

**Fraud** in the seafood trade

## Ensuring safety of payments

Payment safety is one of the most important issues in international trade and the seafood business is no exception. When concluding a contract both the exporter and importer must be sure that they will not lose either the money or the goods. Risks exist for both parties and we will explain how to minimise them.

As in many other industries, seafood companies are working with partial or full prepayments, letters of credit, bank guarantees or deferred payments. Each type of payment has its advantages and disadvantages as well as a certain degree of risk connected to it.

### Several options for buyers to choose from

Partial or full prepayment is widely used in the seafood trade. There is no standard percentage of the prepaid amount and the sums depend on the agreement between the seller and the buyer. This payment method gives most security to the seller but the buyer remains unprotected. This is especially the case when the exporter and importer are located on different continents and have no experience of doing business with each other. The worst scenario is that the fraudulent seller stops answering the buyer's letters and phone calls and disappears with the prepayment. Another risk is that the seller receives a prepayment but does not ship the goods in time while keeping the money. In a dynamic seafood market the price for the product can change very quickly and often the buyer will not need the product after a certain time. Quality of the product can be another issue. Often the buyer has to pay for the product before the production starts and at this point he does not

know anything about its quality. Finally, with the prepayment in hand a dishonest supplier receives a certain control over the buyer and may ask for additional sums to cover any possible extra costs or suddenly increase the selling price. As we can see, by transferring prepayment the importer puts his money at risk. Still prepayment remains one of the most popular payment methods and for buyers from many countries it is the only available payment solution.

### Advance Payment Guarantee secures the prepayment

The good news is that the importer can protect his money from being kept by a dishonest

supplier or from non-delivery of the product. First of all we recommend buyers to use an Advance Payment Guarantee or Prepayment Return Guarantee (Picture 1). The Guarantee works as follows: Before transferring the money the buyer should ask the seller to provide the Guarantee issued by the seller's bank. By issuing the Guarantee the seller's bank agrees to return the full amount of the money transferred by the buyer if the seller does not fulfill his contractual obligations. This Guarantee offers a certain peace of mind for the importer as he can be sure that the repayment is guaranteed by a bank. It does not cost much to have the Guarantee issued and buyers should be very wary if the seller refuses to provide it.

Here is an example of the use of an Advance Payment Guarantee. A seafood importer, for example, GHI Imports Ltd, placed an order with an unknown overseas supplier, DEF Exports Ltd. An important point for GHI Imports was that the product had to be in their country some days before the public holidays started so they could promptly sell the fish at a high price. GHI Imports asked the supplier to provide an Advance Payment Guarantee from their bank which was accepted by DEF Exports Ltd. The parties signed the contract, the Guarantee was issued and the prepayment was transferred to the supplier. Unfortunately, the DEF Exports Ltd. did not manage to supply the fish in time. When the last shipment day passed



Fish and seafood are the world's most highly traded food commodities. For international trade to function smoothly one of the most important issues is payment safety.

**ADVANCE PAYMENT GUARANTEE (PREPAYMENT RETURN GUARANTEE)**

ABC BANK LTD.  
Address of the Bank

Principal: DEF Exports Ltd (Seller)  
Beneficiary: GHI Imports Ltd (Buyer)  
Guarantee No: 0987654321

Dear Sirs,

You concluded a contract No. 12345/678, dated 01/11/2000 with DEF Exports Ltd. for the supply of XXXX product at a total price of 100.000 USD.

According to the contract you will make an advance payment of 50.000 USD (50% of the total price) to DEF Exports Ltd.

At the request of DEF Exports Ltd. we hereby irrevocably undertake to refund to you on your first demand, irrespective of the validity and the legal effects of the above mentioned contract and waiving all rights of objection and defence arising from said contract, any amount up to 50.000 USD (Fifty Thousand US Dollars) upon you written request for payment and your written confirmation that DEF Exports Ltd. have failed to deliver the ordered merchandise or not delivered such merchandise as specified in the above mentioned contract.

