

SUPPLY-CHAIN RISK

Managing and Responding to Supply-Chain Risks



SUPPLY-CHAIN RISK

All businesses have a supply-chain, whether they are one-man band operations operating locally; or major MNEs that are listed on an exchange. The globalised nature of our economy means an event that happens thousands of miles away will affect operations locally.

For example, a freight ship stuck in the Suez Canal causing supply issues in Staffordshire. Or a Russian invasion of Ukraine causing fuel prices (and thus logistics costs) to rise.

The macro economic nature of supply-chains means that an individual, a business, or even a business group will have little effect on influencing underlying events. However, there are a number of actions and resources that are available to business to better manage these risks.

This guide will explore the following risks, all of which make-up supply-chain risk:

- Regulatory Risk
- Logistical and Shipping Risk
- Financial Risk
- General Tools

This resource should be considered a general introduction to managing supply-chain risk. For a more detailed, business specific plan, you should consider working with your local [DIT International Trade Advisor](#).

Likewise, for a general overview of how to manage business risk and write that into a Business Continuity Plan, please check-out our general video guide [here](#).



REGULATORY RISK

Product Standards

Like the UK, many foreign markets require products to adhere to certain standards; and where a foreign market's standards are weaker than the UK's, UK standards will be a minimum. For example, many goods entering the EU will require a [CE marking](#) – and adhere to EU conformity standards.

Make sure your products adhere to your target market's product standards.

Export/Import Licenses

Some products need an [export license](#) or certificate before they can be exported (and, by extension, will also need an import license when entering the target market). For example, moving items of animal origin (meat, milk, leather, etc), will require a [health certificate](#), and items that are of a military or dual-use nature will need an appropriate [export license](#).

Contracts & INCOTERMS

All international trade contracts should make use of International Commercial Terms, in order to standardise the contract, and clearly outline the responsibilities of the buyer and the seller respectively. Each [INCOTERM](#) will have its own regulatory and tax requirements on the buyer and seller, so ensure you choose the term most appropriate to your business needs.



REX, AE, & AEO

REX: stands for Registered Exporter, and applies for all those registered on the EC's Registered Exporter's System. This only applies to companies in the EU.

[AE](#) and [AEO](#): Approved Exporter and Authorised Economic Operator: An exporter who meets the conditions set by the customs authorities (and is allowed to make invoice declarations for preference purposes).

LOGISTICAL & SHIPPING RISK

Declarations

All exports and imports will require a customs declaration before leaving and entering the exporting and importing country respectively. These declarations entering into the main clearing system (see below) from the [commercial invoice](#) submitted – also required to avoid hold-ups is the correct [commodity code](#).

EORI Numbers

In order to prevent delays, if you are required to make an import or an export declaration (within the UK or EU) you will need an [EORI number](#) in the bloc (UK or EU) within which you are making declarations.

Carriers and Freight Forwarder

While you will not be able to prevent delays on the road, in the air, or in the ocean, ensuring you have your [carriers](#) in place before shipping will reduce the likelihood of unnecessary delays – normally, a good [freight forwarder](#) can help you do this.

Groupage

Many carriers will conserve space on the vessel by grouping consignments from multiple customers into one consignment (groupage). This could create a situation whereby even if you have all your paperwork in order – another party's lack of paperwork could hold-up the entire group. As such, it is recommended where groupage is used, that you send your consignments with enough notice.



CHIEF v CDS

HMRC's current customs system (CHIEF) will be replaced with [CDS](#) for all imports from September 2022 – this system will allow for a greater integration of EU customs procedure codes and allow for better traceability of goods movements.

Exports clearances will be expected to be executed through CDS from spring 2023.

FINANCIAL RISK

Currency Risk

International trade is built on exchanging currencies. The risk with this is if your domestic currency depreciates against the foreign currency, causing invoices to be worth less. Most currency brokers can provide you with a currency forward facility – whereby you can draw-down a total amount at a set rate (today's rate); thereby eliminating currency risk.

Insurance Risk

Hold-ups, or market instability associated with more unstable markets can be mitigated through insurance. However, it is advisable you purchase any such insurance through a broker and read terms of the contract to ensure an identified risk is covered.

Counterparty Risk

While the financial soundness of your customer can be determined through credit checks and due diligence. A letter of credit ([LoC](#)) can be used to ensure payment for your sale, provided certain conditions are met (for example, providing a Bill of Lading to the bank). As such, the bank guarantees the payment, not your end customer; however, the general credibility of the buyer will also be taken into consideration and affect the LoC being granted.

CfDs and Swaps

Larger companies, who are overly exposed to commodity prices and interest rate changes may make use of contracts for difference (CfDs) and swaps – whereby they exchange, with a counterparty such as a bank, opening and closing rates or a benchmarked rate respectively.



BROKERS & BANKS

When setting-up currency forward accounts or Letters of Credit facilities – choose brokers and banks that are trusted and have a proven track record.

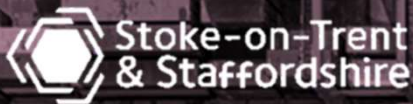
Always choose institutions that are FCA regulated, and PRA and FCA regulated for banks. Where you are using foreign institutions, choose those who are linked to British parents or who can be trusted (take recommendations from British chambers of commerce, for example).

WIDER RESOURCE LIST

The following resources should be used to guide your supply-chain activities:

Exporting (General)	DIT Step-by-Step By Country
Importing (General)	DIT Step-by-Step Tariff Tool VAT
Product Standards	CE Marking UKCA Marking EU Product Standards
Making Declarations	Making Customs Declarations EORI Numbers
Rules of Origin	RoO
Northern Ireland	Moving goods to Northern Ireland Trader Support Service UKNI Marking

GET IN TOUCH



Growth Hub team for wider business support

0300 111 8002 or businessenquiries@stokestaffslep.org.uk



Business Resilience Team for business risk guidance

covidsupport4businesses@staffordshire.gov.uk



International Trade Team at Staffordshire Chambers of Commerce

01782 202222 or info@staffordshirechambers.co.uk

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