



## Abstract

Audit means an official inspection and evaluation of an organization and/or its goods. A certificate is awarded after completion of successful audit program. Failure in audit suggests to address the failure points and re-audit. The chapter highlights different types of audits and certification programs like ASC, BRC, MSC, IFS, BSCI, BAP, HALAL, HACCP, ISO, etc., its importance, process, steps, and requirements. The chapter also includes the inquiry procedures and different types of payment system used in international seafood business.

## Keywords

Letter of credit · Inquiry procedure · LC amendment

## 12.1 Audit and Certification

Audit means an official inspection and evaluation of an organization and/or farm that make sure the statements and records are fair and accurate as per specifications. It plays a key role in verifying proper food safety practices in shrimp processing industries, helps in supplier selection, demonstrates diligence for customers, and validates internal policies and procedures. Audit can be performed by typical independent certified bodies. Only accredited bodies have the right to perform an audit program. Different types of audits are performed in different aspects like new supplier assessment audit, process/scheduled audit, developmental audit, social audit, verification/follow-up audit, and so on. The reasons for an audit program are as follows:

- To review supplier's philosophies and practices
- To review supplier's production line and quality control system

**Table 12.1** General process of audit and certification program

Year	First year		Second year	Third year	Fourth year
Activities	Step 1:	Pre-audit (optional)	Surveillance audit	Surveillance audit	Re-certification audit
	Step 2:	Certification audit (stage 1)			
	Step 3:	Certification audit (stage 2)			

- To review limitation and corrective action
- To improve the efficiency of operations
- To ensure the legal compliance

After completion of a successful audit program, a certificate is awarded to respective authorities/companies. Certificate is a law or written document or a true statement. Certificates are awarded to specific companies only, and the certificates acted like quality assessment indicators for the suppliers and buyers. It’s a process of value addition for respective suppliers and/or buyers. It can offer excellent food quality, food safety, and customer satisfaction and seek a competitive advantage in their business policy by increasing value, better price, market demand, and company reputation. It also makes a brand image of quality products. Certificates are awarded in the following reasons (Table 12.1):

- To ensure local and global compliance and regulations
- To ensure a common standard and uniform evaluation
- To ensure comparability and transparency
- To ensure high-quality and safety products
- To ensure customer satisfaction
- To ensure business reputation

[Note: This is general certification process. It may change based on the requirements and the standards of the audit.]

Food safety elucidates as the state of food, free from harm or potential hazard to the consumer and related stakeholders. The following certificates are awarded after a successful audit program of food processing industries:

FSSC 22000:	FSSC 22000 stands for Food Safety System Certification. The standard implies a complete guideline for the auditing and certification of Food Safety Management Systems (FSMS). The standard provides a certification model that can be applied across the entire food supply chain to ensure international food industry requirements to obtain a certificate that assures that industry provide safe food to its final consumers. This standard helps to promote national and international recognition and general acceptance of food safety and food safety quality management systems. FSSC 22000 is recognized by the Global Food Safety Initiative.
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IFS (Food):	IFS stands for International Food Standard. The IFS food standard is a GFSI (Global Food Safety Initiative) recognized standard for auditing food suppliers. The main theme of this certificate is to confirm food safety and quality of suppliers and their manufactured products.
GLOBALG.A.P.:	The GLOBALG.A.P. Aquaculture Standard is an international standard for farm production. It satisfies a series of criteria including the protection of environmental and ecological safety, animal welfare, food safety, traceability, and legal compliance of farm production of fish, crustaceans, mollusks, and hatchery.
MSC:	MSC stands for Marine Stewardship Council. MSC works for wild capture fishery certification around the world. The certification addresses sustainable fishing practice, environmental standards, and responsible fisheries management and contributes to ensure healthy environment of the world's oceans.
ASC:	ASC stands for Aquaculture Stewardship Council. ASC works for certification program of responsible aquaculture. The ASC certification mark assures the quality and safety of aquaculture species (fish, crustaceans, shellfish, etc.).
BRC:	BRC stands for British Retail Consortium. It is a trade association for retail businesses. It's now recognized as a global food standard. The standards promote consistency across the supply chain for manufacturers, wholesalers, distributors, agents, and brokers as well to avoid product failure. The BRC Global Standards covered food safety and management of product quality in food and ingredient manufacturing, food packaging manufacturing, storage, distribution, transportation, and logistics.
BSCI:	BSCI stands for Business Social Compliance Initiative. BSCI is a leading business-driven initiative for industries committed to improve working environment in the global supply chain and promote workplace conditions in accordance with human rights, ILO conventions, and national labor law. BSCI is an initiative of the Foreign Trade Association (FTA) in order to create consistency and harmonization for companies and improvement of their social compliance in the global supply chain.
BAP:	BAP stands for Best Aquaculture Practices which is a comprehensive and proven aquaculture certification program based on achievable, science-based, and continuously improved standards. From 5.1 standard it includes the wild catch in the besides aquaculture and renamed as Seafood Processing Standard (SPS). BAP works with seafood farms, processing plants, hatcheries, and feed mills and tries to improve the environmental, social and economic performance of the aquaculture supply chain. BAP is a division of the Global Aquaculture Alliance (GAA).
HALAL:	Halal is an Arabic word meaning lawful. It refers to things or actions permitted by Shariah law. This certificate meets the demands of Muslim consumers and certifies that products are edible, drinkable, or usable by Muslims.
HACCP:	HACCP stands for Hazard Analysis and Critical Control Point. HACCP is a systematic approach to the identification, evaluation, and control of food safety hazards. It has been designed as a safeguard in all steps of the food industry like culture, harvesting, processing, handling, distribution, and consumption of the finished product. Successful implementation of the HACCP program depends on the strong commitment of management. Seven HACCP principles have been universally accepted by government agencies, trade associations, and food industries. The principles are as follows: Principle 1: Conduct hazard analysis (physical, chemical, biological)

