Topic 1
Essence, classification and sources of customs risks



Introduction

In this session we will explore the essence, classification and sources of customs risks. *Customs risks* refer to potential threats and challenges faced by businesses in the international trade. By understanding these risks, organizations can develop effective strategies to mitigate them and ensure smooth cross-border operations.

The increased development and volumes of the international trade and Ukraine's integration into the global economy, in particular the European Economic Area, have led to an increase in the number of risks and their level.

In fact, risk is associated with all spheres of human activity in the process of social interaction and achievement of relevant goals, but under the influence of globalisation and integration processes, it is particularly evident in customs.



What is the reason for the relevance of the topic under study?

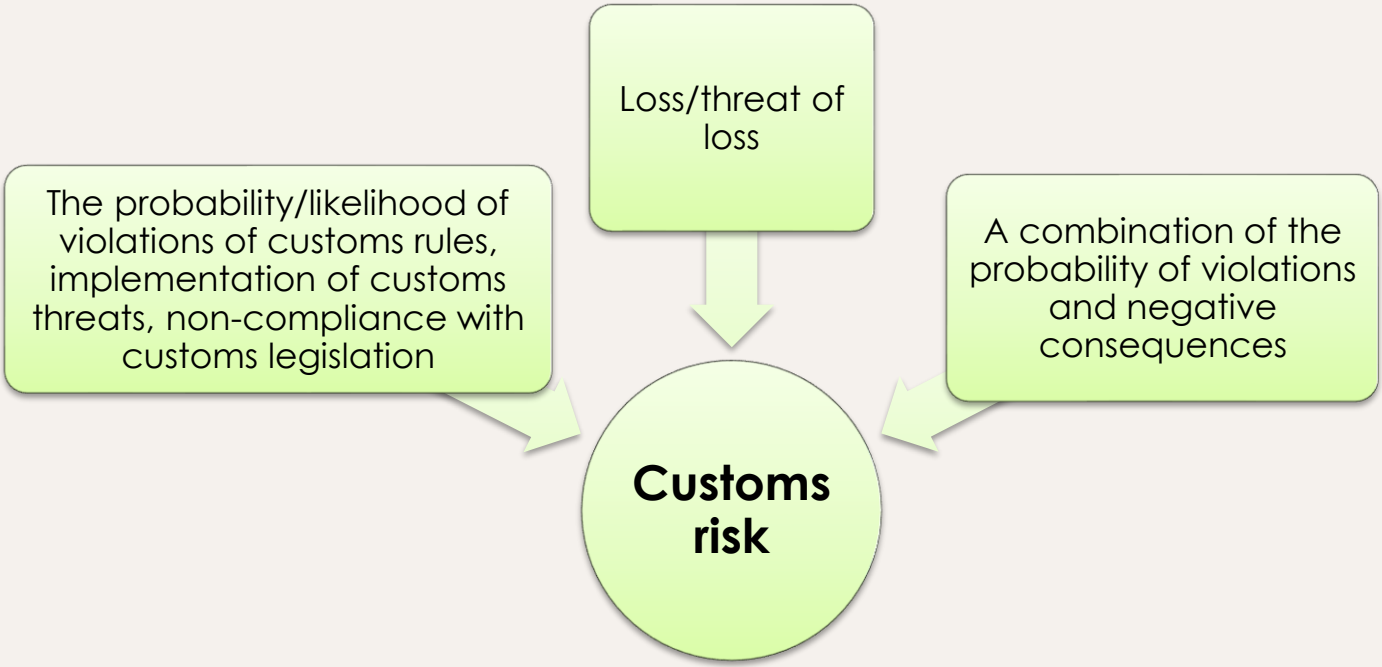


Customs risks are **potential threats** that arise during the import/export process. These risks can include legal, financial, operational, and reputational challenges. Understanding the essence of customs risks is crucial for organizations engaged in international trade to protect their interests and ensure compliance with customs regulations.



