

U.S. EXPORT CONTROL REFORM: New Regulations go into Effect October 15, 2013

Michigan Economic Development Corporation Webinar Series

June 26, 2013 Jean G. Schtokal, Shareholder Foster Swift Collins & Smith, P.C.





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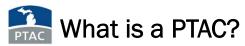


Michigan Economic Development Corporation www.michigan.org

Eriola Grabocka International Business Analyst

grabockaw@michigan.org

517.373.4094

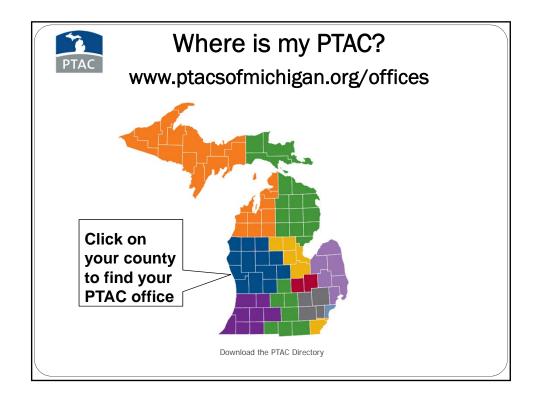


Non-Profit, funded by the Department of Defense & the Michigan Economic Development Corporation (MEDC)/Michigan Defense Center (MDC) to educate businesses regarding government contracting

Individualized business counseling

- Registrations
- Information on all government levels: federal, state, and local
- Identification of bid opportunities
- Procurement award history
- Support with bid proposals
- Federal Acquisition Regulations
- Training events
- Networking/ matchmaking events
- Most of our services are FREE!







Why Sell to the Government

Federal Sales Statistics

Statistics FY 2012

- \$471 billion
 - Total federal purchases of goods/services
- \$92.5 billion
 - Total Federal purchases of goods/services awarded to small businesses
- \$4.4 billion
 - Total Federal purchases of goods/services awarded to Michigan businesses
- \$984.7 million
 - Total Federal purchases of goods and services awarded to Michigan Small Businesses
- 1,100 Contracts awarded every year
 - State of Michigan

Information obtained from: https://www.fpds.gov/fpdsng_cms/

Who Should Sell to the Government

Companies that sell to the Government should:

- Have an identifiable product/service
- Be successful/stable
- Desire market expansion
- Have computer and internet capability/access
- Possess the resources to dedicate time and effort
- Have their entire team or company on board

Finding Opportunities

What does the Government buy

The federal government spends billions annually on products & services ranging from paperclips to complex space vehicles

- As a whole, the federal government is made up of departments, then agencies and each agency is broken down into various components:
 - o Bureaus, field units or districts.
- In most cases these entities are decentralized in their buying activities, with each having its own mission, budget, contracting shop, and small business specialist.

South Central Michigan PTAC Contact Information



For more information on today's presentation or to schedule an appointment, please contact:

Pennie Southwell, Program Director 517-788-4680 pennie@enterprisegroup.org



Kim Langenberg, Lansing Satellite 517-853-6445 klangenberg@lansingchamber.org Fran LaRosa, Jackson Office 517-788-4279 flarosa@enterprisegroup.org



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Jean G. Schtokal

- Shareholder and International Trade Lawyer at Foster, Swift, Collins & Smith, P.C. JSchtokal@fosterswift.com
- Over 20 years of practice in business and international law
- Appointed to Michigan District Export Council-West by U.S. Secretary of Commerce
- Advisory Board of Michigan State University's Center for International Business Education and Research
- Co-Chair of the Global Business Club of Mid-Michigan
- Board and Executive Committee Member Greater Lansing Regional Chamber of Commerce
- Best Lawyer's in America (International Trade and Finance Law)
- Executive-in-Residence, Michigan State University The Eli Broad College of Business, International Business Center

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Overview

- 1. What is Export Control Reform (ECR)?
- 2. Background on ECR
- 3. Reform roadmap
- 4. Where we are, and where we are headed
- 5. What ECR means for exporters
- 6. The changes effective October 15, 2013
- 7. What to do now to prepare for ECR
- 8. Useful tips and information

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What is Export Control Reform (ECR)

August 2009 – President Obama directed broad inter-agency review of the U.S. export control system

National Security

U.S. competitiveness

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Background on ECR

Problems with current U.S. export control system:

- Complex
- Redundant
- Too broad/Does not focus on most critical priorities

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Reform Roadmap – Overhaul of U.S. Export Control System

Three Phased Reform:

- Phase I Improvements to existing system and framework for new system
- Phase II New export control system
- Phase III The "4 Singles"

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Where we are now

Currently:

- Two control lists (USML and CCL) with different requirements
- At least three licensing agencies with different requirements (DDTC, BIS, OFAC)
- Seven enforcement agencies with investigative and/or enforcement powers (Commerce, Defense, Energy, Homeland Security, Justice, State, Treasury)
- Separate IT systems (DTrade, SNAP-R)

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U.S. Munitions List Categories

