BILL OF EXCHANGE, OPEN ACCOUNT AND ON CONSIGNMENT

A **B/E**, also called **draft**, is another common method of payment in international trade, even if it gives the exporter less protection than an L/C. A B/E is a written order of payment that involves:

- **the drawer**, the company or person who issues the order of payment;
- **the drawee/acceptor**, the debtor;
- **the payee**, the beneficiary who will cash the money (normally, but not always, the drawer).

When the drawee accepts payment by writing and signing "accepted" on the B/E, he converts it into a post-dated check and into a legal obligation to pay the draft by a deadline. This is called maturity of the B/E and may be at:

- **sight,** if the draft can be cashed at any time;
- **a fixed date**;
- **term**, if the draft can be cashed at 30/60/90 days of receiving it.

If the draft isn't paid on the due date, it is said to be dishonoured and the beneficiary may enforce payment by law. A B/E is a negotiable and transferable form of credit, because the payee can endorse the bill to another party by signing the back of the document. He may also sell a bill of exchange to a bank at a discount if he needs funds before the maturity of the B/E. A B/E does not usually include a requirement to pay interest.

An **open account is** only granted to longstanding and reliable customers because it is the least secure term of payment. In fact, it implies that the seller agrees to supply goods regularly to importers without any pre-payment or security of payment, which is generally due 30 to 120 days after the invoice date. In case of regular shipments of goods, a statement of account with a list of all transactions and the amount due, is periodically sent to the buyer. A credit note or a debit note is forwarded to customers if they have been overcharged or undercharged by mistake in the invoice.

Payment on consignment is the riskiest payment term for exporters and it usually takes place for newly designed and manufactured products with no sales records: importers (**the consignee**) don't invest money but earn a commission on the sale of exporters' goods. Exporters still remain the owners, have no control on sales and cannot cash in before the goods are sold, usually within a period of time. The return of unsold merchandise may be difficult and risky.