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	Principle 2: Determine critical control points (CCP) Principle 3: Establish critical limits Principle 4: Establish monitor procedure Principle 5: Establish corrective actions Principle 6: Establish verification procedure Principle 7: Establish record-keeping and documentation procedure
GMP:	GMP stands for Good Manufacturing Practice. It is designed to minimize the risks involved during manufacturing and packaging to ensure the safety and purity of the products. A product that conforms to GMP guidelines is considered to be of high quality and will pose no risk to consumers. GMPs describe the methods, equipment, and facilities to control processed foods. Implementation of GMP helps to minimize losses and waste and protect impairment in final products, final consumer, and the industry.
ISO:	ISO stands for International Organization for Standardization. ISO promotes global standardization for specifications and requirements for materials, products, procedures, formats, information, and quality management. The ISO does not enforce regulations and is not a license that permits an activity. It merely certifies the management system, manufacturing process, and documentation procedure that assure the requirements and standardization of quality services. ISO award certificates in different fields and aspects are as follows: <b>ISO 9001:</b> Certificates awarded for quality management system (QMS). The ISO 9001:2015 standard implies how the organization operates to meet the requirements of its customers and provide quality product. <b>ISO 14001:</b> Certificates awarded for respect for the environment. <b>ISO 18001:</b> Certificates awarded for the involvement of safety and well-being of employees. <b>ISO 22000:</b> Certificates awarded for food safety management system.

A certificate is not just a written document. It's a judgment of quality standards. The seafood market is more competitive. So, proper initiatives should be taken immediately to upgrade the standard for sustainable business.

## 12.2 Inquiry Procedure

Inquiry means to ask something. It is the most important and mandatory process of the shrimp business. The purchase department of buyer asks price to packers, checks with their sales department, and confirms business deal. Actually, it's a purchase negotiation before going to business. The whole process continued through email. Buyer may ask directly to the packers, or sometimes the whole business deal can be done through agents. Agents are middlemen doing purchase negotiation with buyer and seller and charge commission for this negotiation. Some agents have their own quality control team. The steps of the inquiry procedure are as follows.

### 12.2.1 Step 1: Sending of Requirements

Once a buyer needs to buy some products, he or she sends his or her requirements directly to packers or through agent. Before sending requirement, the buyer thinks about the following;

- Lowest price
- Quality of their products
- Standards of the suppliers
- Certification mark of the suppliers
- Market reputation of the supplies
- On-time shipment history of the suppliers
- Non-shipment history of the suppliers

Based on their choice, buyers send their inquiry to supplier or suppliers. Sometimes buyers put an inquiry code in the subject line for the identification or to keep information secret. Buyers specify their product description and their quantity. See the following example for more clarifications.