The total amount of this Guarantee will be reduced by any payment effected thereunder.

For the purpose of identification, your request for payment in writing has to be presented through the intermediary of a first rate bank confirming that the signatures thereon are legally binding upon you.

Your claim is also acceptable if transmitted to us in full by duly encoded SWIFT through a first rate bank confirming that your original claim has been sent to us by registered mail and that the signatures thereon are legally binding upon you. Your claim will be considered as having been made once we are in possession of your written request for payment or the duly encoded SWIFT to this effect.

Our present guarantee is valid until 00/00/2000 and expires in full and automatically if your claim has not been made on or before that date.

This guarantee enters into force only after receipt of the advance payment by DEF Exports Ltd. on their account number xxxxx (Seller's bank account) in ABC Bank Ltd.

The Guarantee is personal to the Beneficiary and is not assignable.

All banking charges outside xxx are for the Beneficiary's account.

This guarantee is governed by ZZZZ law, place of jurisdiction is YYYY.

Yours faithfully,

ABC Bank Ltd.  
Date/Stamp/Signature

**Picture 1: Buyers should use an Advance Payment Guarantee or Prepayment Return Guarantee to protect their money from being kept by a dishonest supplier or from non-delivery of the product.**

GHI Imports instructed their bank to contact the seller's bank and demand the return of the money. That was promptly done and within a week the money was returned.

Buyers should be extremely careful when a foreign supplier asks for the prepayment to be transferred to another beneficiary located in the same or another country. Some suppliers use this method of receiving payments to avoid export duties and other taxes in their home

country. Importers should know exactly which company will be responsible for the fulfillment of the agreement and if this company is financially strong enough to meet its obligations in the event of a claim.

**Letters of credit deal with documents not goods**

Letter of credit (L/C) is another popular payment method that is usually accepted by both exporters and importers. For the

buyer it provides a security in the sense that the seller will ship the goods within the agreed time and will issue the export documents according to the buyer's demand. Unfortunately this method of payment is not widely used in certain countries and often it does not offer protection against misuse by the supplier. First of all, when issuing and accepting letters of credit, the banks deal only with the documents, but not the goods. This gives a dishonest supplier an opportunity to ship a sub-quality product or ship nothing at all. If he issues (or forfeits) the export documents in accordance with the L/C, he has a good chance of being paid by the bank. This is especially the case if the companies have no previous experience of working with each other. To avoid this situation buyers can include a pre-shipment inspection certificate issued by an independent surveyor in the set of documents needed for presentation to the bank. If both the supplier and importer have good intentions to do business it should be easy for them to agree on a text for the L/C.

To be sure that the seller can fulfill his obligations the buyer should perform a due diligence on the supplier and collect as much information about him as possible. The check should be performed before signing any agreement with an unknown company and absolutely before opening an L/C or transferring the prepayment.

A bank guarantee could be another option to pay for the goods. It offers more protection to the buyer but the supplier's risks are higher. It is similar to a letter of credit, but has an important feature that benefits the buyer: it is possible to insert quality and

quantity conditions into the guarantee, as well as the other terms. If the seller does not fulfill any of them and the buyer can prove it, the seller will not be paid and the guarantee will become void.

**A small prepayment carries risks for the seller**

Exporters also have to be careful when accepting a payment method as if the payment is not 100% secured the goods may not be paid for at all or paid with a deduction. Full or partial prepayment is the safest way for the exporter to ensure that the goods will be paid for but for a buyer it is the most inconvenient payment method especially if the parties do not know each other. For sellers this payment method also has its pitfalls. If the transferred prepayment is relatively small there is a chance that in a changed market or financial situation the buyer may prefer to lose his prepayment rather than accept the product, paying the full price and suffering severe financial losses in the future.

