

# **PARANÁ MIX TRADING**

## **INTERNATIONAL COMMERCE TERMS**

### **BUSINESS ABBREVIATION:**

#### **ASWP - (Any Safe World Port).**

It is quite common for commodity sellers to offer delivery to any safe world port of the buyer's choice.

#### **ASAP - (As soon as possible).**

#### **FCL - (Full Container Load).**

The goods fill a container, no other purchaser's goods will share the container. Often suppliers will not supply less than one full container.

#### **ICUMSA - (International Commission for Uniform Methods of Sugar Analysis).**

This is an international body that regulates and standardizes sugar testing processes. It is also used to refer to various grades of sugar, such as "ICUMSA 45" for instance.

#### **MOQ - (Minimum Order Quantity).**

This is often expressed by sellers who have a minimum amount of sugar that they are prepared to sell in any one shipment. Smaller quantities do not represent sufficient profit margins to be worth the effort that the seller must go to in preparing sugar for shipment.

#### **SGS - (Société Générale de Surveillance).**

SGS is the world's leading inspection, verification, testing and Certification Company. SGS is recognized as the global benchmark for quality and integrity. The core services offered by SGS can be divided into three categories:

\* Inspection Services. SGS inspects and verifies the quantity, weight and quality of traded goods. Inspection typically takes place at the manufacturer/supplier's premises or at time of loading or at destination during discharge/off-loading.

\* Testing Services. SGS tests product quality and performance against various health, safety and regulatory standards. SGS operates state of the art laboratories on or close to customers' premises.

\* Certification Services. SGS certifies that products, systems or services meet the requirements of standards set by governments (e.g. GOST R), standardization bodies (e.g. ISO 9000) or by SGS customers. SGS also develops and certifies its own standards.

Before sugar leaves the port of sale, an inspection is carried out by SGS. SGS inspections provide peace of mind for the buyer who can be assured that the sugar is of a high quality if it is cleared by SGS inspectors.

## **BANKING DOCUMENTS:**

### **BCL - (Bank Confirmation Letter).**

This is a letter from the Buyer's bank confirming the buyer's ability to meet a certain level payment requirements. This letter states that the Buyer has sufficient funds to cover the cost of the order. It should however be understood that this does not imply any guarantee of payment.

### **RWA - (Ready, Willing and Able).**

A RWA Letter is a document issued by a bank on behalf of a client to prove his readiness and his intent to participate in a financial transaction. The letter is issued by one bank to another, usually with swift MT-799.

### **BG - (Bank Guarantee).**

A Bank Guarantee (more properly called a Banker's Guarantee) is a banking arrangement whereby a bank substitutes its creditworthiness for that of its customer. Unlike an L/C which is intended to be paid, a BG is a contingent obligation. "Contingent" means "depending on the happening of an event, which may or may not occur" and 99% of the time it is not paid because the event does not happen. Everyday, banks big and small issue BGs on behalf of their customers for a variety of mundane purposes. A BG is never issued for the bank's own account, always on behalf of its customers, and the final liability falls on the customers. The most common type of BG is performance-related, in which a bank tells the beneficiary if the customer does not do this or that, the bank will pay.

**SWIFT - (Society for Worldwide Interbank Financial Telecommunication).**

Provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment. A global service which is responsible for facilitating communication between banks. Most payments are made via SWIFT; however, SWIFT does not facilitate funds transfer; rather, it sends payment orders, which must be settled by correspondent accounts that the institutions have with each other.

**L/C - (Letter of Credit).**

Letter of credit is a document issued from the Buyer's bank to the Seller which guarantee payment to the beneficiary of the letter of credit (the Seller), as long as the terms and conditions set out in the letter of credit are met. L/C are almost always irrevocable, but can be transferable. For regular shipments a Revolving L/C is often utilized.

**THE VARIOUS TYPES OF LETTERS OF CREDIT CAN BE DEFINED AS FOLLOWING:**

**CL/C - (Confirmed Letter of Credit).**

A letter of credit, issued by a foreign bank, with validity confirmed by a First Class (usually US or European) bank. A seller with CL/C terms is assured of payment even if the foreign buyer or the foreign bank defaults.