**Inquiry code:** Black Tiger 2021

#### **Product description and quantity**

BT, HLSO, RAW, IQF, 80% NET WEIGHT, RC, STPP TREATED, BRAND 'AB'

Grade	Quantity
16/20-----	900 CTS
13/15-----	900 CTS
TOTAL-----	1800 CTS

### 12.2.2 Step 2: Supplier's Response

Suppliers receive the requirements and think about the following before going to quote their price:

- Availability of raw materials/landing
- Current market price of the products
- Facilities of their factory
- Pending shipment orders
- Characteristics of the buyer
- Payment terms and payment history of the buyer
- Buyer's market reputation
- Profit margin

Based on the above consideration, suppliers quote their price and available quantity against this requirement. For example:

BT, HLSO, RAW, IQF, 80% NET WEIGHT, RC, STPP TREATED, BRAND ‘AB’

Grade	Quantity	Suppliers quotation
13/15-----	900 CTS-----	12.00 USD
16/20-----	900 CTS-----	10.10 USD
<b>Total-----</b>	<b>1800 CTS</b>	

[Note: Suppliers may change the break-up/assortments and offers as per their convenient shipment. Suppliers may not respond to inquiry if there is scarcity of raw materials or due to the worst market reputation of the buyer in the shrimp business world.]

### 12.2.3 Step 3: Price Negotiation

Price negotiation or bidding is the most important part of this procedure. After receiving of quotation (price) from supplier, buyer cross-checks with his or her respective sales department whether the prices are feasible or not. Sometimes buyer receives quotation from different suppliers for the same inquiry and analyzes the following before going to price negotiation:

- Lowest best price
- Top quality product
- Payment terms
- Best possible shipment date
- On-time shipment history of suppliers
- Strong commitment of the suppliers

After analyzing the above consideration, the buyer makes his or her decision whether he or she will purchase or not. If the buyer thinks the quoted price is not suitable or higher than market level, then buyer sends his or her counter price against supplier quotation. Supplier checks again the counter price, market situation, cost benefit or loss, etc. and informs the buyer whether it is workable or not or may quote counter price again. This procedure may continue up to the achieving of the target level for both parties. See the following example of bidding:

BT, HLSO, RAW, IQF, 80% NET WEIGHT, RC, STPP TREATED, BRAND ‘AB’

Grade	Quantity	Suppliers quotation	Buyer quotation	Suppliers quotation
13/15 -----	900 CTS ---	12.00 USD -----	11.50 USD -----	11.60 USD
16/20 -----	900 CTS ---	10.10 USD -----	09.80 USD -----	10.00 USD
<b>TOTAL-----</b>	<b>1800 CTS</b>			

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### **12.2.4 Step 4: Confirmation of the Deal**

After a long bidding process, both parties confirm their business deal and send it to next step for formal documentation procedure. Supplier issues their purchase order (PO), and buyer issues their proforma invoice (PI). All documents must be signed by both parties. Buyer advises to supplier for quality product and on-time shipment.

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## **12.3 Payment Terms**

Payment is a vital part of the business. The following payment method/terms are used in the international seafood business.

### **12.3.1 Cash-in-Advance**

Cash-in-advance is a payment method where exporters received their payment before their goods are transferred to the respective importer. It helps the supplier to avoid their credit risk. However, the cash-in-advance payment method is the least attractive option for the buyer because it creates unfavorable cash flow. Buyers are concerned that the goods may not be shipped if payment is made in advance.

### **12.3.2 TT Payment**

TT stands for Telegraphic Transfer or wire/swift transfer which is the cheapest and fastest method of payment. It's a legal way of money transfer through the banking system, and it is necessary to make everything clear related to payment terms and conditions, i.e., payment date, limit, % in advance, % before shipment, % after shipment, etc. In this method buyers paid to the supplier at a certain percentage of credit (30% or 40% or 50% or 60%, etc.) in advance and rest of the credit to be paid after reaching original documents or goods as per agreement. This is the less common practice because like cash-in-advance, buyers are concerned that the goods may not be shipped if the supplier is not an honest one.

