

# About POP: Proof of Product

An essential document in the sugar trading negotiation process is the proof of product. The PoP is sent bank to bank, (from the seller's bank to the buyer's bank), and is documentary evidence that the product exists. The PoP is crucial from the buyer's perspective, and buyers should care that the proof of product is authentic before agreeing to trade and/or signing any binding contracts.

## Types of POP

There are many different types of Proof of Product, and a proof of product can include documentation such as a license to export sugar, which is issued by the Brazilian government, an approval to export - also issued by the Brazilian Government, a warehouse receipt indicating that sugar has been stored at a specific facility, a mill's commitment to produce the product, or a carrier's commitment to transport the product. SGS inspection certificates are also valid as a proof of product, and are probably the most reliable form of PoP, as SGS is an independent firm with an international reputation for honesty and reliability. Sellers are sometimes reluctant to offer SGS certificates as a PoP, as SGS inspections are costly. If SGS inspection certificates are not available as a PoP, then be sure to ask for several of the above documents. Be aware that some types of documentation are more easily forged than others. For instance, a warehouse receipt from a foreign warehouse realistically carries very little weight unless it can be independently verified, and a carrier's undertaking to transport the product does not prove the existence of the product as anyone can contract a carrier without providing proof to the carrier that the sugar exists.

## POP Fraud

Unfortunately, PoP fraud does exist. In some cases fake PoP's are issued by scam artists who wish to make off with the buyer's funds in their entirety, and in other cases fake PoP's are simply issued by brokers or mills wishing to entice the buyer further down the path towards sale before revealing that the original quantities are actually not available. Because PoP's can be fraudulently provided, it is important to do research on the seller you are dealing with. Have they had many successful sales over the years? Are there reliable references which can be examined? If yes, these are good indicators that a seller is trustworthy, and that the PoP can be believed. If, on the other hand, a seller or broker is new to the market with little to no references and no previous sale history, then the seller should be more willing to provide concrete proof of product and answer any questions a buyer may have. Beware of the seller that will only send a single document, and beware of inconsistencies between documents, as inconsistencies can sometimes indicate fraud. For example, do the details on the license to export and the warehouse receipt match? It is not entirely uncommon for people to obtain or purchase old PoP's and use them for the purposes of scamming buyers, so dates should also be checked. If there is any doubt at all in your mind as to the authenticity of the PoP, then either obtain further

information, or find a new seller. Buyers desperate to buy sugar at all costs are the ones who get caught up in scams and end up losing everything.

The PoP was fake, now what?

If you find that you have been issued with a fake PoP all may not be lost. If payment is to be made by letter of credit, then you have additional protection built into the trade. A seller will only be paid under the terms of the letter of credit after sugar has been shipped, and upon presentation of SGS certificates, a bill of lading, and other documentation. It is possible for these documents to be forged as well, but it is less common and harder to do. Even if the letter of credit is payable on sight, the bank is still allowed sufficient time to confirm authenticity of documents prior to making payment. If you are aware of a fake PoP having been issued, then it is highly unlikely that the sugar will have been sent and that the documentation will be accepted by the bank. If the contract is written correctly, a fake PoP will also void the contract, making the whole exercise pointless for the 'seller'. Where one can lose money is in wiring down payments prior to delivery of sugar based on a fake PoP. For this reason it is highly advisable for the majority of buyers that no payment or guarantee of payment is made prior to the confirmed shipping of the sugar. Sellers may try to ask for down payments, or demand other forms of payment, but there is no need to deal with these persons. Standard sugar trading procedures do not require a down payment, simply a verified guarantee that payment will be made upon shipping of the sugar. At the time of writing it is estimated that there will be a global surplus of around 11 million tons in the 2008 period, so buyers should not waste their time with sellers trying to skew deals in their favor and put the buyer at unnecessary risk. If a buyer does not feel confident in the seller, their methods, or the documentation that has been provided, then the buyer is well advised to seek a different trading partner.