**DL/C - (Documentary Letter of Credit).**

A document issued by a bank which guarantees the payment of a buyer's drafts for a specified period and up to a specified amount. The Documentary Letter of Credit provides a more secure means of carrying out transactions in import-export trade than by documentary bills collection (see Bill of Exchange). A letter of credit when transmitted through a bank, usually in the seller's country, becomes the means by which the seller obtains payment. The necessary documents, correctly completed, are presented to a bank by an agreed date. If the terms of the credit are met, a seller can receive payment from a bank immediately.

### **IL/C - (Irrevocable Letter of Credit).**

An Irrevocable Letter of Credit cannot be amended or cancelled without the consent of the issuing bank, the confirming bank (if confirmed), bears the further payment undertaking of another bank, usually the advising bank, called the Confirming Bank here since it adds its confirmation to the letter of credit. This may also be used if the issuing bank is of unknown doubtful standing to the seller and the beneficiary.

The payment is guaranteed by the bank if the credit terms and conditions are fully met by the beneficiary. The words Irrevocable Documentary Credit or Irrevocable Credit may be indicated in the L/C. It means that once the buyer's conditions in the letter have been agreed to by the seller, they constitute a definite undertaking by the buyer's bank and cannot be revoked without the seller's agreement.

Revocable Letters of Credit are rarely used as the terms of the credit can be cancelled or amended by an overseas buyer at any time without notice to the seller.

### **RL/C - (Revolving Letter of Credit).**

When a letter of credit (L/C) is specifically designated a Revolving Letter of Credit, the amount involved when utilized is automatically reinstated, that is, the amount becomes available again without issuing another L/C and usually under the same terms and conditions within a period of time (usually several months to one year). This saves administration when multiple shipments are involved.

### **SBL/C - (Stand-by Letter of Credit).**

The term Standby Letter of Credit (SBL/C) was invented by U.S. banks because under the Glass-Steagall Act banks in the U.S. were not allowed to issue Bank(er's) Guarantees so they got round the law by formatting their BGs like Letters of Credit and called them Standby L/Cs.

The word “**standby**” means the same as “**contingent**” – available when called upon. Thus, this is a financial guarantee or performance bond issued by a bank on behalf of a buyer. i.e. a written obligation of the issuing bank to pay a sum to a beneficiary on behalf of their customer in the event that the customer himself does not pay the beneficiary. The SBL/C is regulated by the ICC-500 rules.

#### **TL/C- (Transferable letter of credit).**

This is the favorite instrument of the traders and middlemen to offer secure terms of payments to third parties such as their suppliers (second beneficiary in the letter of credit). When the buyer pays the letter of credit, part of the proceeds is transferred to the second Beneficiary.

#### **PB - (Performance Bond).**

This is a type of bank guarantee which is issued from the Seller to the Buyer. It guarantees that the Seller will meet the terms of the contract. Normally issued in the amount of 2 % of the total amount of the contract, a performance bond can be drawn upon by the Buyer in the event that the Seller breaks the contract and fails to provide the product which was stipulated in the contract.

#### **POP - (Proof of Product).**

A Proof of Product (PoP) is often requested by customers or agents who believe it will give them some guarantee of the existence of the product and ability of the supplier to deliver the product. In practice many PoPs are false. PoP offers no proof at all, because once a PoP has been drafted it is automatically out of date – the product could have been sold to another buyer and therefore no longer exists. Nevertheless, a PoP is still occasionally requested as apparent proof that a seller has the product.

A PoP is realistically provided only when the Buyer's bank issues a Bank Confirmation Letter (BCL) to the Seller and or

seller's bank via SWIFT MT799. Then the Seller's bank can check the availability of funds in the Buyer's bank and issue a PoP to the Buyer's bank within an agreed time period (e.g. 5 days). The seller can also choose to issue PoP to buyer against a non-operative or pre-advice bank guarantee or letter of credit opened. \*Please review our procedures.

