CONTRACT

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CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 1: Export pricing strategies

THE PROBLEM:

The price which exporter states reflects delivery time, method of payment, etc.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 1: Export pricing strategies

How can the exporter avoid the “price trap” occurred in many negotiations when the buyer demands concessions about delivery time, method of payment, etc?

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 1: Export pricing strategies

THE PRINCIPLE

The exporter should guarantee that the contract price reflects any change in a set of assumptions about delivery, payment and warranty terms.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 1: Mode of Payment

Step 2: Timing

Step 3: Place of payment

Step 4: Delay - what delay in payment is excusable?

Step 5: Results of delay

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 1: Mode of Payment

There are four common mode of payment:

1. Payment on open account with no security: this type is seriously risky to the exporter

CHAPTER: II

NEGOTIATING PRICE AND PAYMENT

Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 1: Mode of Payment

2. Payment on open account secured by export credit insurance: the exporter pays money to an insurance company to buy an export credit insurance

CHAPTER: II

NEGOTIATING PRICE AND PAYMENT

Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 1: Mode of Payment

3. Payment on open account secured by a payment guarantee: the buyer pays money to a bank to receive a bank guarantee.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT

Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 1: Mode of Payment

4. Payment by letter of credit: the buyer must position the money with a bank in the country of the exporter and the exporter can collect that money when the goods are delivered.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 2: Timing

This step determines the date of payment. The importer often wants to delay the time of payment but the exporter suffers from delay because late payment is subject to payment of interest so most sellers offer discount for early payment. This helps the buyer save on the invoice price and the seller quickly collects his money.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT

Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 2: Timing

The date of payment may be regulated date or a chain of dates.

It is also calendar dates or interval times.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT

Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 3: Place of payment

This step determines where the money must be before payment is to be completed

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

P79:

Payment shall be deemed to have been made only when the contract sum is paid into the Seller's bank account and is at the Seller's full disposal.

CHAPTER: II

NEGOTIATING PRICE AND PAYMENT

Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 4: Delay - what delay in payment is excusable?

Delay in payment may be excused during a grace period (not common) or a force majeure event (more common). But most exporters do not want to excuse these delays and any payment made after the agreed date of payment is in delay.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 2: THE FIVE STEPS IN NEGOTIATING PAYMENT

Step 5: Results of delay

When delay in payment happens the exporter is usually compensated for losses due to late payment.

The exporter may ask for a payment guarantee which makes sure payment is made on time.

The best solution to get rid of delay is to create a payment article in the sale contract which makes late payment is impossible.

CHAPTER: II

NEGOTIATING PRICE AND PAYMENT

Part 2: THE FIVE STPES IN NEGOTIATING PAYMENT

Step 5: Results of delay

Page 80

If payment of any sum payable is delayed, the Buyer shall be entitled to receive interest on the amount unpaid during the period of delay. The interest shall be at an annual rate three percentage points above the discount rate of the central Bank in the Seller’s country.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 3: THIRD-PARTY SECURITY FOR PAYMENT

In the international trade, the exporter may face a lot of risks and one of the significant ones is non-payment. There are two main ways that the exporter can use to reduce this risk. One is export credit insurance and the other is bank guarantee.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 3: THIRD-PARTY SECURITY FOR PAYMENT

1.Export credit insurance

Export credit insurance allows exporter to recover the major part of the contract price if the buyer fails to pay after six months. To buy such insurance, the exporter must explain the detail of the business to an insurance company and receive a quotation.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 3: THIRD-PARTY SECURITY FOR PAYMENT

Export credit insurance

If the insurer refuses to pay, it may mean that there are some problems in the exporter or importer. The exporter has to pay an export insurance premium which depends on many factors, such as: the type of goods exported, the creditworthiness of the buyer, the political stability of the importer country.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 3: THIRD-PARTY SECURITY FOR PAYMENT

Export credit insurance

Although this way is attractive, it has some limitations: the exporter has to wait for a long time to be compensated and the compensation is unlikely to cover 100% of the invoice price.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 3: THIRD-PARTY SECURITY FOR PAYMENT

Payment guarantee

In this method, the buyer may ask for a bank guarantee which means that the bank will pay the contract price if the buyer fails to do so.

Guarantees are commonly used in four business situations, as the following:

2. Payment guarantee

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CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 3: THIRD-PARTY SECURITY FOR PAYMENT

2. Payment guarantee

Risk 1: Non-payment =>Payment guarantee

A payment guarantee makes sure that the exporter will receive payment. It commits the bank to pay if the buyer defaults. The payment guarantee is usually for 100% of the contract price.

CHAPTER: II

NEGOTIATING PRICE AND PAYMENT

Part 3: THIRD-PARTY SECURITY FOR PAYMENT

2. Payment guarantee

Risk 2: Revocation => Tender guarantee

This type of guarantee is used in case that the exporter who bids on a contract to supply goods or materials to a government department or agency is withdrawn. A normal figure for tender guarantee is usually from 1.5% to 5% of the contract price.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 3: THIRD-PARTY SECURITY FOR PAYMENT

2. Payment guarantee

Risk 3: Non-performance=>Performance guarantee

Performance guarantee makes sure that if the exporter works badly or not at all, the guarantor will pay, within stated limits, the costs of the exporter’s failure to perform. A figure for performance guarantee is from 5% to 10% of the contract price.

2. Payment guarantee

Risk 4: Losing Prepayment=>Prepayment guarantee

This guarantee promises the buyer that the bank will return advance payments if the exporter fails to deliver. The guarantee is often for 100% of the prepayment.

CHAPTER: II

NEGOTIATING PRICE AND PAYMENT

Part 4: THE LETTER OF CREDIT

Letters of credit are issued in many forms for many purposes. Some letters of credit offer first class security for the exporters, some are little better than a personal check

The most ideal type of letter of credit from the exporter's point of view is irrevocable, confirmed, at sight letter of credit.

