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CLASSIFICATION OF RISKS OF FOREIGN TRADE ACTIVITIES OF COMPANIES

Abstract. The classification of foreign economic activity (FEA) risks for companies is a systematization of risks based on specific criteria for effective analysis, assessment, and management. There are numerous approaches to classification, taking into account various aspects and risk factors.

Keywords: risk; organization; loss of goods; logistics system, foreign trade.

The word "risk" is primarily used in economics and refers to any uncertainty surrounding the occurrence of a hazard, leading to uncertainty about its consequences. This phenomenon is a series of processes or actions that can cause harm to people or material losses.

The term "risk" is used only in cases where there is a probability of taking measures to prevent possible threats.

The main characteristics of risk are: alternativeness, ambiguity, and uncertainty.

Risks refer to potential negative events or conditions that may affect the operations, business, and financial activities of an organization. They can arise both internally and externally.

The essence of risks is that they can lead to problems and disruptions in the supply chain, movement and storage of goods and materials. This can lead to a mismatch between supply and demand, delivery delays, product damage, increased costs, and problems with quality and customer satisfaction. Risk classification is the division of risks into categories, types, subtypes, groups, and subgroups. There is no universal system for classifying business risks in the economic literature.

One popular risk classification is that proposed by Professors B. Milner and F. Lis. These authors divide risks based on their origin into internal and external, which has attracted considerable interest.

External risks arise from the external environment in which a company operates. A company cannot control external risks, but it can predict and take them into account in its activities. Internal risks arise within the company's internal operating environment.

Pure risks, sometimes referred to as static or simple, almost always cause losses to business activities. They can be caused by natural disasters, accidents, incapacity of company executives, etc.

Speculative risks encompass financial risks and can be caused by changes in exchange rates, market conditions, investment conditions, etc.

Production risks arise when an organization is unable to fulfill its plans and obligations for the production of goods, services, and other activities due to the impact of both external and internal factors.

Commercial risks, on the other hand, are associated with potential losses in the financial and economic processes, such as reduced purchase volumes, rising commodity prices, increased selling costs, loss of goods in circulation, etc.

Pure risks, by their nature, include risks associated with other areas of the company's operations. Inflation risk is associated with the loss of the true purchasing power of money, which entails real losses for the entrepreneur. Deflationary risk is associated with a decline in prices and, consequently, income levels.

The concept of "damage" refers to the negative impact on a business entity when risks arise. The concept of "damage" can be defined as a component of the risk of unfavorable situations.

When logistics system risks arise, the business entity experiences "damage," which manifests itself in the following forms:

- property damage;
- material damage;
- reputational damage;
- damage to rights (to assets, to management, to certain actions).

When logistics system risks arise, the business entity experiences "damage," which, regardless of its form, has a negative impact.

Although the classification of logistics risks includes various types and subtypes, it does not answer the question of which approach or classification is most significant and how they can help reduce the level of risk.

Industry risks:

1. The risk of changes in legislation and regulations, which may lead to increased production costs

or business restrictions.

2. Technological risk, associated with technology obsolescence

and the company's inability to keep up with technological changes.

3. Financial risk, caused by changes in exchange rates, interest rates, or raw material prices.

4. Competitive risk, arising from the presence of strong competitors capable of lowering prices for goods and services or offering more favorable terms to customers.

5. Reputational risk, which may arise from scandals

or adverse events affecting the company's image.

Specific company risks:

1. Financial risks: such as lack of liquidity, rising interest rates, exchange rate changes, debt defaults, and other financial problems.

2. Operational risks: arising from inefficient business processes, technical failures, human errors,

and other operational problems.

3. Reputational risks: associated with negative perceptions of the company by customers, partners, investors,

or the public.

4. Legal risks: arising from violations of laws

and regulations, lawsuits, tax disputes,

and other legal issues.

5. Human resources risks: associated with a shortage of qualified employees, conflicts within the team, the departure of key employees,

and other human resources issues.

A crisis (plural: "crises"; adjective: "critical") is any event or period that will lead

or may lead to an unstable and dangerous situation affecting an individual, a group, or society as a whole. Crises are negative changes in human or environmental affairs, especially when they occur suddenly, with little or no warning. An economic crisis is a fundamental factor in the emergence of crises. With the onset of an economic crisis in a country, the overall economic situation worsens, unemployment increases, and, as a result, the standard of living declines. An economic crisis has a significant impact on the financial and economic performance of enterprises.

Let's look at the main types of foreign trade risks.

1. Currency risks in foreign trade contracts

When concluding large-value contracts, as well as when lending, foreign exchange risks arise, changing the payment amounts of the signing parties. Such circumstances often result in material losses for both parties to the agreement.

For example, when the exchange rate rises, the party purchasing the product from abroad suffers losses, while the company selling the product increases its income. And vice versa. This is why it is so important to regulate foreign trade risks in foreign trade contracts.

2. Political and transfer risks beyond the importer's control

This includes a variety of unforeseen situations related

to political and social spheres: financial insolvency of the country; delays in fulfilling contractual obligations; changes

in legislation affecting money transfers; closure of bank accounts, and so on. To protect themselves from such foreign trade risks, companies use several methods. The most common of these are:

- loans to pay for services provided by the state or for the transportation of goods that are not insured by the state. Here, the risks fall either on the banking institution that issued the funds at interest or on the company selling the goods;
- export financing by a bank or financial institution through the non-negotiable acquisition of bills of exchange and other debt claims from foreign trade transactions (forfaiting). This is a fairly effective way to eliminate foreign trade risks;
- assignment of claims or other property, or ownership rights to a banking institution, which gains the ability to collect claims from the consumer by issuing a loan to the company selling the goods (cession);
- contingent monetary obligations assumed by a banking institution on the payer's instruction to make payments to the recipient of funds (letters of credit). A reliable way to protect yourself

from foreign trade risks;

payment of a draft by a banking institution even before the established settlement date;

- a foreign trade transaction in which a domestic leasing company provides a foreign lessee with equipment purchased from another domestic company. Foreign trade risks are borne by the leasing company;

- state insurance of export loans, i.e., the transfer of unforeseen circumstances to state insurance companies;

- lending to export clients by factoring organizations against future sales revenue, with the client provided with a guarantee against foreign trade risks;

- Eurocredit for foreign trade transactions – raising funds from the international money or capital market.

Transport Risks

Transport risks associated with foreign trade are more clearly and comprehensively regulated by international and Russian legislation than other types of adverse situations in foreign economic activity. The INCOTERMS provisions for the transportation of products, adopted by the International Chamber of Commerce, can be considered fundamental in transportation matters, as they enable companies to quickly and fully understand the rights and obligations of parties to a foreign trade contract regarding transportation, potential foreign trade risks, and their own liability in the event of unforeseen circumstances.

However, the application of the concepts in this document sometimes creates discrepancies between its provisions and the laws of specific countries, as well as their business traditions.

Risks in Foreign Trade Pricing

The cost of products is one of the most significant points of an international contract, where it is reflected as accurately as possible. However, over time, the contractual price may decrease or increase due to fluctuations in exchange rates or market prices for goods and services, causing losses to the parties to the agreement. This is why it is so important for companies to account for financial risks in foreign trade pricing.

Foreign trade risk management involves implementing management decisions related to reducing expected losses and negative consequences in the event of force majeure. Reducing losses and minimizing adverse consequences are different methods, each with its own distinct differences. The latter means either reducing expected costs or the possibility of negative situations. However, there are certain financial transactions that can protect companies from foreign trade risks, such as using insurance companies to guarantee reimbursement of expenses without affecting their amount or expected existence.

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