Here is one example of how an insufficient prepayment caused serious losses to the seller. Exporter JKL Trading Ltd. made a contract for delivery of one container of fish products to the buyer, MNO Import-Export Ltd. The buyer was located in a highly attractive and promising market so it was very important for the seller to make the first deal and enter this market. He had never sold anything to this particular country and did not have any other business partners there. In order to be competitive JKL Trading Ltd. accepted a very low prepayment from the buyer that amounted to approximately 5% of the product's value. The remaining sum should have

**PAYMENT GUARANTEE**

ABC BANK LTD.  
Address of the Bank

Principal: DEF Imports Ltd (Buyer)  
Beneficiary: GHI Exports Ltd (Seller)  
Guarantee No: 0987654321

Dear Sirs,

You concluded a contract No. 123456789 with DEF Imports Ltd. dated 10/03/2000 for the supply of XXXX product at a price of 200,000 USD.

At the request of DEF Imports Ltd. we hereby irrevocably undertake to pay you on first demand, irrespective of the validity and the legal effects of the above mentioned contract and waiving all rights of objection and defence arising from said contract, any amount up to 200,000 USD (Two Hundred Thousand US Dollars) upon receipt of your written request for payment and your written confirmation that:

- a) you have delivered the merchandise to DEF Imports Ltd. in conformity with the contract and that
- b) you have not received payment on the due date for the sum claimed under this Guarantee.

The total amount of this Guarantee will be reduced by any payment effected thereunder.

For the purpose of identification, your request for payment and your confirmation thereunder have to be presented through the intermediary of a first rate bank confirming that the signatures thereon are legally binding upon you.

Your claim is also acceptable if transmitted to us in full by duly encoded SWIFT through a first rate bank confirming that your original claim has been sent to us by registered mail and that the signatures thereon are legally binding upon you. Your claim will be considered as having been made once we are in possession of your written request for payment or the duly encoded SWIFT to this effect.

Our present guarantee is valid until 00/00/2000 and expires in full and automatically if your claim has not been made on or before that date.

The Guarantee is personal to the Beneficiary and is not assignable.

All banking charges outside ZZZZ are for the Beneficiary's account.

This guarantee is governed by ZZZZ law, place of jurisdiction is ZZZZ.

Yours faithfully,

ABC Bank Ltd.  
Date/Stamp/Signature

**Picture 2: A bank guarantee offers more protection to the buyer, but the supplier's risks are higher. It is similar to a letter of credit, but has an important feature that benefits the buyer: it is possible to insert quality and quantity conditions into the guarantee, as well as the other terms.**

been transferred by the buyer before the cargo was unloaded at the destination. The exporter and importer were located on different continents and had no previous experience of working with each other.

The seller received the prepayment, ordered the product from the packer and shipped it to the buyer. While the fish was in transit other exporters delivered several large shipments of the same product to the market. The prices

went down and no local traders were willing to place any extra

orders. MNO Import-Export Ltd. understood that they could not sell the product at the price they had planned to receive. After a simple calculation they decided to cancel the contract and leave the prepayment with the seller. JKL Trading Ltd. had no other contacts to offer the fish, all documents were issued in the name of MNO Import-Export Ltd. and to unload the container from the transport vessel meant demurrage costs that the seller had to suffer. In this situation the seller decided to take the product back, put it into a coldstore and sell it to any other interested company. Needless to say, the prepayment they had received did not cover the losses and in the end, to avoid extra storage and repacking costs, JKL Trading Ltd had to sell the product at a loss.

To avoid such a situation the exporters should demand a prepayment which will cover at least all the costs connected to the shipment (repacking, demurrage, possible return of the cargo, storage etc.) in case the buyer decides to refuse the cargo. 30-50% prepayment is the most popular option accepted by exporters and importers. Sellers should consider offering their buyers an Advance Payment Guarantee (Picture 1) to give importers extra security and to show that the company can meet its obligations.

