Going global – do your homework and assess the risks

Rohini Kappadath

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Attorney-General George Brandis' comment on the legal status of the Palestinian Territories and the Arab world's subsequent threat to impose trade sanctions on Australia show how statements of policy, real or perceived, can affect our trade relations and exporters.

Policy changes and their repercussions are only one element of risk that companies need to consider when exporting to global markets.

They must also look at foreign currency exchange rates, international trade laws and tariffs, political climates and events, and make provisions for unexpected events and scenarios such as non-payment, supply-chain issues, quarantine compliance and operating risks.

NON-PAYMENT RISK

According to a survey of small businesses by the National Small Business Association and the Small Business Exporters Association in 2013, 41% of respondents said the largest challenge to selling goods and services to foreign customers was concern about securing payment from clients, up significantly from only 26% in 2010.

To mitigate against this risk, exporters can require front-end loaded payment terms, collecting most of the payment prior to the shipment of goods. Those with a good financial institution relationship and track record, may be able to secure letters of credits (LCs) from their banks that would act as surety bonds for payment of goods. Smaller exporters or those new to the global market can be at a disadvantage as they may not have access to LCs to secure foreign payment.

POLITICAL RISK

Major political instability at your export destination can disrupt or prevent the completion of export contracts. This type of sovereign risk can include defaults on payments, exchange transfer blockages, nationalisation of foreign assets, confiscation of property, changes in government policies and in some extreme cases, revolution and civil war.

Managing political risk is onerous, complex and time-consuming. The issues at hand remain outside the control of the company and there is never any certainty of resolution. Often these situations can involve some ethical dilemmas for companies.

Political risk factors also impact the daily operations of companies. The flow of goods and services can be affected by trade embargoes enforced by governments. The personal security of company staff and contractors can be affected by civil disorder. Some types of exports may be prohibited under local laws due to international resolutions.

Political risks for international businesses also include the failure of local authorities to enforce contracts in the region. This can translate into big problems and big expenses for businesses. It is advisable to investigate the business dealings, approach, successes and failures of companies that have entered particular export markets to assess the potential pitfalls and identify where one must take extra precautions.

Access to active entrepreneurs and business operators in global markets is an effective way to source information in global markets. Business associations such as AustCham provide an excellent forum for networking across many parts of Asia, for example, while the Victorian Government with its strong international engagement program and their in-market business offices in 17 countries, and the Department of Foreign Affairs and Trade can all provide information that will help exporters reduce their political risk.

SUPPLY CHAIN RISK

Businesses that rely on goods and materials from overseas need to manage their supply chain risk Thailand's floods in 2011 disrupted Japan's automotive industry because of its reliance on Thai automotive components suppliers. The floods led to billions of dollars in losses to the automotive industry globally because of the concentration of components suppliers in Thailand.

Uncertainty about the supplier's ability to deliver on time and within the budget can be mitigated through diversifying the supply chain by spreading orders over several suppliers. Small businesses need to identify a back-up supplier for all existing suppliers.

QUARANTINE COMPLIANCE RISK

Most countries have strict quarantine requirements. Companies need to be aware of these requirements and be assured that proposed exports are permitted under the laws of the export destination. Failure to do so can result in forfeiture or destruction of goods, fines and restrictions on the exporter. The Australian Quarantine Information Services is a good source of information on international quarantine requirements.

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EXCHANGE RATE RISK

Exchange rate occurs due to fluctuations in the value of currency. The risk and expense involved in currency conversions can result in profit margins being eroded or lost. It is important to contact your bank for advice on how to protect yourself against foreign exchange risk. Also consider banking with an institution that has branches and a business presence both in Australia and in the countries where your businesses are established.

Exchange rate risk differs from exchange controls, which restrict the movement of capital into and out of the country, which makes it hard to remove profits from or make investments in the host country. Sometimes these exchange controls are put on selected products to intentionally reduce the importation of the goods. Exchange controls may not only affect the importation of products, but, if pushed too far, could result in severe unemployment, or even the shutdown of a plant.

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OPERATING RISK

Managing export risk is about considering all possible undesirable outcomes before they occur and setting up procedures that would either avoid or minimise these risks, or help businesses cope with their impact.

Understanding local attitudes can help an international expansion go more smoothly. Telstra is going back into India almost a decade after its premature exit having miscalculated the complexities of operating in that market. The telco was unable to adapt its operating model to local market conditions in the nineties and is now making a second attempt through its NAS business division which taps into the vast pool of IT talent in India.

Businesses need to think more expansively about emerging risks. Hiring a lawyer or accountant with local knowledge and developing a risk management matrix can help clarify thinking on potential risks, the probability of risks occurring and the consequences if they do.

In the words of French scientist Louis Pasteur: “Chance favours the prepared mind.” Risk management strategies are a powerful means to achieving preparedness for the risky business of international trade.

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