The Uniform Customs and Practice for Documentary Credits (UCP) by the International Chamber of Commerce is the most universal set of practices ruling over payment by letter of credit. Besides, parties to a contract can also use the rules of the United States.

CHAPTER: II
NEGOTIATING PRICE AND PAYMENT
Part 4: THE LETTER OF CREDIT

Page 87

The Buyer, on receipt of the Confirmation of Order from the Seller, shall at least 20 days prior to the date of delivery open a confirmed, irrevocable letter of credit. This credit shall bi subject to Uniform Customs and Practice for Documentary Credits, 1993 Revision, ICC publication No.500.

Page 87

20% of the credit shall be available against the Seller's draft accompanied by invoice, the remaining 80% shall be available against the Seller' graft accompanied by the shipping documents.

Page 87

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CHAPTER: II
Q & A

1. Why is payment in international trade tightly controlled?

CHAPTER: II
Q & A

1. Why payment in international trade tightly controlled?

-Trust is rare

-Court is far away and unpredictable

CHAPTER: II
Q & A

2.What are the common methods of payment in international trade?

CHAPTER: II
Q & A

2. What are the common methods of payment in international trade?

- Open account with no security
- Open account with secured by export credit insurance
- Open account with secured by payment guarantee
- Payment by letter of credit

CHAPTER: II
Q & A

3. What are methods of payment in small purchases?

CHAPTER: II
Q & A

3. What are methods of payment in small purchases?

-Cash on delivery

-Cash against invoice

-Cash with order

CHAPTER: II
Q & A

4. What are payment insurances?

CHAPTER: II
Q & A

4. What are payment insurances?

-Bank guarantee.

-Export credit insurance

CHAPTER: II
Q & A

5. Who can offer bank guarantee?

CHAPTER: II
Q & A

5. Who can offer bank guarantee?

- A bank

CHAPTER: II
Q & A

6. Who can offer export credit insurance?

CHAPTER: II
Q & A

6. Who can offer export cerdit insurance?

- An insurance company.

CHAPTER: II
Q & A

7. Who can offer export credit insurance?

CHAPTER: II
Q & A

7. Who can offer export credit insurance?

- An insurance company.

CHAPTER: II
Q & A

8. What are the two main elements in payment?

CHAPTER: II
Q & A

8. What are the two main elements in payment?

-Time

-Structure

CHAPTER: II
Q & A

9. What does the exporter have to suffer from late payment?

CHAPTER: II
Q & A

9. What does the exporter have to suffer from late payment?

- Bank interest

CHAPTER: II
Q & A

10. What is an incentive for early payment?

CHAPTER: II
Q & A

10. What is an incentive for early payment?

- A discount

CHAPTER: II
Q & A

11. How to fix payment date?

CHAPTER: II
Q & A

11. How to fix payment date?

-A calendar date.

-Interval times.

CHAPTER: II
Q & A

12. When delay in payment is excused?

CHAPTER: II
Q & A

12. When delay in payment is excused?

-Delay happens in the grace period.

-Delay is caused by Force Majeure

CHAPTER: II
Q & A

13. What does the importer have to pay to the exporter in case of late payment?

CHAPTER: II
Q & A

13. What payment does the importer have to pay the exporter in case of late payment?

- Compensation for losses due to late payment.

CHAPTER: II
Q & A

14. What kind of method of payment makes late payment impossible?

CHAPTER: II
Q & A

14. What kind of method of payment makes late payment impossible?

- The confirmed, irrevocable, at-sight L/C

CHAPTER: II
Q & A

15. What may reduce risk for exporters?

CHAPTER: II
Q & A

15. What may reduce risk for exporters?

Exporter may reduce risk by spreading risk with the third party.

CHAPTER: II
Q & A

16. In order to take out non-payment risk, what does the exporter have to do?

CHAPTER: II
Q & A

16. In order to take out non-payment risk insurance, what does the exporter have to do?

- Contact an insurance company and explain the details of the business, applies for a quotation from the insurance.

CHAPTER: II
Q & A

17. What can we imply when the insurance company refuses to offer an insurance quotation?

CHAPTER: II
Q & A

17. What can we imply when the insurance company refuses to offer an insurance quotation?

-The insurance company knows the buyer’ uncreditworthiness

-The business is risky.

CHAPTER: II
Q & A

18. What does the insurance premium depend on?

CHAPTER: II
Q & A

18. What does the insurance premium depend on?

-The type of the goods

-The creditworthiness of the buyer

-The stability of the buyer' country and so on.

CHAPTER: II
Q & A

19. What is the guarantee triangle?

CHAPTER: II
Q & A

19. What is the guarantee triangle?

- That is the relationship of the principal, guarantor and beneficiary in terms guarantee.

CHAPTER: II
Q & A

19. What are the business situations which commonly use guarantee?

CHAPTER: II
Q & A

19. What are the business situations which commonly use guarantee?

-Non- payment

-Revocation

-Non- performance

-Losing prepayment

CHAPTER: II
Q & A

20. What are the guarantees used in the business situations such as :

-Non- payment

-Revocation

-Non- performance

-Losing prepayment

CHAPTER: II
Q & A

20. What are the guarantees used in the following business situations?

1. Payment guarantee
2. Tender guarantee
3. Performance guarantee
4. Prepayment guarantee

CHAPTER: II
Q & A

20. Name types of L/C you know?

CHAPTER: II
Q & A

20. Name types of L/C you know?

- Revocable – Irrevocable
- Confirmed- Unconfirmed
- At- sight L/C
- Back to back L/C
- Revolving L/C