**Exporters must stick to the L/C terms when issuing document**

A letter of credit offers good protection for the exporter and shows that the buyer has funds to pay for the product. When accepting a letter of credit exporters must be sure that they will manage to issue all the documents in strict accordance with the L/C's terms and stick to the timeframes stated in the L/C. Sellers must carefully review the L/C draft before giving the green light for issuing the originals. Exporters must avoid L/Cs with built-in discrepancies, as such L/Cs may never be honoured by the bank and the seller will not receive the payment.

Exporters should be very careful when accepting a bank guarantee from the buyers. The most important point to consider is that if the guarantee has certain quality, quantity or other conditions, and if the buyer claims that these conditions were not fulfilled the bank will not pay the seller until the dispute is settled between the parties. It may take time to clarify the situation and by the time the conflict is solved the guarantee may expire and the bank will be free from any obligations.

**Independent inspections can reassure buyers**

To avoid the situation described above we recommend that exporters make an independent inspection of the cargo before shipping, especially when an unknown buyer offers a bank guarantee. The results of the inspection will mean the seller has proof that the quality of the product was in accordance to the contract.

**BL International Ltd. Company Fact File**

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Gibraltar  
Tel: +350-54015717 / +44-20-32395902  
Fax: +350-21628708 / +44-20-30148627  
Email: info@black-lists.com  
www.black-lists.com

**Business activities:** Anti-fraud consulting services, international claim exchange, debt recovery and conflict settlement assistance.

**Manager:** Alex Sergeev

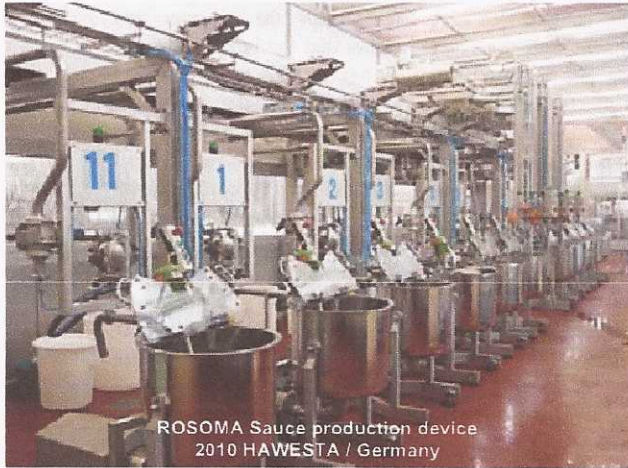
**Area of activity:** worldwide

**Clients:** importers, exporters, traders, and manufacturers



ROSOMA plans, designs, produces and installs:

Complete processing lines for fish processing facilities ashore or on board ships



ROSOMA Sauce production device  
2010 HAWESTA / Germany

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Sales on open credit can be done only with companies with which the exporter has long lasting relations and if he knows they are financially sound. Many exporters establish a certain credit limit for their customers and these limits are insured with an insurance company. An important point that exporters should remember in case of a quality or quantity dispute is that the seller should be able to prove that the products were shipped in accordance with the agreement, otherwise the insurance might be void.

All exporters are strongly discouraged from selling on open credit to companies they do not know especially if the buyer demands credit from the very first deal.

All companies are welcome to contact us (see details in box on previous page) and receive expert advice regarding payment safety in the seafood trade. Our specialists will be happy to assist you.

All companies mentioned in this article are fictitious.

# Big profits from small pelagics

## Smart budget equipment

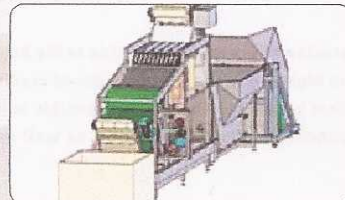
Let's meet at our stand  
SPE 2011 in Brussels, Stand 4-6257



**Compact sorting line**  
4 / 5 grades



**Continuous dosing**  
by volume up to 10 t/h



**High speed nobbing**  
up to 600 fish / min



**Contact us for details and orders:**  
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**PERUZA**  
Smart budget equipment specialists