


Overview of Fraudulent Documents in LC Operations and Ways to Prevent Them



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General Characteristic of International Trade Frauds

The Professionals



- 1 Most fraudsters in LC operations are amateurs, not being a professional like the famous **SOLO case in Dubai**.
- 2 The SOLO owner **established his company just to create LC frauds** whereby the applicant and the **beneficiary are from the same gang**. The drawing from one LC is used to pay off the next LC when due. The goods are declared as **expensive metals** but in fact are **rubbish**.
- 3 Later on it expanded to **one stop services**, buying out **freight forwarder and sea carrier** for smooth and also safer operations.
- 4 In the first shipment, real containers are used. **These real container numbers are used repeatedly to other consignees in the next few shipments** to create creditability.
- 5 After a chain of such transactions, SOLO becomes a **VIP customer for 90% of banks in Dubai**.

The Amateurs



- 1 Over 90% of LC frauds are created by the amateurs who establish their companies **originally to do legitimate international trade.**
- 2 Unfortunately due to lots of reasons, such as **bad management, bad luck or bad economy**, their cash flow becomes very tight. To keep afloat, they are forced to commit trade frauds to **use the drawing under LC to pay off the retreat arrangement for their families to a foreign land.**
- 3 During such period, they are very stressful, being **chased by creditors everyday** by phone, email and other means. Hence when they prepare the fraudulent documents they are **under high stress and in great haste**, thereby revealing a lot of **red flags or foot prints** for an experienced consultant to identify the underlying frauds.
- 4 But these footprints may not raise suspicions to the average document checkers who are **not familiar with trade practices in transport, cargo insurance and commodities trade.**

An LC Fraud Case from Hong Kong in 2013



- 1 A middleman (my client) bought copper cathodes of CFR value USD 4.67 millions from an Upstream Seller by LC to be re-sold to a Downstream Buyer.
- 2 On 29 Feb 2012, an LC was issued, calling for 500 MT of copper cathodes of Japanese origin shipped from any Japanese port to Shanghai, China.
- 3 The LC calls for 90 day sight drafts drawn on issuing bank available by negotiation by any bank.
- 4 Third party documents are acceptable.
- 5 On 1 March 2012, the beneficiary's banker in Hong Kong negotiated the documents and claimed payment from issuing bank in China.
- 6 Later, the applicant found that there was no such shipment and the documents were proven fraudulent.
- 7 The applicant sued the issuing bank and the negotiation bank for negligence (not exercising reasonable care) in examination of the documents for compliance.



ORIGINAL

PROMISE LIMITED

FLAT/RM A1 4/F BUILDING DES VOEUX ROAD CENTRAL SHEUNG WAN HK

COMMERCIAL INVOICE

To: UNITED GROUP IMPORT AND EXPORT CO., LTD
 23/F PLAZA NO HEYI STREET, NINGBO P.R. CHINA

Invoice No.: CPLLH12-0228
 Invoice Date: FEB. 28, 2012
 Contract No.: CPLLH120220
 Contract Date: FEB. 20, 2012
 To: SHANGHAI, CHINA

From: MIZUSHIMA, JAPAN

L/C NO.: 8300 524

Marks	Material	Quantity	Unit Price	Amount
N/M	<u>COPPER CATHODES</u> ORIGIN: JAPAN BRAND: TAM P PACKING: IN BUNDLES	501.083MT	<u>CFR SHANGHAI CHINA</u> USD9329.00/MT	USD4674603.31

TOTAL: USD4674603.31

SAY TOTAL: U.S DOLLARS FOUR MILLION SIX HUNDRED AND SEVENTY FOUR THOUSAND SIX HUNDRED AND THREE CENTS THIRTY ONE.

For and on behalf of
PROMISE LIMITED
 希 望 有 限 公 司



Authorized Signature(s)



ORIGINAL

PROMISE LIMITED

FLAT/RM A1 4/F BUILDING DES VOEUX ROAD CENTRAL SHEUNG WAN HK

PACKING LIST

Invoice No.: CPLLH12-0228 Date: FEB. 28, 2012

To: UNITED GROUP IMPORT AND EXPORT CO., LTD
23/F PLAZA, NO. HEYI STREET, NINGBO P.R. CHINA

From: MIZUSHIMA, JAPAN To: SHANGHAI, CHINA

Marks and No.	Material	Quantity	Package	GW	N.W	Meas
N/M	COPPER CATHODES ORIGIN: JAPAN BRAND: TAM P PACKING: IN BUNDLES	501.083MT	184BUNDLES	501.359MT	501.083MT	
TOTAL:			184BUNDLES	501.359MT	501.083MT	