Definitions of the concept of "customs risk" in scientific literature

Author	Definition
Pisnoy P.	the probability of the realization of a certain customs threat, with predicted or not predicted possible damage, as well as its possible consequences in the customs sector
Tereschenko S.	the probability of the presence of contraband goods or violations of customs rules during the implementation of customs control procedures and customs clearance of goods
Savunova T.	the probability (threat) of non-observance by external economic activity participants and customs authorities of the procedure for conducting external economic activity operations which is a subject to customs regulation, as a result of which harm is caused to the national economy in the form of a slowdown in the process of foreign trade (export-import goods flow), underpayment of customs payments to the budget, loss of part of the profit by the participants of the external economic activity, etc.
Pashko P.	the quantitative value of the customs challenge in the form of a determined assessment or probability of realization of an actual or potential customs threat in the external economic activity, customs relations and the customs industry from the point of view of the perceived possibility of customs damage
Voitseschuk A.	the probability of non-compliance with the legislation of Ukraine on customs matters
Komarov O.	the potential probability of violation of customs norms, as well as norms of relevant branches of national legislation regulating customs-related legal relations. First of all, we are talking about norms of criminal law, as well as labor and administrative law


Loss/threat of loss
The probability/likelihood of violations of customs rules, implementation of customs threats, non-compliance with customs legislation
A combination of the probability of violations and negative consequences
Customs risk

Order of the State Customs Service of Ukraine "On the approval of the Procedure for developing risk profiles"



A specific or immediate form of customs danger at the stage of its transition from possibility to reality as a result of various types of contradictions.

A critical point of manifestation of a customs threat that requires an appropriate response in order to prevent or reduce possible customs damage.

An estimated consequences of actual or possible unwanted negative economic and social losses arising as a result of customs challenges in the field of customs affairs and may have both a cost and a general situational expert assessment.

The quantitative value of a customs challenge in the form of a determined assessment or probability of realization of an actual or potential customs threat in foreign economic activity, customs relations and in the field of customs affairs from the point of view of the perceived possibility of customs damage.





Protective

Analytical

Functions of customs risk

Innovative

Indicative





The classification of customs risks makes it possible to identify the sources of their occurrence, the consequences of their manifestation and to apply the most effective methods of managing them.

Customs risks can be broadly classified into three categories: **regulatory risks**, **operational risks** and **strategic risks**. Regulatory risks involve non-compliance with customs regulations, operational risks relate to challenges in logistics and documentation, while strategic risks pertain to broader economic and political factors that impact international trade.



Customs risks can originate from various sources, including **inaccurate documentation**, **misclassification of goods**, **non-compliance with trade agreements**, **currency fluctuations**, **geopolitical conflicts**, **tariff changes**, **intellectual property infringements** and **illegal trade activities**. It is essential for organizations to identify these sources to effectively manage and mitigate customs risks.





Factors and sources of customs risk

The main risk factors		Sources of risk
External factors	Subjects of foreign economic activity	completeness of payment of customs duties, accuracy of data during the declaration, time of existence on the market, compliance of carriers' vehicles with existing requirements, route of transportation according to transport documents
	Goods (cargo)	price indicators of goods, quantitative and weight indicators, classification of goods in accordance with the Classification of Goods of Foreign Economic Activity, country of origin of goods, customs regime of goods, quality of goods, intellectual property, goods of the "risk group" and goods of the "cover group", irregularity of goods flow
	Customs legislation	contradictory statements in certain legislative acts, lack of a clear system of control/responsibility for certain violations of legislation, instability of customs legislation, inconsistency of domestic customs legislation with the customs legislation of other countries and international conventions
Internal factors	Customs officers	classification level, bad faith, professional errors, unlawful acts
	Information and technical support	level of provision of customs with diagnostic tools, reliability of functioning technical system, software errors
	Customs control technologies	the procedure for performing customs formalities, risk management system, customs post-audit
	Interaction of customs authorities with law enforcement and regulatory authorities	importation of prohibited, low-quality and harmful goods

The impact of customs risks can be significant. It can lead to **financial losses**, **delays in supply chains**, **seizure of goods**, **penalties**, **reputational damage** and even **legal consequences**. Understanding the potential consequences of customs risks is crucial for organizations to prioritize risk management and ensure compliance with customs regulations.







