A COLLECTION PAYMENT METHOD, SO THE SELLER MUST STILL CONSIDER THE RISK ON HIMSELF DESPITE THE RISK PASSED TO BUYER AT AN EARLY STAGE UNDER INCOTERMS

PAYMENT METHODS DOES NOT DEAL WITH INCOTERMS  
 PAYMENT METHODS DEAL WITH PAYMENTS

FOR A GOOD LEVEL IT IS NECESSARY TO FIND THE OPTIMAL POINT BY EVALUATING BOTH APPROACHES TOGETHER



In some incoterms, even though the risk had passed to the buyer at an early stage (E, F and C group) the seller must evaluate the risk on his own until payment since the seller has not yet received his money under the payment method.

For example, in a transaction including FOB and Open account the risk for the seller is lower so it passes on board to the buyer under incoterms but higher under payment method because the seller has not yet received the money under the payment method. Therefore, the seller must take into account all risks associated with the goods until the goods arrive and are delivered by the buyer. When performing the risk assessment, it is necessary to find the optimal point by evaluating both approaches together.

	IN ADVANCE		OPEN ACCOUNT		DOC.COLLECTON		DOCUMENTARY CREDIT		INCOTERMS	
A.ÖZALP	SELLER	BUYER	SELLER	BUYER	SELLER	BUYER	SELLER	BUYER	SELLER	BUYER
<b>EXW</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<b>FCA</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<b>CPT</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<b>CIP</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<b>DAP</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	HIGH	LOW
<b>DPU</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	HIGH	LOW
<b>DDP</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	HIGH	LOW
<b>FAS</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<b>FOB</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<b>CFR</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<b>CIF</b>	LOW	HIGH	HIGH	LOW	HIGH	LOW	LOW	LOW	LOW	HIGH
<a href="http://www.abdurrahmanozalp.com">www.abdurrahmanozalp.com</a>	Already paid	No security as to delivery	Not yet paid, no security for payment	Depend on the buyer	Not yet paid, no security as to payment	Depend on the buyer	Already paid upon a comply presentation	secured by DC conditions if well conditioned	As per Incoterms	As per Incoterms

## Payment Method – In Advance

In all forms of delivery ( 11 INCOTERMS) under the in advance payment method , the risk of the Buyer is high, since the Buyer has paid the money in advance and the seller has received the money in advance. Therefore, so the seller had already received his Money during delivering and sending the goods, packaging, arranging vehicles, routes, loading and unloading may not show reasonable care.

Seller may not complete export customs clearance transactions, may not load or ship the goods accordingly

Seller may not provide necessary and sufficient documents to the buyer for import, may give short or counterfeit documents

Seller may not provide security information

Under group C and D the seller may not make a proper transport contrac, i.e. charter party, sanctioned, old etc.

## OPEN ACCOUNT

Seller's risk is high in all delivery methods, i.e. 11 Incoterms, as the seller has not yet paid. Even though in the incoterms which transfer the risk to the buyer at early stages the buyer may not show reasonable care to take delivery of goods or make necessary arrangements so he has not yet paid under the payment method.

Under EXW the buyer may not receive the goods

In the FCA, the buyer may not nominate the carrier send a suitable vehicle or vessel, namely may send a charter party, old and risky vessel or nominate a sanctioned carrier or another person for carriage.

Under F group and CPT or CFR the buyer may not make a strong and sufficient insurance after delivery,

The buyer may not make necessary customs transactions on arrival,

The buyer may not unloading work

## DOCUMENTARY COLLECTION

Seller's risk is high in all delivery methods, i.e. 11 Incoterms, as the seller has not yet paid. Even in the incoterms which transfer the risk to the buyer at early stages the buyer may not show reasonable care to take delivery of goods or make necessary arrangements so he has not yet paid under the payment method.

The buyer may not apply to the collecting bank to take up the documents by making a payment or acceptance

In the FCA, the buyer may not nominate the carrier send a suitable vehicle or vessel, namely may send a charter party, old and risky vessel or nominate a sanctioned carrier or another person for carriage.

Under F group and CPT or CFR the buyer may not make a strong and sufficient insurance after delivery,

The buyer may not make necessary customs transactions on arrival,

The buyer may not unloading work

The seller may send false documents (fraud)



## DOCUMENTARY CREDITS

Risk transitions under Incoterms increase or decrease according to the terms of the letter of credit and the status of the documents submitted. The terms of the letter of credit are determined by the buyer, the risk is balanced for both parties if the buyer puts the documents and terms that will protect him /her in the Documentary credit and the seller present the documents in accordance with the terms and conditions of the Documentary credit.

For example, the risk is minimal for both sides in a Documentary credit as follows. This is because the buyer has asked for a solid document, and if the seller submits the appropriate document, there is no problem. Otherwise, there may be missing/short documents for import or the seller may submit counterfeit documents if DC conditions are weak and not sufficient protective. Such adverse situations should be prevented by the conditions to be placed in the Documentary credits and the detailed documents to be required.

Documentary credit conditions:

(a good Documentary credit)

40A: UCP LATEST VERSION

45A: Description of Goods

HYDROLIC MACHINE, ONE ITEM, CIF SINGAPORE PORT AS PER INCOTERMS 2020

46A: Required Documents

+ FULL SET BILL OF LADING ISSUED TO THE ORDER OF ISSUING BANK NOTIFYING APPLICANT MARKED FREIGHT PREPAID SIGNED BY PRUDENT CARRIER (AB SHIPPING OR XY SHIPPING) OR AN AGENT IN THEIR FAVOR.

+INSURANCE POLICY ISSUED OR ENDORSED TO ORDER OF ISSUING BANK COVERING ICC (A) PLUS WAR AND STRIKE MARKED PREMIUM PAID IRRESPECTIVE OF PRCENTAGE.

However, in a letter of credit such as the following, the risk for the buyer is high, so the conditions of the Documentary credit are not strong and protective, where this is the case, the seller may present an inadequate risky transport document and an insufficient insurance certificate and receive his Money. On the other hand, the buyer may not import the goods so short, inadequate or false documents.

Documentary credit conditions (a weak Documentary credit)

40A: UCP LATEST VERSION

45A: Description of Goods

HYDROLIC MACHINE, ONE ITEM, CIF SINGAPORE PORT AS PER INCOTERMS 2020

46A: Required Documents

+ BILL OF LADING

+INSURANCE POLICY

47A:Additional conditions

+Charter party and on deck Bill of Lading acceptable

In this case, the Charter party can present a Bill of Lading, the goods can be carried on deck and the insurance can only be made with the ICC (c) clause.

If the rent or chartering fee is not paid, the owner can confiscate the property, and if the property is stolen, insurance does not pay because clause C does not cover theft.

If there is a reserve in the documents, the risk is same for the Documentary collection for the seller. If the buyer does not accept the reserve, the seller may not be able to recover, return or sell the product.

In the group F, if the buyer does not send a proper transport vehicle or vessel and/or does not nominate a prudent transport company, the seller shall not receive a transport document (or on board Bill of Lading) in conformity with the documentary credit. For example, a sanctioned carrier or another person for transport, a vessel with bad registry, old or charter party. In such a case, it is may not not be possible for the seller to receive a proper transport document or an on board Bill of Lading to present under a documentary credit in order to be honored.

Thank You

[www.abdurrahmanozalp.com](http://www.abdurrahmanozalp.com)