**PRIME BANK** - Top 25 world's bank. These are trusted banks which are preferred (or in most cases even mandatory) in commodity trading.

## **INCOTERMS:**

### **CAD - (Cash Against Documents).**

This acronym stands for "Cash Against Documents", and is indicative of a type of sale where title documents are only transferred when payment is made.

### **CIA - (Cash In Advance).**

This acronym stands for "Cash In Advance", which is a type of sale in which the full amount of the purchase price of an order must be paid up front. This is not standard procedure in the sugar trading industry, and it is not advised that any buyer pays upfront for sugar that has not yet been shipped.

### **CFR - (Cost and Freight).**

The price includes the cost of the goods, loading, and freight to the named Destination Port. This does not include unloading charges.

### **CIF - (Cost, Insurance and Freight).**

This is the same as CNF, but also includes insurance to the named Destination Port, e.g. CIF Dubai.

### **CB - (Confirming Bank).**

A confirming bank is a bank which agrees to honor a bank guarantee or letter of credit issued by another bank.

### **DC - (Draft Contract).**

A draft contract is an initial contract which is drawn up and

sent from the Seller to the Buyer. The Buyer has the opportunity to make amendments and send it back to the Seller for consideration. This process continues until both parties are satisfied with the terms of the contract.

**DDP - (Delivered Duty Paid).**

All delivery charges and duties to the named destination are paid by the exporter, e.g. DDP New York.

**EXW - (Ex-Works).**

The buyer pays all costs of transport from pickup at the suppliers premises, e.g. EXW Hong Kong.

**FAS - (Free Alongside Ship).**

The supplier pays costs only to the port of loading. Loading and shipment are responsibility of the Buyer. However the supplier must clear the goods for export, e.g. FAS Los Angeles.

**FOB - (Free on Board).**

This means that the supplier pays only to the point where the goods are loaded on board the carrying vessel. The seller must clear the goods for export. As soon as the goods are over the ship's rail they become the responsibility of the buyer, e.g. FOB London.

**FCA - (Free Carrier).**

The supplier must deliver the goods, cleared for export, to the carrier nominated by the buyer at the named place.

**TRADING DOCUMENTS:**

**BL - (Bill of Lading).**

This is the receipt given by the shipping company when goods are loaded on board the vessel. This is an important document and gives title to the goods. It is needed by the buyer to obtain the goods from the port.

**FCO - (A Full Corporate Offer).**

Issued by the seller after the preliminary stages of negotiation are complete, such as a letter of intent having been issued by

the buyer, and a soft probe having been conducted on their accounts by the Seller. A full corporate offer is a document which outlines the conditions of the sale.

**ICPO - (Irrevocable Corporate Purchase Order).**

This is a document drawn up by commercial Buyers. It contains the quantities and type of commodity required, and other conditions that the buyer would like the sale to proceed under. Once submitted to the Seller, this is deemed to be binding and the corporation is obliged to complete the sale.

**LOI - (Letter of Intent).**

Letter of Intent is a document issued from the Buyer to the Seller which indicates that the Buyer would like to enter into negotiations with the Seller in the hope of purchasing commodity. The letter of intent is not legally binding, but it does provide a starting point for negotiations.

**PROFORMA INVOICE** - A Proforma Invoice (Proforma) is an official price quote a step up from a published price list that allows the customer to present the Proforma Invoice to their Accounting Department and to arrange a prepayment. Customers pre-paying orders via bank money transfer before shipping an order most commonly request it. It is used by customers to formalize the terms of sale (price, shipping, CIF, location, shipping date, etc.) and properly allocate and/or transfer the funds needed for the purchase. The Proforma guarantees a price and terms for an established period of time while the customer acquires and/or transfers the funds.

**SOFT PROBE** - This is an authorization from the buyer to the seller to contact the buyer's bank to verify the buyer has the financial capability to purchase the amount of sugar and the method of payment agreed in the (LOI) Letter of Intent.