Category I Firearms, Close Assault Weapons and Combat Shotguns Category II Guns and Armament Category III Ammunition/Ordnance Category IV Launch Vehicles, Guided Missiles, Ballistic Missiles, Rockets, Torpedoes, Bombs, and Explosives and Energetic Materials, Propellants, Incendiary Agents, and Their Constituents
Vessels of War and Special Naval Equipment Category V Category VI Tanks and Military Vehicles Category VII Aircraft and Associated Equipment Category IX Military Training Equipment and Training Protective Personnel Equipment and Shelters Category X Category XI Military Electronics Category XII Fire Control, Range Finder, Optical and Guidance and Control Equipment Category XIII Auxiliary Military Equipment Category XIV Toxicological Agents, Including Chemical Agents, Biological Agents, and Associated Category XV Spacecraft Systems and Associated Equipment Category XVI Nuclear Weapons, Design and Testing Related Items Category XVII Classified Articles, Technical Data and Defense Services Not Otherwise Enumerated Category XVIII Directed Energy Weapons [Reserved] [10-15-13 Gas Turbine Engines and Associated Equipment] Category XIX Category XX Submersible Vessels, Oceanographic and Associated Equipment Category XXI Miscellaneous Articles

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Commerce Control List – Categories

Category 0 Nuclear Materials, Facilities and Equipment [and

Miscellaneous Items]

Category 1 Special Materials and Related Equipment,

Chemicals, "Microorganisms," and "Toxins"

Category 2 Materials Processing

Category 3 Electronics

Category 4 Computers

Category 5 Telecommunications and "Information Security"

Category 6 Sensors and Lasers

Category 7 Navigation and Avionics

Category 8 Marine

Category 9 Aerospace and Propulsion



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Commerce Control List Categories

Each Category has 5 parts:

- 1. Systems, Equipment and Components
- 2. Test, Inspection and Production Equipment
- 3. Materials
- 4. Software
- Technology

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Where we are headed

- Reconcile definitions, regulations and policies
- Items moved from USML to CCL
- For items moved to CCL, licenses still required to export/re-export (except Canada) unless there is an exception
- New STA license exception for 36 countries if for ultimate end use by government of one of the countries, and other exceptions
- Some requirements to take advantage of exceptions

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What the changes mean for Exporters

- Roll out of changes over time Category by Category
- Coordinated revisions to USML and CCL/ITAR and EAR
- Proposed rules to final rules with 6 month delay in effective date
- Ability to queue / pre-position licenses and approvals
- Ability to grandfather to some extent current licenses/approvals (with some exceptions)

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Changes Effective October 15, 2013

- USML Category VIII Aircraft and Associated Equipment
- CCL New "600 Series" controls
- Definition Changes (for example "specially designed")
- New USML Category XIX Gas Turbine Engines and Associated Equipment
- New licensing procedures and transition rules

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What to do to prepare for ECR:

- Understand how your items/technology/services are controlled for export now
- Keep up with export reform as it occurs to avoid becoming overwhelmed by the changes
- Take this time to understand the BIS electronic license system SNAP-R (Simplified Network Application Process – Redesigned)
- Determine the best course for existing licenses/approvals
- Use this time to hone your compliance and docket systems

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Useful Tips and Information

- Use <u>www.export.gov/ecr</u> to monitor export control reform proposed and final regulation changes
- Check out the web-based Decision Tools (CCL Order of Review, Specially Designed Definition and BIS License Exception Strategic Trade Authorization) at http://beta-www.bis.doc.gov/index.php/decision-tree-tools
- To participate in weekly BIS ECR teleconferences and webinars use the following link: http://beta-www.bis.doc.gov/index.php/2012-03-30-17-54-11/2013-02-15-13-50-20

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NOTE and CAUTION:

This presentation is a general overview.

It is not legal advice.

Individuals should seek legal counsel for specific factual situations. This is not a complete list of all changes underway with respect to export control reform.

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Jean G. Schtokal

Foster, Swift, Collins & Smith, P.C. 313 South Washington Square Lansing, Michigan 48933 Phone: (517) 371-8276

Fax: (517) 371-8200 jschtokal@fosterswift.com



www.fosterswift.com/professionals-Jean-Schtokal-Attornev.html



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Offices

Lansing

313 S. Washington Square Lansing MI 48933 (517) 371-8100 ● Fax (517) 371-8200

Marquette

205 S. Front Street - Suite 2D Marquette MI 49855 (906) 226-5501 • Fax (517) 367-7331

Farmington Hills

32300 Northwestern Highway - Suite 230 Farmington Hills MI 48334 (248) 539-9900 • Fax (248) 851-7504

Grand Rapids

1700 E. Beltline NE – Suite 200 Grand Rapids, MI 49525 (616) 726-2200 • Fax (616) 726-2299

Holland

151 Central Avenue – Suite 260 Holland, MI 49423 (616) 796-2500 ● Fax (616) 796-2520

Detroit

333 W. Fort Street, 11th Floor Detroit, MI 48226 (248) 785-4725 ● Fax (248) 785-4726

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