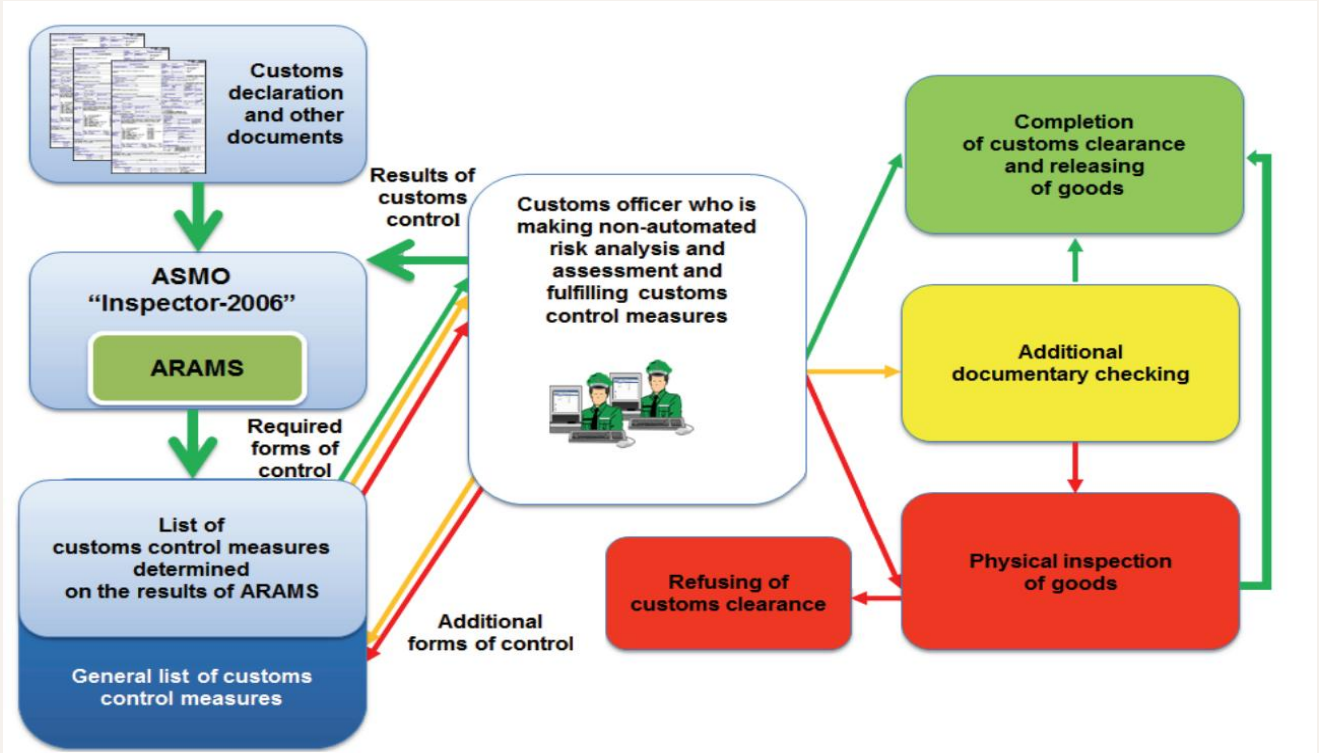
Impact of Customs Risks

Mitigating Customs Risks



Organizations can adopt several strategies to mitigate customs risks. These include **conducting thorough risk assessments**, **implementing robust compliance programs**, **maintaining accurate documentation**, **engaging with customs authorities**, **monitoring trade regulations** and **investing in technology solutions**. By proactively addressing customs risks, organizations can minimize potential disruptions and enhance their overall trade operations.

Risk Management System of Ukrainian Customs



Case Studies



Examining real-life case studies can provide valuable insights into the impact of customs risks and the effectiveness of risk mitigation strategies. We will analyze a few notable examples to understand the practical implications and learn from successful risk management practices.

Best Practices

To effectively manage customs risks, organizations should follow some best practices, such as **maintaining strong internal controls**, **regular training and awareness programs**, **establishing strong relationships with customs brokers**, **monitoring industry trends**, and **engaging in continuous improvement**.

These practices can help organizations stay updated and proactive in their approach to customs risk management.





Key Takeaways

In conclusion, understanding customs risks is essential for organizations engaged in international trade. By recognizing the essence, classification and sources of customs risks, businesses can develop effective risk mitigation strategies and ensure compliance with customs regulations. Proactive risk management can help minimize disruptions, protect financial interests, and maintain a positive reputation in the global marketplace.

Q&A

Thank you for your attention! We will now open the floor for any questions you may have.



THANKS!