### **12.3.3 Letter of Credit (LC)**

A letter of credit is the most effective and most commonly used financial tool that facilitates payments and transactions. It's one of the common and secure instruments used in international trades. A bank or a financial institution acts as a third party between the buyer and the seller and guarantees the payment of money based on specified terms and conditions. Letter of credit is a method of payment that protects buyer since no payment obligation arises until the goods have been shipped as promised. Again, suppliers are also safe because the bank makes the guarantee of

payment if everything is as per terms and conditions. A letter of credit has the following important elements:

- The buyer (an applicant who purchased goods)
- The beneficiary (supplier who will receive the payment)
- LC opening bank (issued letter of credit on behalf of the buyer)
- Negotiating/advising bank (received credit on behalf of suppliers)

[Appendix A: A reference copy of Letter of Credit (LC)]

Suppliers need to submit their documents for getting payment. Sometimes it is needed to forward documents to another bank for review. Payment will be done on the beneficiary's account after verification of all necessary documents and maturity of payment. The following are the types of letters of credit used in international trades:

- Commercial LC
- Export/import LC
- Transferable LC
- Un-transferable LC
- Revocable LC
- Irrevocable LC
- Standby LC
- Direct pay LC
- Confirmed LC
- Unconfirmed LC
- Revolving LC
- Back-to-back LC
- Red clause LC
- Green clause LC
- At sight LC
- Deferred payment LC

**Descriptions of some important types of LC are as follows:**

- **At Sight LC**

LC at sight is the quickest form of payment. It demands payment subject to the submission of required documents. The bank reviews the documents and pays the beneficiary if documents meet the terms and conditions of the LC. A letter of credit that pays at sight is beneficial for sellers. Payment arrives more quickly. Exporters invest money to produce and ship the goods quickly. Some of the seafood buyers are doing their business through at sight payment, but percentages are very low. Suppliers prefer this system but risky for the buyer if the supplier makes it non-shipment.

- **Deferred Payment LC**

Deferred payment is a type of letter of credit that ensures payment after a period of a long time. Based on the agreement, time frame may be as long as 30, 45, 60, 90,



or 180 days. Buyers will make their payment after the days of agreement have passed and the goods have arrived at the buyer's destination. Bank may review documents earlier, but payment goes to a beneficiary after the period of agreement passes (after maturity of LC). The bank charged a certain percentage of interest as per the terms and conditions of the letter of credit. The buyer prefers this type of payment system. Deferred payment gives the buyer more time to come up with funds. It can serve as a form of seller-financing, which would help to attract buyers. The buyer also has a chance to sell imported goods and generate revenue before making their payment. It's easier and good; no delay comes up for payment. There is a risk for the suppliers if the buyer is not honest or makes a late payment. Note that, the bank will increase their interest if the payment is getting late resulting in suppliers losing their profit.

- **Revocable LC**

It is a letter of credit that can be altered any time by the issuing bank or the buyer without any notification to the suppliers/beneficiary. This LC may be amended or canceled any time by the buyer without the approval of the supplier. This kind of LC is used rarely because it doesn't provide any protection to the supplier.

- **Irrevocable LC**

An irrevocable letter of credit is official correspondence from a bank that guarantees payment for goods or services. It cannot be canceled or modified without approval of all parties involved. It confirms the supplier of receiving payment because it is a guarantee by the issuing bank. The bank will make payment in the event that the buyer fails to do so.

- **Standby LC**

A standby letter of credit is a guarantee of payment by the issuing bank on behalf of the applicant. It can be designed as a sign of good faith in business transactions and a proof of a buyer's credit quality and repayment abilities. A standby letter of credit confirms credit even payment was not made by the applicant. The beneficiary can draw the credit from the issuing bank if they can prove that promised payment was not made by the applicant. Payments are made subjected to submission of required documents as per maintaining the standby LC clause.

- **Confirmed LC**

It is a letter of credit where an advising bank also guarantees the payment to the beneficiary. Only the irrevocable letters of credit are confirmed by the advising bank. The beneficiary has two promises to pay:

- One from the LC issuing bank
- The other from the advising bank

This type of LC that adds the endorsement of the advising bank to that of the issuing bank. It provides the highest level of protection since both banks are involved in transaction guarantee.

- **Unconfirmed LC**

A letter of credit is assured only by the issuing bank and does not need a guarantee by the second bank.

### **12.3.4 LC Amendment**

Amendment refers to any kind of changes that are made in terms of LC clause after it has been authorized. An amendment can be made at any time after an LC has been authorized and before its expiry date. The following are the causes of LC amendment:

- If it is needed to change the shipment date, expiry date, goods, quantities, values, etc.
- If suppliers were unable to meet the requirements of the buyer.
- If buyer needs special requirements in special cases.
- If LC is opened with wrong policy or false statement.

An amendment is required for smooth shipment. Amendments are done by the negotiation of both parties. The bank claims an extra charge for making the amendment.