For and on behalf of
PROMISE LIMITED
 諾 希 有 限 公 司

 Authorized Signature(s)

ORIGINAL

PROMISE LIMITED

FLAT/RM A1 4/F

BUILDING

DES VOEUX ROAD CENTRAL SHEUNG WAN HK

CERTIFICATE OF QUALITY

DATE: FEB. 28, 2012

MATERIAL: COPPER CATHODES

BRAND: TAM P

QUANTITY: GROSS WEIGHT: 501.359MT

NET WEIGHT: 501.083MT

NUMBER OF BUNDLES: 184

PACKING: IN BUNDLES

COUNTRY OF ORIGIN: JAPAN

We Hereby Certify That The Above Mentioned Goods Are According to
Standard Specifications As Described In the Respective Contract.

For and on behalf of
PROMISE LIMITED
希 有 限 公 司

Authorized Signature(s)



ORIGINAL

PROMISE LIMITED

FLAT/RM A1 4/F

BUILDING DES VOEUX ROAD CENTRAL SHEUNG WAN HK

CERTIFICATE OF ORIGIN

DATE: FEB. 28, 2012

MATERIAL: COPPER CATHODES

BRAND: TAM P

QUANTITY: GROSS WEIGHT: 501.359MT

NET WEIGHT: 501.083MT

NUMBER OF BUNDLES: 184

PACKING: IN BUNDLES

COUNTRY OF ORIGIN: JAPAN

WE HEREBY CERTIFY THAT THIS CARGO IS OF JAPANESE ORIGIN

For and on behalf of
PROMISE LIMITED
希 有 限 公 司

.....
Authorized Signature(s)





OCEAN

BILL OF LADING

for Combined Transport or Port - to - Port Shipment

H B L No. GTS0125227

Shipper **RESOURCES CO., LIMITED**

Consignee **TO ORDER**

Notify address
**PROMISE LIMITED
FLAT/RM A1 4/F BUILDING
DES VOEUX ROAD CENTRAL SHEUNG
WAN HK**



Tevfik Erdönmez Sok. Göl Apt. No:2/21
34394 Esentepe - ISTANBUL / TURKEY

Agent Details
**CHI LOGISTICS CO., LTD
TEL:86-21-55152765**

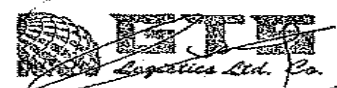
Pre-carriage by	Place of receipt by pre-carrier
	MIZUSHIMA, JAPAN
Vessel	Port of loading
MUSE 197W	MIZUSHIMA, JAPAN
Port of discharge	Place of delivery by on-carrier
SHANGHAI, CHINA	SHANGHAI, CHINA

Marks and Numbers	Number and kind of packages; description of goods	Gross weight	Measurement
	20 container(s) ***DETAILS AS PER ATTACHED LIST ***		

GENERAL AND SPECIAL CARGO RECEIPT NO. GTS0125227

**COPPER CATHODES
PORT OF LOADING MIZUSHIMA, JAPAN
FREIGHT PREPAID
FCL/FCL
CARRIER: KAMBARA KISEN CO., LTD.**

CLEAN ON BOARD (18/02/2012)



Particulars furnished by the Merchant

Bill of Lading RECEIVED BY THE CARRIER the Goods as specified above in apparent order and condition unless otherwise stated, to be transported to such place as agreed, authorized or permitted herein and subject to all the terms and conditions appearing on the front and reverse of this Bill of Lading to which the Merchant agrees by accepting this Bill of Lading. Any local privileges and customs notwithstanding. The particulars given above as stated by the shipper and the weight, measure, quantity, conditions, contents and value of the Goods are unknown to the carrier. In witness thereof if this is a negotiable (To Order) bill of lading, the goods will only be delivered if one original Bill of Lading properly endorsed by the Shipper and/or by the bank concerned (and not by the Notify party) is surrendered, the others to be considered null and void.

The contract evidenced by or contained in this Bill of Lading is governed by the law of Turkey, and any claim of dispute arising hereunder or in connection herewith shall be determined by the courts in Istanbul and other Courts.

(Terms to continue on back hereof)

Excess value declaration refer clause 6 (4) (B) + (C) on reverse side.

Shipped on board Date	Freight payable at ORIGIN	Place and date of issue MIZUSHIMA, JAPAN 18/02/2012
	Number of original B/L 3	AS AGENT ON BEHALF OF THE CARRIER

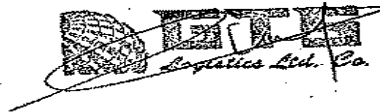
CONTAINER INFO.

KMBU2051650
KMBU2075672
TGHU2706966
TRHU1815774
TTNU1891623
TTNU1377893
KMBU2077741
KMBU2050185
TTNU1855694
TCKU2837907
TGHU1794664
KMBU2050864
KMBU2075688
TGHU1792975
GLDU3252218
KMBU2051270
KMBU2060604
TGHU1793694
FCIU3105812
TRHU1819980

1 CONTAINER	24980.00KGS
1 CONTAINER	24963.00KGS
1 CONTAINER	24906.00KGS
1 CONTAINER	24917.00KGS
1 CONTAINER	24990.00KGS
1 CONTAINER	25220.00KGS
1 CONTAINER	25260.00KGS
1 CONTAINER	24911.00KGS
1 CONTAINER	25292.00KGS
1 CONTAINER	24866.00KGS
1 CONTAINER	24950.00KGS
1 CONTAINER	25313.00KGS
1 CONTAINER	24987.00KGS
1 CONTAINER	25310.00KGS
1 CONTAINER	25240.00KGS
1 CONTAINER	25018.00KGS
1 CONTAINER	24976.00KGS
1 CONTAINER	24918.00KGS
1 CONTAINER	25118.00KGS
1 CONTAINER	25225.0KGS
20 CONTAINERS	501359.00KGS

NO CBM

COPPER CATHODES
PORT OF LOADING MIZUSHIMA, JAPAN
DATE: 18/02/2012



How to Prevent International Trade Frauds?



- 1 **KYCC** (Know Your **Customer's Customers**) to be strictly observed by applicant, issuing bank and negotiating bank.
- 2 **Engage an expert** to draft the terms in contracts and LC to offer best protection and to avoid frauds.
- 3 For large amount, **use FOB exclusively** to charter your own ship to pick up the commodities goods. Then the applicant can **stop the payment timely before presentation.**
- 4 If CIF is a must, arrange a reliable buyer's agent to **inspect goods before shipment and to supervise loading.**
- 5 Arrange for **vessel checking services** by ICC International Maritime Bureau (IMB) through the issuing bank that has subscribed for such services to check for update **location and route** of the cargo ship. IMB can also verify the **genuineness of the bill of lading** for a fee.
- 6 Be familiar with **backbone doctrines and trade practices in chartering, cargo insurance and commodities.**

International Fraud Rules

- 1 **The Fraud Exception Rule** originates from *Sztejn v J Henry Schroder Banking Corp.*, 31 NYS 2d 631 (1941) in which the court adjudicates that "**The principle of the independence of the bank's obligation under the letter of credit should not be extended to protect the unscrupulous seller**".
- 2 **The Nullity Rule** originates from *United City Merchants v Royal Bank of Canada*, (1982) QB 208, in which the court of appeal adjudicates that: "...**even though the sellers were not party to this fraud**, the bank was entitled to refuse to pay...even though it was forged other than by the beneficiary, and there was no reason for distinguishing from **a document which was a nullity**, one which was in any way **false** to the knowledge of a third person".
- 3 **The Documentary Evidence Rule** originates from *United Trading Corp SA v Allied Arab Bank*, (1985) 2 Lloyd's Rep at 861, in which the court adjudicates that: "**The evidence of fraud must be clear**, both as to the **fact of fraud** and as to the **bank's knowledge**. **The mere assertion of allegation of fraud** would not be sufficient".

How A Buyer Should React And Protect His Interests When Involved in Trade Frauds?



- 1 If no goods are shipped, demand a report from the carrier. Otherwise arrange inspection by an authoritative surveyor to issue a **survey report** as a **documentary evidence**.
- 2 **Notify the police and all the banks** involved for the trade frauds to **hold payment** pending court injunction.
- 3 Concurrently apply for **interim injunction** or **court order to stop payment** from a local court with the **surveyor report**.
- 4 If the containers have **rubbish**, get **approval from police to dump them**.
- 5 If the goods are of **poor quality** but **still merchandisable**, follow **advice from insurer** on **protection, warehousing and extended insurance cover** on courtesy basis.
- 6 Arrange **prompt sales to a third party** to minimize loss.
- 7 Otherwise the goods will be **stolen, damaged** by fire, decay if perishable due to **no one attending to them**.



Q & A